

## Strategic Policy Making in Central and Eastern Europe



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STRATEGIC POLICY MAKING  
IN CENTRAL AND EASTERN EUROPE

Edited by

Martin Brusis, Katarina Staroňová, Radosław Zubek

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## STRATEGIC POLICY MAKING IN CENTRAL AND EASTERN EUROPE

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## **Introduction: The Challenge of Strategic Policy Making**

*Martin Brusis, Katarina Staroňová, Radosław Zubeł*

Strategic policy making is about governments achieving at least three types of goals. The first goal is to produce policies that bring collective rather than sectoral benefits. Collective-benefit policy is one that maximises the interests of many constituencies, whereas sectoral-benefit policy directs financial or other gains to narrow geographical, economic or other groups. The second goal is to ensure that collective policy benefits are sustainable. This kind of strategic orientation requires that governmental action is informed by a longer-term perspective, going beyond immediate re-election concerns. The third goal is to develop policies that maximise gains and minimise costs to their addressees. Such cost-efficiency is achieved when policy making is informed by an in-depth analysis of causal relations and careful consideration of all available policy options. In brief, strategic leadership is about making integrative, future-oriented and knowledge-based policies.

Though highly desirable, strategic policy making is inherently difficult. A key problem is that governments are organised along departmental lines, which encourages agencies to 'go it alone' or pursue sectoral interests at the expense of the strategic interests of the cabinet. Departmentalism is a problem common to all governments (Andeweg 2000). It is endemic because the political performance of individual ministers is judged based upon the size of benefits that their policies bring to their department and social and economic clientele. The departmental bias is also reinforced by the need to secure the support of party organisation and ministerial staff. In Central Europe, departmentalism has been accentuated by a weakly developed tradition of building horizontal linkages inside ministerial administration which, in the past, benefited from the coordinating role of the communist party (Dimitrov, Goetz, and Wollmann 2006).

Another problem is posed by electoral cycles and political responsiveness to short-term electoral concerns. All democratic government is always *pro tempore* (Linz 1998) but if the life of governments is short, political actors have strong incentives to maximise short-term gains and to underrate long-term benefits. The long-term perspective is lost, in particular if party systems are unstable and the powers of the professional civil service are weak. In Central Europe, both these conditions remain. Proportional electoral systems and unstable parties are common in many countries of the region, yielding complicated, fragile majorities and a coalition or minority cabinets as the predominant model of government (Müller-Rommel, Fettelschoss, and Harfst 2004). The grip that Central European civil servants hold over policy making varies from country to country, but generally remains low.

The final problem is resources, especially those of time and expertise. If policy making is carried out quickly and by people with low expertise, then the strategic dimension is lost. Time and skill deficits are common in all democratic govern-

ments because decision-makers are under pressure to respond rapidly to ever more complex issues. Emerging from communism, the problems of insufficient time and skills were particularly acute in the countries of Central Europe. In response to the twin challenges of modernisation and Europeanisation, constitutions had to be rewritten, regulatory frameworks revised and implementing legislation adopted. All these tasks require highly skilled staff. This, however, was hard to find, not least because of the high politicisation of the administration and significant wage disparities between the public and private sectors.

### **Strategic Leadership and the Core Executive**

In this volume, the capacity for strategic policy making is assumed to depend on the position of the core executive within the intra-executive law-making process (Dimitrov, Goetz, and Wollmann 2006; Zubek 2008 in print). The centre of government comprises all those institutions which are attached to the prime minister or the cabinet as a whole and which assist in the preparation, formulation and implementation of government policies. Strong centres enhance the capacity of central governments to make and implement high quality regulations because central agencies have strong incentives to steer ministerial departments towards the adoption of strategic, welfare-maximising and integrative policies. Conversely, weak centres diminish the capacity of central governments to adopt and implement strategic policies. Building a strong core executive means creating the following institutions:

- *Coordination across departments*

Inter-ministerial coordination is required to address departmentalist bias and participate in the multi-level governance system of the European Union. Effective policy coordination across departments is, however, not compatible with a clear separation of political and administrative roles, since it relies on political appointees with expert policy knowledge and civil servants with political empathy.

- *Hierarchical or collective constraints on ministerial autonomy*

Cabinet members in collegial executives can be assumed to have internalised collegiality norms in the course of their selection and appointment (Blondel and Manning 2002). Collegial executives rely more on internal mechanisms for ensuring that their policy proposals are not obstructed. If an executive is hierarchically structured, the scope of ministerial autonomy depends on the formal and informal authority of the prime minister and the cohesion of the governing coalition. In hierarchic governments, political bargaining often takes place outside the cabinet.

- *Strategic thinking capacity*

Policy horizons can be extended by combining permanent strategic thinking capacities with a more transient political orientation. Such capacities are usu-

ally located at the centre of government and may be organised in the personal advisory cabinets of the prime minister or within the administration supporting the cabinet. To ensure that strategic thinking has an impact on decision-making, strategy units must comprise both bureaucratic insider experience with outside knowledge and political nodality. They should try to involve stakeholders and must have direct access to top ministers and officials. Forming the “strategic brains” of government, future-weaving strategy units should be embedded in or linked with democratic power concentration, policy issue-enlightened publics and high quality implementation capacities (Dror 2001; Potůček 2004).

- *Evidence-based policy making tools*

Effective core executives ensure that departments engage in evidence-based policy making. The latter can be achieved by recourse to regulatory impact assessment which provides decision-makers with valuable empirical data and a comprehensive framework in which they can assess their options and the consequences their decisions may have (Staroňová 2007). Another useful tool is benchmarking indicators. Comparisons with other countries can stimulate domestic debates about governance improvements, facilitate lesson drawing and policy transfer across borders, increase the transparency of government performance and support convergence towards best practice.

The contributors to this book participated in a Working Group on Strategic Leadership in Central Government which was established in 2003 at the NISPAcee annual conference in Bucharest. The aim of the working group was to investigate different aspects and dynamics of core executive activities across Central and Eastern European countries in order to determine its strategic policy making capacity. Between 2004 and 2006, the group met three times in the framework of the annual NISPAcee conferences in order to exchange ideas and develop a common basis of research. The papers presented here originate from these meetings. They contain assessments of the relationship between specific ‘core executive’ institutions and policy performance as effective executive institutions should create the conditions for the emergence of different patterns of governance structures.

The contributors have explored different aspects and dynamics of core executive activities across central and eastern European countries in order to determine its strategic policy making capacity. They offer assessments of the relationship between specific ‘core executive’ institutions and policy performance as effective executive institutions should create the conditions for the emergence of different patterns of governance structures.

The research conducted in Hungary, Ukraine, the Czech Republic and Slovakia maps out the institutional arrangements serving the strategic function of core executive. The strength of executive leadership, as derived from the constitutional and legal institutions, is often inadequate in explaining the observable patterns of governance. In this sense, contributors have tried to highlight factors outside the range of the ‘institutional incentive’ paradigm that may explain improved perform-

ance for a specific time period, as was the case of the new regime under Putin in Russia. In addition, the cabinet's ability to act as a collective decision-making body and coordinate across departments is vital for the design and implementation of central government decisions. The study of the Ukrainian case looks at how institutional norms and informal rules that encourage the diffusion of the decision-making authority can weaken cabinet's capacity to enact a coherent legislative agenda.

The results from the research in Poland and Slovakia include some reflections on "evidence-based policy making", notably the use of impact assessment as a decision-making tool and their relevance for strategic planning in CEE. The challenge of studying executive leaderships is manifested in the cross-national comparison discussing possibilities of measuring executive governance by indicators. Despite this variety of topics, methodological approaches and specific country experiences, several issues arise which are worthy of further exploration and debate. The question "How can strategic capacity be designed in such a way that continuity and strong central capacity will sustain the political changes?" seems very appropriate.

The various chapters investigate how executive reforms affect the legislative and policy outputs of executives in selected central and eastern European countries. They study four inter-related themes:

- how the changing structure of cabinets and their institutional, political and administrative environment are related to patterns of lawmaking in Bulgaria and Ukraine;
- how executives have successfully acquired strategic capacity in the diverse contexts of Russia and Hungary;
- how executives have conducted some crucial, though not complex, reform steps to increase strategic capacity in the Czech Republic and Slovakia;
- how executives have sought to develop regulatory impact assessment as a tool to improve the knowledge base of decision-making in Poland;
- how governance indicators may be used to compare executive reforms and performance across countries.

### **The Contents of the Volume**

Mina Shoylekova examines the preparation of bills, regulations and decisions in Bulgaria from 1991 to 2003. She traces the composition and policy priorities of subsequent Bulgarian governments and compares their legislative activities. Administrative reforms have gradually strengthened the institutional arrangements for policy co-ordination and policy formulation. The increase of political stability after 1997 and the concomitant institutional consolidation have enhanced, as Shoylekova observes the executive's impact on legislative output. This growing impact, however, does not directly translate into better quality and higher performance. To improve strategic capacity, the mechanisms of policy formulation in ministries need to be developed, consultations with interest groups and civil society have to

be initiated, and the role of ministers and their personal advisory cabinets have to be defined more precisely.

Based upon Ukrainian evidence, Oleh Protsyk demonstrates how a cabinet's ability to act as a collective decision-making body is undermined by institutional norms and informal rules that encourage the diffusion of a decision-making authority and weaken the cabinet's capacity to enact a coherent legislation. Competing centres of executive authority and segmented, technocratic cabinets, depending on a fragmented parliament, constrain the cabinet model of government in Ukraine. Protsyk argues that forming cabinets along political lines could facilitate the cohesion and collegiality of cabinet decision-making. In addition, changes in the legislative procedures strengthening the government's agenda-setting powers could underpin a greater political consistency of cabinet decision-making and increase the legislative success of government-sponsored bills in Ukraine.

Pat Gray asks why the strategic orientation of government has significantly improved under Putin's presidency compared to the Yeltsin era in Russia. In contrast with conventional assumptions about functioning executive institutions, the Russian case is characterised by the absence of strong institutional incentives to 'play the game,' shortcomings in credibility and enforceability of decisions, and the poor likelihood of reaching binding agreements. Gray identifies Putin's leadership and macro-level regime-building as alternative drivers of increased strategic orientation. Putin's regime has been based on the presidency's capacity to mobilise support, demobilise and incorporate opposition in the Duma, discover new sources of patronage and political credit in the war against selected oligarchs, extend 'vertical' power to the regions, consciously manipulate the media and electoral process, and develop a clear 'national developmentalist' vision for Russia.

Russia's path of regime-building differs markedly from the trajectory of institutional experimentation in Hungary analysed by László Vass. Since the democratic transition in 1989, subsequent governments have gradually increased the organisational, financial and personnel resources allocated to strategic functions, while the institutional arrangements serving strategic functions were changed time and again. Institutional reforms were linked to an increasing dominance of the prime minister and his office. Ministry desks ("referatúrák") with a sectoral policy expertise, corresponding to ministerial portfolios, were created within the prime minister's office; a system of cabinet committees was developed in order to streamline the work of the cabinet; the role of the ministry of finance was weakened; a strategic planning unit ("STRATEK") was established; the prime minister's personal advisory cabinet was given more influence on policy formulation and the number of posts filled with political appointees in line ministries was increased. The centralisation of strategy-making capacities stabilised the pattern of politicised strategic governance that had already become a practice.

Martin Potůček develops a conceptual framework of strategic governance in which he emphasises the role of resources and qualities. The former include a global ethic, cognitive resources including education, institutional resources and

social capital. Key qualities of strategic governance are the ability to anticipate future developments, facilitate the deliberate ‘choice of society’ and engage in the negotiation of ‘emergent strategies’. Potůček observes that efforts to develop these qualities in the Czech Republic have had rather modest outcomes, foundering mainly in implementation.

Katarina Staronova examines three key components of the public management system (strategic planning and coordination, policy making and impact assessment and civil service) related to the executive core of the second Dzurinda Cabinet (2002 – 2006). Her review of the reforms conducted prior and during this government shows that certain crucial reform steps towards the improvement of public administration have been taken. However, a lack of executive leadership directed towards the reforms of the public management system as a complex matter exists. Rather, ad-hoc non-systemic steps have been introduced which left the whole system defective and not ready for a coordinated strategic decision-making that would enhance the capacity of governing as well as the administrative capacity.

Radoslaw Zubek assesses the quality of regulatory impact analyses (RIAs) in Poland. His review of the RIA results demonstrate that in 2001 – 3 the Polish RIA system provided only limited support to policy-makers. First, in practice, RIAs hardly ever reliably and precisely analysed the regulatory burden imposed on the parties affected, except for costs to central budget and state actors. Second, the discussion of impact on the labour market, competitiveness and regional development was, in most cases, limited to general and imprecise descriptions of potential benefits of the regulation. The overall weakness of the RIA practice in Poland may, to a large extent, have derived from institutional incentives that the core executive creates for line ministers and their staff regarding (i) the scope of RIA, (ii) the contents requirements, (iii) legislative planning and (iv) the degree of central quality control.

Martin Brusis examines the utility of existing governance ratings for the study of executives by comparing four different indicators that have been developed to measure the quality of governance and policy-making in Central and Eastern Europe. The indicators include the “Progress in Transition” ratings of the European Bank for Reconstruction and Development, the “Governance Indicators” of the World Bank Institute, the “Nations in Transit” ratings published by Freedom House and the Bertelsmann Transformation Index. Brusis notes that all ratings produce highly correlated scores, despite their different underlying theoretical concepts and methodologies. While the ratings adequately reflect major changes of government in CEE countries, they are not differentiated and specific enough to identify those particular features of governance one would expect the respective concepts to capture. However, each indicator has specific strengths and weaknesses that allow scholars to customise the application of an indicator and maximise its analytic potential.

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# Chapter 1



# Executive Configuration and Legislative Management: Experiences from Bulgaria

*Mina Shoylekova*<sup>1</sup>

## Abstract

*Policy-making capacity depends not only on political leadership, but to a great extent on the institutional arrangements that facilitate it. The Bulgarian practice shows that without proper organisational and legal framework policy, results remain weak. The paper reviews the development of the policy formulation process in Bulgaria, 1991 – 2003. In the context of a comparative analysis of outputs, it examines the policy mechanisms and actors, and outlines the main needs for change.*

## 1. Introduction

The dynamics of current development sets new challenges to government. It is expected to be efficient and effective. Policy is required to be more coherent and stable, while complexity of policy issues increases. Globalisation and European integration change dramatically the context and place additional burdens placed on government. To address these needs, various reforms have been initiated to develop clearer rules and procedures for policy-making, and to ensure mechanisms for transparency and citizen participation. Administrations are reorganised to be more open and accountable. In fact, the changes are so deep that they go beyond and modify state powers and government in general. Whilst the principle of the separation of powers reserves the legislative process for legislatures, practice shows that the executive currently prepares about 60 – 80% of the legal drafts and the majority of them become laws (Olson, 1994). The legislative process has long ago exceeded parliamentary procedures. The increasing complexity of social life and the need for fast reaction reinforce the debate of rules vs. discretion (Majone, 1996).

The traditional view places the responsibility of policy-making to the political leadership, while the key function of administration is said to be translation of policy decisions and their implementation (Palumbo & Maynard-Moody, 1991). Nowadays, this concept is evaluated as “oversimplification” that never really intended to separate politics and administration (Waldo, 1992). The distinction between both is reaffirmed mainly with regard to the ways of recruitment and role towards public interest. Since good policy is defined to be “synoptic and long-term, strategic and proactive, cross-cutting and substantive” (Peters, 1996), it obviously requires solid institutional arrangements to facilitate the policy-making process. On these grounds the “administrative man” has come out of his inbred rationality and now holds the capacity to propose effective ways for achieving policy goals (Denhardt, 1984). Further, policy formulation and implementation are considered phases of

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the same process (Parsons, 1995) that requires extensive resources, diverse tools and mechanisms for coordination.

The institutional arrangements of government in Bulgaria have been shaped, to a great extent, by the challenges of membership of the European Union. All accession candidates were expected to demonstrate institutional stability and capacity to take on the obligations of membership (the criteria established by the Copenhagen European Council, June 1003). The management of accession negotiations and the active participation in the Council of Ministers required a deep restructuring of policy-making procedures and administrative bodies. EU institutions identified the lack of such administrative capacity as a major obstacle to accession. Although the EU does not have formal rules about how the executives of its member states are to be organised or how decisions should be taken in national cabinets, the informational and power asymmetry of the accession constellation provided the EU with significant leverage over executives in accession countries. Specific EU expectations referred to the rule of law, i.e. that an executive should act through legal regulation and within the limits set by law, the de-politicisation of the civil service, the creation of cross-sectoral, inter-ministerial coordination and the development of strategic planning capacities at the centre of government.

After 15 years of transition, Bulgaria provides a good example for the development of politics – administration interaction and the prerequisites of effective policy-making. The policy capacity turned out to be crucial in the case of the profound economic and social transformation that has been initiated in the country since 1989. The failures of government have usually been blamed either on a weak political leadership or inadequate administrative performance. However, the study of policy formulation process for the period 1991 – 2003 shows that the reason should be traced to the poor interconnection between both.

Policy formulation in the present study is defined as the preparation of drafts of laws and other government decisions with or without the status of normative acts. The focus is placed on the conditions, mechanisms and elements of policy formulation. The study comprises three stages of analysis. First, it examines the capacity for political leadership through a set of objective criteria – composition of government in the context of party – expert recruitment, structural stability and previous experience. Next, the changes in the administrative system related to the policy formulation process are outlined and the extent to which these support the work of the political level is assessed. Finally, the formulation and drafting procedures are examined so as to reveal in detail the role of top officials and administration in policy formulation. All these aspects are compared against the policy outputs (the different types of adopted acts) through the years.

The study is based on an extensive review of normative documents regulating the structure and operation of government institutions. Other sources of data are the legal databases of the Council of Ministers (1990 – 1998) and the National Assembly (2001 – 2003) that provide information about the flow of legal drafts in the pre-legislative and the legislative phase. In addition, the analysis and conclu-

sions are based on the findings from personal observations and interviews with civil servants at different levels of the state administration.

## 2. Political Leadership and Policy Formulation

### 2.1. Government Composition

In the early nineties, Bulgaria, as with other CEE countries, initiated extensive reforms to establish a democratic society and market economy. The new Constitution, adopted in 1991, set the general structure of powers in the new parliamentary republic. The Council of Ministers (the government) was pronounced the central executive authority that manages and implements domestic and foreign policy (Constitution, Art. 105). The management function relates to policy-making, and specifically to the legislative drafting, while the implementation function is associated with the management of the whole state administration (Bliznashki, 1994). The government is appointed *en bloc* and is collectively responsible for its policy. The role of the Prime Minister is to direct, coordinate, and bear responsibility for the overall policy. The specific structure of government is proposed by each candidate Prime Minister.

**Table 1**  
Full list of the Bulgarian governments 1990 – 2003

| <b>Prime – Minister</b>   | <b>Date of appointment – removal from office</b> | <b>Duration in months</b> | <b>Mandate</b>                   |
|---------------------------|--|---------------------------|----------------------------------|
| Andrei Lukanov            | February – September 1990                        | 7                         | Bulgarian Socialist Party        |
| Andrei Lukanov            | September – December 1990                        | 2                         | Bulgarian Socialist Party        |
| Dimitar Popov             | December 1990 – November 1991                    | 11                        | Expert government                |
| Philip Dimitrov           | November 1991 – December 1992                    | 13                        | United Democratic Forces         |
| Luben Berov               | December 1992 – October 1994                     | 22                        | Movement for Rights and Freedoms |
| Reneta Indjova            | October 1994 – January 1995                      | 4                         | Interim                          |
| Jan Videnov               | January 1995 – February 1997                     | 25                        | Bulgarian Socialist Party        |
| Stefan Sofianski          | February – May 1997                              | 4                         | Interim                          |
| Ivan Kostov               | May 1997 – July 2001                             | 50                        | United Democratic Forces         |
| Simeon Saxe-Cobourg-Gotha | July 2001 – June 2005                            | 47                        | National Movement Simeon II      |

Source: *State gazette 1990 – 2005*

The new democratic institutions were expected to carry out reforms through a solid and decisive policy-making process. However, during the last 14 years,

Bulgaria has had 10 governments (Table 1) and only one of them fulfilled its due term of office. The instability significantly hampered the expected reforms. In the first 2 years there were three short-lived governments that had to deal with both the economic crisis and political turmoil.

The next government of Professor Luben Berov was appointed after difficult political consultations. The Prime Minister was an expert figure chosen to overcome the political crisis in parliament. The government had 14 members and also had an “expert” profile. Only one of the ministers had previous experience as a cabinet member. The Prime Minister acted also as Minister of Foreign Affairs. In contrast to the previous government, the three Deputy Prime Ministers had ministerial posts in key areas (trade, transport and social affairs). The relative stability in the country for the next two years carried on with no real reforms, since the parliamentary support was very thin. After six months in office, the Prime Minister made structural changes in the government and a year-and-a-half later, had to resign.

**Table 2a**  
Changes in the Council of Ministers 1991 – 2003

| <b>Government</b>         | <b>Initial number of government members (including the prime minister)</b> | <b>Final number of members (including the prime minister)</b> | <b>Initial Number of Deputy Prime Ministers</b> | <b>Final Number of Deputy Prime Ministers</b> | <b>Number of changed ministers</b> | <b>Number of changed Deputy Prime Ministers</b> |
|---------------------------|--|---|---|---|------------------------------------|---|
| Philip Dimitrov           | 15   | 19  | 2   | 5   | 7                                  | 3   |
| Luben Berov               | 14   | 16  | 3   | 2   | 6                                  | 2   |
| Jan Videnov               | 18   | 19  | 4   | 3   | 8                                  | 1   |
| Ivan Kostov               | 17   | 18  | 3   | 1   | 11                                 | 3   |
| Simeon Saxe-Cobourg-Gotha | 17   | 21  | 3   | 3   | 10                                 | 1   |

Source: State gazette 1990 – 2003

**Table 2b**  
Changes in the Council of Ministers 1991 – 2003

| <b>Government</b>         | <b>Number of changes</b> | <b>Number of changed ministers</b> | <b>Internal replacements</b> | <b>Number of new ministries, established during the term of office</b> | <b>Time of the first change (months)</b> | <b>Duration of office</b> |
|---------------------------|--------------------------|------------------------------------|------------------------------|--|--|---------------------------|
| Philip Dimitrov           | 2                        | 7                                  | 0                            | 2  | 6  | 14                        |
| Luben Berov               | 2                        | 6                                  | 0                            | 2  | 6  | 22                        |
| Jan Videnov               | 8                        | 8                                  | 0                            | 3  | 18                                       | 24                        |
| Ivan Kostov               | 1                        | 11                                 | 0                            | 0  | 30                                       | 50                        |
| Simeon Saxe-Cobourg-Gotha | 5                        | 10                                 | 2                            | 3  | 5  | 32 <sup>2</sup>           |

Source: *State gazette 1990 – 2003*

The Videnov government was appointed in 1995, with the mandate of the Bulgarian Socialist Party (BSP). The cabinet had 18 members, 4 of whom were also appointed Deputy Prime Ministers. Four of the ministers had been members of previous cabinets. In total, this government was significantly more stable than the previous, due to the large parliamentary majority that supported it. The first change in the cabinet came some 18 months after appointment and led to an increase in the number of government members that were party functionaries<sup>3</sup>. Due to the deep economic crisis and the failure in many key areas such as agriculture, health, finance, etc., it was forced to resign in 1997.

The government of Ivan Kostov was appointed by the large UDF parliamentary majority and was the first cabinet to fulfil its due term of office. Initially, the government had 17 members, with three Deputy Prime Ministers. This government had significant managerial experience – nine of the ministers were members of previous cabinets, including the Prime Minister himself. The proportion of party functionaries was also much higher than that of any previous cabinet. The three Deputy Prime Ministers had key positions in the party structures and another 5 ministers had some party background. The government was remarkably stable and the first and only change was made 15 months after its appointment. This included mainly personal replacements of some of the party figures in the cabinet.

<sup>2</sup> For the period July 2001 – April 2004. The mandate is due to end in July 2005

<sup>3</sup> The distinction between experts (cabinet members with no party post, who have obviously been chosen for their professional experience and skills) and party figures (they could also be experts in their field, but the strong party commitment defines a different role for them in the cabinet) is used in the present study as an objective indicator that shapes the cabinet's profile.

However, these changes did not lead to better performance in the respective areas (specific examples are the Ministry of Education and Science, Ministry of Justice and Ministry of Interior).

The current government of Simeon Saxe-Cobourg-Gotha came after the elections in 2001 and the surprising victory of the National Movement Simeon II (NMSS). The government declared to continue to work on many of the priorities set by the Kostov government. The first cabinet included 16 Ministers but very soon their number increased and at present they are 20. Some of the Ministers have previous experience as Deputy Ministers or Directors of Agencies. In general, the cabinet has an expert profile, especially as regards the economic, financial and industrial sectors. Initially, there were no political figures in the government. The only exception was the new Deputy Prime Minister who was knowledgeable on the issues of European integration and administrative modernisation. Prior to joining the cabinet he headed the parliamentary group of NMSS. Although there are a significant number of personal replacements in the government, so far the structural changes are confined to the promotion of two executive agencies into Ministries.

This brief review of cabinets' composition shows that there is a trend towards the establishment of a political elite that occupies government posts. On that basis, it could be claimed that leadership capacity has been accumulated. Although the experience of government members in different positions in the executive may not be the key factor for efficient policy-making, it appears to be a prerequisite for better management and respectively better government performance. In addition, Prime Ministers show a growing preference for experts with strong managerial and/or sector experience rather than purely party figures to join the cabinet. On the other hand, this preference is dependent on parliamentary support for the specific government. With a decrease in this support, Prime Ministers tend to secure government by co-opting more party functionaries. Besides the clear example of the Dimitrov government, the governments of Videnov and of Simeon Saxe-Cobourg-Gotha could also be mentioned.

Another visible tendency in government composition is that Prime Ministers, over time, increase the size of their cabinets and reduce the number of Deputy Prime Ministers (Table 2a). This could be considered an indication that the role of this position in government is not clear. The fact that Deputy Prime Ministers have no specific function in the policy process<sup>4</sup> supports such a conclusion. The cabinet structure is certainly related to the issue of the Prime Minister's role. Although the primacy of his position is not explicitly stated in the Constitution, his responsibility for the overall government policy presumes such dominance. Therefore, depending on the personal qualities of the Prime Minister, the type of government may vary from a "clearing house" for the formal adoption of decisions, to an "arena" for debating policy proposals (Manning, Barma, Blondel, Wright, 1999).

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<sup>4</sup> The Law on Administration (Art. 24) and the Structural Regulations of the Council of Ministers (Art. 23) provide only that the Deputy Prime Ministers support the work of the Prime Minister.

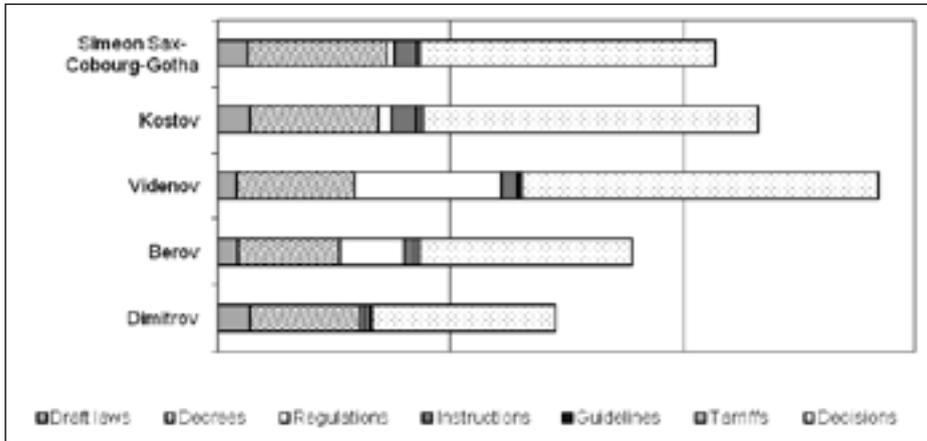
## 2.2. *Government Performance*

It is expected that stability of government will deliver better performance. Hence, the Bulgarian experience shows that the institutional consolidation is accompanied by an increased contribution of the executive to the legislative process. While in 1991, the government drafts made some 20% of the total number of passed laws, in 2003, this amount was about 55 – 60% (without the laws for ratification). On the other hand, the increased government input in policy-making is not directly linked to better quality and improved performance.

Still being at an early stage of modernisation, the Bulgarian government has not yet developed indicators for performance measurement. The organisation of processes that will make evident the link between input and outputs has just been initiated. Programme budgeting has been introduced as pilot projects in a couple of ministries as late as 2003. Due to these limitations, a performance evaluation based on advanced indicators, could not be carried out. Therefore, the present paper utilises quantitative indicators, such as the number of draft laws and secondary legislation, proportion of proposed – adopted – acts, distribution of the different types of acts in the total number of acts, etc. Such an approach concentrates mainly on the direct results from the work of the executive and has no intention of evaluating the overall outcomes from policy-making. It could be argued that an analysis of outcomes provides a better evaluation of government performance. However, outcomes are related not only to strategic leadership capacity, but also to the legislative and implementation phase in policy-making. These two factors may lead to serious deviations in the outcomes and therefore may mislead the analysis of strategic policy capacity. Finally, the approach adopted in the paper allows for a temporal comparison and enables conclusions for the general trends in the establishment of such capacity.

The first democratic government (Ph. Dimitrov) had planned a large scope of reforms. The focus was placed on the establishment of basic institutions and regulation of general administrative issues. The other priority was the regulation of the economic area. The total number of proposed legal drafts was 92. The analysis of the outputs by types of adopted acts shows one of the biggest shares of drafted laws, compared to other types of acts (Figure 1). Such a distribution is not surprising, given the fact that the mission of this government was to continue the process of democratic institution-building that had been started with the adoption of the new Constitution and the initiation of the economic reforms. However, only 16 of these drafts were passed by parliament (Table 3). In addition to the unsteady political support, the government suffered the resistance of the administration in the implementation of these reforms. The attempt to reorganise the administration in order to lessen the effects from the political inclination of its employees failed (Verheijen, 1997). Finally, the political polarisation and the reallocation of the parliamentary groups forced the government to resign.

**Figure 1**  
 Productivity of the governments 1991 – 2003 – Proportion of the average number acts by type per month<sup>5</sup>



Source: State Gazette: “Annual Contents of the Acts Published in the Official Part of the State Gazette”, 1991 – 2003

**Table 3**  
 Government legal drafting and passed laws 1991 – 2003

|                           | Legal drafts of the government |                  |             | Laws passed by the parliament |  |  |
|---------------------------|--------------------------------|------------------|-------------|-------------------------------|--|--|
|                           | Number of proposed             | Number of passed | % of passed | Number of passed              | Passed government drafts as % of total | Number of passed laws for ratification |
| Philip Dimitrov           | 92                             | 16               | 17.4        | 59                            | 27.1                                   | 25                                     |
| Luben Berov               | 95                             | 13               | 13.6        | 59                            | 22                                     | 79                                     |
| Jan Videnov               | 104                            | 69               | 66.3        | 126                           | 54.7                                   | 143                                    |
| Ivan Kostov <sup>6</sup>  | 250                            | 190              | 76.0        | 629                           | 30.2                                   | 272                                    |
| Simeon Saxe-Cobourg-Gotha | 211                            | 149              | 70.6        | 373                           | 93.29                                  | 199                                    |

Source: Legal database of the Council of Ministers (1990 – 1998), Annuals of the 38<sup>th</sup> National Assembly (1997 – 2000), Online legal database of the 39<sup>th</sup> National Assembly 2001 – 2003. The data for the period 1998 – 2001 was provided by the National Assembly.

5 The number of adopted acts is divided by the number of months in office in order to provide ground for comparability.

6 The figures for the Kostov government are for the period May 1997 – May 2000. The National Assembly was not able to provide relevant information for the period May 2000 – May 2001 prior to publication of the article.

The aim of the Berov government was to stabilise the functioning of government institutions and to begin privatisation. The key legislative priorities were the establishment of institutions, economic and tax issues. However, little was done in this direction. The share of government-sponsored laws within the total number of laws is the lowest, compared to the other cabinets (Figure 1). Instead, it produced a large number of secondary legislation – mostly Rules of procedure and regulations for implementation of laws. The total number of draft laws adopted by the Council of Ministers was 95, and only 13 of them were passed by parliament (Table 3). The inefficiency of the policy process increased dramatically. Three of the adopted drafts were not proposed to parliament at all and another 25 were practically repetitive amendments to six existing laws<sup>7</sup>. In addition, these amendments were drafted with a time difference of not more than three to four months. This shows a lack of coordination and a capacity for decision-making.

The Videnov government had an ambitious program, which paid specific attention to stabilisation of state institutions and improvement of government. During the two years in office, the government prepared 104 drafts and 66% of them were passed by parliament (Table 3). The majority of the legal drafts were amendments to existing laws, but there were rare repetitions. Despite the improvement in the policy-making process, its quality was still low. The Videnov government was most productive in terms of the total number of adopted acts (Figure 1). The analysis of the types of acts shows that the share of laws was the smallest, on account of a very big share of regulations and decisions. The fact that the government produced such a large amount of secondary legislation, and especially decisions, leads to the conclusion that its policy was reactive and subordinated to the developments in the country. This is also evident from the lack of correspondence between outputs (adopted acts as a result of government work) and outcomes (the effect of government's performance), between quantity and quality. A more profound research of the Videnov period should identify the key reasons for this discrepancy. However, the weak coordination and the poor condition of the administrative system, identified by a functional analysis performed in 1997, obviously had a severely negative impact on the active attempts of the government.

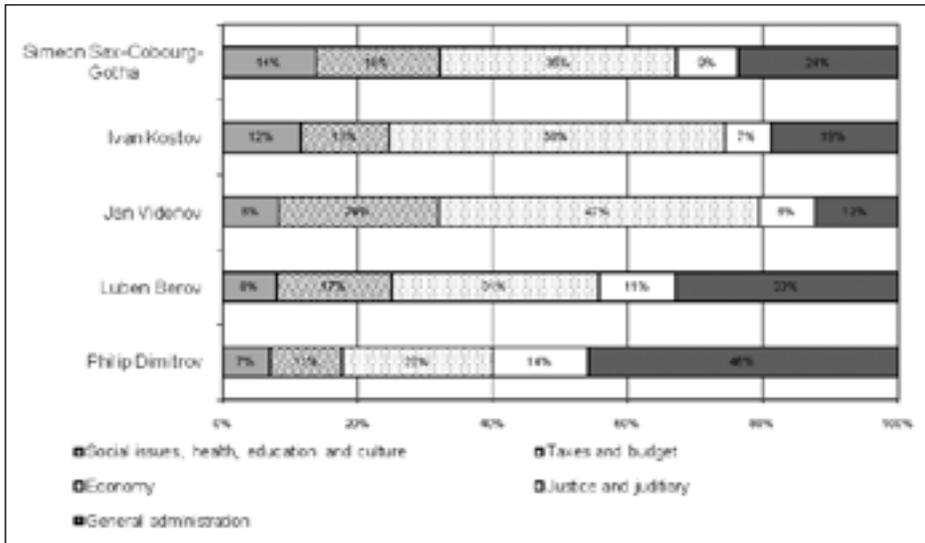
The Kostov government differs from the previous ones, not only in its experience, but also with regard to the effective transformation of the administrative system that aimed to improve the policy-making process in general. For the first time, on the basis of a government programme, special half – year legislative programmes were adopted. The coordination mechanisms were improved. The analysis of the adopted acts by type shows another very important feature of this government – it produced a large amount of instructions oriented to the administration. For its term of office, the government had proposed a significant number of legal drafts in all areas and has the biggest “success rate” so far (Table 3). The

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7 These include draft amendments to the Penalty Code – 3, the Penalty Procedures Code – 3, the Law on Property and Use of Land for Agriculture – 4, the Law on Local Self-Government and Local Administration – 3, Law on Privatization of State and Municipal Property – 5, Law on the National Emblem – 4.

major area of regulation was the establishment of the framework for a free market economy and the reduction of state functions. This was accompanied by a set of laws regulating the structure and operation of the administration, as well as its interaction with the citizens<sup>8</sup>.

**Figure 2**  
Proportion of government drafts of law by policy area



Source: *Legal database of the Council of Ministers (1990 – 1998)*, *Online legal database of the 39th National Assembly 2001 – 2003*. The data for the period 1998 – 2001 was provided by the National Assembly.

The comparison between the Kostov and Saxe-Cobourg-Gotha governments shows a shift in the policy focus (Figure 2). While the Kostov government produced more regulations related to economic issues, the Saxe-Cobourg-Gotha government reduced these on the account of health and social issues, justice and administration. This trend could be explained by the fact that the economic framework has been largely settled and the subsequent needs were related to other sectors which referred also to the implementation of EU membership criteria. The trend of increasing government input in the legislative process has been sustained. Despite the different evaluations from observers about the capacity of the two cabinets, their performance is quite similar (Figure 1).

<sup>8</sup> This included the Law on Administration, the Law on Civil Servants, the Law on Administrative Service Delivery to Citizens and Corporate Bodies, the Law on Access to Public Information, the Law on Personal Data Protection.

### **3. Institutional Arrangements for Policy Formulation**

The constitutional regulations of the structure and organisation of the executive are quite brief and provide for its operative flexibility in the implementation of its functions. From 1991 to 1997, the issues of administrative organisation were regulated only with the Rules of procedure of the Council of Ministers and the respective administrative structures. During that time there were numerous changes in the details and no specific reorganisation in the system as a whole. Therefore the main problems originating from the former state organisation persisted. Previously, there was no separation of powers. The Communist party bureaucracy had existed in parallel to the state administration. Political functionaries occupied the key posts in the latter and the party was directly involved in policy-making. The party bureaucracy also performed the horizontal coordination between institutions. The state administration was left to implement decisions and manage the sectors of the economy (UNDP, 2001).

The Videnov government was the first to address the need for a stabilisation of state institutions and an improvement of cabinet – administration relations. The Rules of procedure of the Council of Ministers were changed four times in two years. These changes referred to the distribution of functions and the introduction of coordination mechanisms between the Council of Ministers and the Ministries. The role of the General Secretary of the Council of Ministers administration was reinforced and his responsibilities were increased. The new position of a parliamentary secretary was created to coordinate government policy with the National Assembly.

The real step forward in the institutional development came in 1997, when the newly elected Kostov government initiated a large-scale transformation of the administrative system. An extensive functional review of the existing administrative system was conducted (UNDP, 2001). The findings showed that after the withdrawal of the Communist party bureaucracy from the policy-making process, the gap was not covered by respective rearrangements of the system. The partial restructuring led to distractions of the few remaining links in administration. There was a large variety of administrative structures with no distinct subordination and functional allocation. The policy-making procedures were old-fashioned and there was scarce communication on the issues in the policy agenda. The administrative system was not prepared to support and implement the necessary reforms. Therefore the government adopted a Strategy for Administrative Modernisation that identified three main pillars of change – clear distribution of responsibilities at the different levels of the executive, unification of structures and the introduction of the civil service. The goals of the strategy were achieved with the adoption of the Law on Administration (1998), the Law on Civil Servants (1999) and a package of additional laws and secondary legislation that provided for the establishment of a modern administration.

In the first place, the concept of the Council of Minister's role was further developed – from management and carrying out domestic and foreign policy (Art.

105, Constitution of the Republic of Bulgaria, 1991), to formulation, development and carrying out of domestic and foreign policy (Art. 20 (2), Law on Administration, 1998) and to coordinate the work of the executive bodies to accomplish a coherent state policy (Art. 2. (3), Rules of procedure of the Council of Ministers and its Administration, 1999). This reinforced the role of the Council of Ministers as the strategic centre for policy formulation and coordination and the role of the ministries as the specialised units for development of sector policies. The function and subordination of the Administration of the Council of Ministers were clarified. Executive agencies were established as the units to deliver administrative services and implement specific tasks, assigned by the respective ministry. A limited set of additional administrative structures was provided as an option for the management of specific areas that are not covered by any ministry. A common model for the internal distribution of functions was introduced. It distinguished between horizontal functions (general management of the individual administrative structures) and vertical (sector specialised). The similar allocation of the two types of functions among units provided for the horizontal and vertical coherence of the administrative system. (Boev, 2000).

Another very important element was the establishment of political cabinets to the Prime Minister, the Deputy Prime Ministers and the Ministers<sup>9</sup>. These cabinets are small units with analytical and advisory functions. Their task is to support policy development and ensure the necessary information and coordination for decision-making. The experts in the political cabinets have a clear political affiliation and therefore they are not granted the status of civil servants (Art. 28 (5), Law on Administration. 1998). What is more, they are expected to leave with any change in government. To reinforce the division between the political level and the administration, the General Secretaries were established as managers of the administrative structures and their positions became the top level of the civil service. The responsibilities of the General Secretary of the Administration of the Council of Ministers for the organisation and management of this administration were increased. This position also received a number of coordination functions, aimed at synchronising the work of ministries and improving the planning and performance with regard to legal drafting.

The next very important field of change that refers to the present study are the rules for legislative drafting. However, new rules have been introduced with the Rules of Procedure of the Council of Ministers, and not with amendments or replacement of the Law on Normative Acts. This law gives the frame of decision-making tools that can be used by the government and sets the stages and requirements for the adoption of a respective type of act. Although passed in 1973, the Law has not been abolished or amended. In fact, the government introduced

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<sup>9</sup> Prior to the administrative reform, the Rules of procedure of the Council of Ministers provided for cabinets of the Prime Minister and the Deputy Prime Ministers. However, their role and functions were not defined at all. Therefore these cabinets were in practice a small number of staff, only formally distinguished from the rest of the administration of the CoM, consisting of technical secretaries and sometimes a few advisors.

a new draft of this law to parliament, but the proposal was not passed during the mandate of the 39<sup>th</sup> National Assembly. Therefore, the main improvements of the procedures were made with the new Rules of procedure, adopted by the government. These improvements concerned mainly the coordination mechanisms and control of the planning process and will be discussed in detail in Section 3.

The Saxe-Cobourg-Gotha government continued the administrative reforms by adopting a new Strategy for Administrative Modernisation. The focus was now placed on civil service training, administrative service delivery, further optimisation of the administrative structure and establishment of strategic policy capacity. The consecutive functional analyses showed that despite the actions taken by the former government, many of the ministries were still performing functions that were not typical of a modern administration (such as the management of state enterprises, or even business activities). Such cases were, to a great extent, due to the unfinished privatisation and structural reform in some sectors.

Another weakness that persists is the overlapping of functions. Despite the prerequisites provided by the Law on Administration, a distinction between policy-oriented, control, regulatory and service delivery institutions has still not been achieved. Many administrative structures do not have a clear profile and fulfil two or three functions. In some cases, this may lead to a conflict of interests (especially when the administrative structure has both regulatory and control functions); in others, this may hinder the interaction with other institutions in the sector. The Annual Reports of the Minister of State Administration repeatedly identify the need for optimisation of the administrative system in this regard.

At the same time, there is an obvious trend for the establishment of strategic units in the ministries. Although there is little methodological guidance for their work and the interaction with the political cabinets is not very intensive, the emergence of such units is a positive tendency. A special PHARE project was implemented to increase the strategic capacity and develop coordination, planning and drafting procedures. These will be discussed in the next section.

## **4. Mechanisms and Procedures for Policy Formulation**

### *4.1. Agenda setting and policy instruments*

Until 1995, the path for setting the government agenda was totally unclear. There were no planning mechanisms and the government activities were motivated in entirely informal ways or, on rare occasions, by public pressure. The results from the legislative process support the conclusion that the translation of needs into policy was chaotic and spontaneous. Thereafter, a number of mechanisms were introduced and made the process more transparent.

The first track of improvement was the practice established by the Videnov government to adopt a program for its term of office. As might be expected, this programme was based on the political agenda of the party that formed the cabinet and was the foothold for the development of officially adopted and published

legislative programs. It could be claimed that over the years, some legislative specialisation between the government and the parliamentary majority has been developed – thus, the general laws (mainly those concerning property and other civil as well as political rights, and judiciary) are prepared in parliament, whilst the government develops the rules that require specific expertise and analysis and are more focused on sector policies.

The governmental legislative program is usually based on the proposals of ministers and covers a period of six months. Additional sources of policy issues that had to be addressed over the past few years have been the National Plan for Economic Development (2000 – 2006), which defines the annual goals in the different sectors, as well as the National Programme for the Adoption of the *aquis*.

The government councils are another mechanism for problem definition. Examples are the Council of Tripartite Co-operation that is attended by the trade unions and employers' organisations, and the Council for Economic Development (established in 2001), which is headed by a Deputy Prime Minister, and consists of business representatives. However, these councils are based on consultative mechanisms, rather than an institutionalised means for agenda setting. Therefore, it could be concluded that the process of allocation of policy issues has not become more open. Probably due to the fact that the Constitution does not grant legislative initiative to the citizens, there are, in fact, no formal opportunities for them to influence the government agenda. When this has happened it was based on the informal contacts between officials and civil society organisations.

Having unclear mechanisms for problem definition, the process of the selection of policy instruments also remains unclear. Despite the fact that the Law on Normative Acts requires a preliminary assessment of the need to regulate specific areas by law, there are no real techniques used to estimate which tool would be most effective. To a great extent, this is related to the analytical work carried out by ministerial experts, who define the need for a law or propose another way of policy goals accomplishment on the basis of the sector reviews, surveys and other analytical papers. However, this stage is very often postponed – first, due to the lack of relevant observations and data for the sector or issue development, and second, due to the lack of expertise for such assessments. Last but not least, this is related to the lack of data collection methodologies and information infrastructure. Probably this is why there is the negative tendency that the majority of issues are regulated by laws of amazing detail. At the same time, contrary to the rule that one area should be regulated by one law (Art. 10, Law on Normative Acts, 1973) there are many cases where there are three and more laws that either overlap or contradict<sup>10</sup>.

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10 For example, the administrative procedures and service delivery are regulated by the Law on Administrative Procedures (1979); the Law on Administrative Service Delivery to Citizens and Corporate Bodies (1998); the Law on Restriction of the Administrative Regulation and Administrative Control on Business Activities (2003); the Law on Proposals, Signals, Complaint and Requests (1980). Fortunately in this particular case, there is a general conformity. However, the presence of so many laws does not assist the processes in this field.

Together with the legal drafting, the Council of Ministers takes decisions on a large scope of issues. The preliminary preparation (and the respective acts) is usually carried out by the Administration of the Council of Ministers. Based on the proposals of Ministers, the General Secretary organises the agenda of the cabinet meetings and allocates tasks. The practice for such regular work meetings of the government was established in 1997, and two years later this became a regulated procedure for coordination. While the official meetings of the Council of Ministers are attended by a certain scope of officials, the work meetings are for CoM members only, with the General Secretary being the only exception. The topics for discussion are mainly current matters and no formal decisions are made. With the amendments of 1999, the agenda necessarily includes discussions on the secondary legislation adopted by the government.

In fact, the decision-making tools at the government's disposal are not numerous. They are regulated by the Constitution (Art.114) and the Law on Normative Acts (Art. 6) and include decrees, orders and decisions. With a decree, the CoM can adopt regulations, ordinances and instructions, and they have to be published in the State Gazette. The orders are usually related to the activities of specific ministries, while decisions are taken on specific current issues. For these types of acts, there is no strict rule for official publication. This is carried out, if necessary, for the implementation of the act. In many cases, other government documents such as strategies and programmes are adopted as decisions.

While in some countries the drafting of policy guidelines and the legal text are prepared at separate stages, in Bulgaria there is no such distinction. In fact, the first stage – preparation of policy guidelines – is missing altogether. Once the policy issue has entered the legislative programme, the respective minister responsible for the draft law appoints an expert team to work on the draft. No preliminary guiding principles, objectives or methods are provided to the team. The role of the political cabinets in this phase is insignificant.

Generally, indications for the policy content are found in the government programme. However, in many cases, these are not sufficient for the selection of specific measures that should be incorporated in the draft law or secondary regulation in order to achieve the targeted policy outcomes. Therefore the experts that participate in the drafting process usually make their own judgement about what will best fit in the overall government policy outline. In many cases, this leads to repetitive changes at a later stage of drafting, due to the input of the political level. Besides the EU legislation that gives only the general framework, another very common source of policy guidance is the use of foreign models for regulation of the respective areas. In recent years, this process has been improved with the adoption of sector strategies that give at least a clue about the pursued outcomes.

The lack of practices for development of white papers that enable broad public discussions is a major weakness of the legal drafting in Bulgaria. From 1998 until 2001, the government used to publish the adopted draft laws on the government website. This provided a floor for discussions, but still the proposals of interested

parties and outside experts had to be presented to parliament and be incorporated in the legislative stage. Such input at a later stage endangers the consistency of the draft since the legal drafting procedures of the government and the parliaments are not equalised (Markov, 2003). However, since 2001, the government has very rarely published drafts of laws.

### *4.2. Drafting*

After a policy issue has entered the legislative programme of the government, the respective minister assigns the task for its development. Prior to the administrative transformation, ministers used to set up working groups of experts from different units in the ministry. The improvement of the administrative organisation led to a change and now such tasks are assigned to a specific directorate or directorates specialised on the topic. They may invite other concerned units into a working group. Usually these working groups are chaired or coordinated by a deputy minister. Very often, inter-ministerial working groups are established if there are more ministries involved in the issue. Then the Council of Ministers appoints a Deputy Prime Minister or a Minister to chair such working groups. The members are appointed experts from the responsible ministries, representatives of other concerned institutions and experts for the Legal department of the CoM. If necessary, the meetings can be attended by experts from other functional departments of the CoM Administration. Since 1999, the function of the inter-ministerial working groups has been extended and working groups are established not only in relation to law drafting, but also for pieces of secondary legislation.

There are no formal rules for allocation of the stakeholders, inside or outside of the administration. The only requirement concerns the decisions related to labour issues. Then the trade unions have to be invited (Art.3a, Labour Code, 1986). In all other cases, it is up to the institution which outside partners to invite. Very often this is decided on the basis of informal relations with NGOs and think tanks.

The working groups discuss proposals made by the represented institutions. The main body of the proposal is prepared by the leading institution (directorate), which also has the duty of processing the discussions and agreed decisions. In fact, there is no obligation that all members of the group agree on the final draft. This means that at this first phase, it is possible that some debated aspects of the draft remain unresolved.

### *4.3. Coordination of policy proposals and Decision-making*

Along with the planning procedures, the coordination mechanisms of legal drafts have also been developed. Between 1992 and 1995 the Legislative Council in the Ministry of Justice was heavily involved in the legal drafting. It was responsible for the coordination and arbitrary decisions on unresolved debates between institutions, as well as the review of the national legislation with regard to the ratification of international treaties. Experts from the interested institutions, as well as members of parliament, attended the meetings of the Council. However, the functions

of this unit diminished over time. In 1999, the Council was transformed into a directorate of the Ministry of Justice and the focus of its functions was placed on harmonisation with the EU *acquis*. The core coordination mechanisms were transferred to the Council of Ministers.

The development of policy coordination mechanisms was reinforced by European integration, beginning in 1995 when Bulgaria became an associate country of the EU. The Videnov government adopted a special procedure for the coordination of EU-related policy matters and facilitated that with structures at different levels (Verheijen, 1997). This was the first extensive mechanism for coordination of the different ministries in the policy formulation. Although it began with regard to EU integration, it soon went beyond this objective. The government initiated an analysis of the existing structure and functions of executive bodies in order to prepare a strategy for administrative reform. The main priorities were the provision of functional unity and clear hierarchies in the administrative system, improved control over decision-making and policy implementation, and improved policy coordination (Nikolova, 1997).

The Kostov government added new elements to the coordination mechanisms. As already mentioned, the Legal Council in the Ministry of Justice retained its task to verify that the legal drafts complied with the *acquis*. The responsibility for overseeing legal drafts' consistency with the Constitution and the existing legislation was assigned to the Legal Department in the Administration of the Council of Ministers. For the coordination of legal drafts prior to their discussions at the CoM meeting, a specific set of requirements were introduced. The role of the Ministry of Finance was reinforced with the engagement to comment on the financial provisions for the law's implementation. More importantly, the coordination mechanisms were brought to a lower level both in the newly established political cabinets, as well as the administration. The practice of regular meetings of the Head of the Political Cabinet of the Prime Minister with the Heads of the Ministerial Political cabinets was formally reaffirmed in the Rules of Procedure of the Council of Ministers. Similar meetings were introduced respectively for the Parliamentary Secretaries and the General Secretaries. The present government continued all these practices.

After the coordination procedures on a draft law have terminated, it is put forward to the CoM meeting. Another novelty in 1999 was the regulation to split the agenda for the meeting into several parts. The first one included matters that have been discussed and agreed at other fora and require only formal approval. The second part includes matters that need to be debated in order to provide some guidelines for the further development of the policy proposal. The final part of the meeting agenda contains decisions related to the appointment of top officials (directors of agencies, district governors, etc.). The proportions of the first and the second part of the meeting agenda very clearly indicate the type of government, the managing style of the Prime Minister and the overall efficiency of the government.

The review of the real processes and the policy outputs shows that in many cases, these mechanisms for coordination are only formally followed. In addition, the procedures are relatively clear only as regards the law drafting. The procedures for development of secondary legislation are regulated with orders for internal organisation by the respective minister and are not supervised. It can only be guessed to what extent they follow the requirements fixed for the law drafting.

Another major problem that undermines the effectiveness of these procedures is the short time for their implementation. In many cases, the institutions are only able to react to a policy proposal when it has reached an advanced drafting phase. This is particularly evident in the so-called “legislative phase” when the drafts are debated in the parliamentary committees. Then, a large number of new proposals arrive from different interested parties, including ministries. Occasionally, even the ministry that had prepared the draft uses the parliamentary stage to make changes.

With the limitation of functions of the Legislative Council, the early coordination of a legal draft with the MPs was transferred to the Parliamentary Secretaries. However, their role is obviously not utilised, since the parliament very often criticises the government for introducing urgent proposals that have not been discussed with MPs in advance. The lack of explicit procedures for coordination with the legislature sometimes leads to dramatic changes in the drafts introduced by the government. Another indication for the poor coordination is the frequent amendment of laws in a relatively short time. This was particularly true in the early transition years, but even now is a good indicator for government ineffectiveness in policy-making.

### **5. Conclusions**

After six years of purposeful administrative reforms, the Bulgarian system of government has not yet acquired the necessary capacity for good policy-making. This is both evident from the regular reports of the European Commission on the administrative capacity and the reports of other outside observers and donors. The review of the developments in the past 15 years shows, however, that some expertise and managerial experience have steadily been gathered at the political level. It is difficult to evaluate the contribution of this experience for a better performance, but it is evident that stabilisation and institutional consolidation are key prerequisites. The Council of Ministers and its administration have been established as the strategic centre for policy formulation. The transformation of the administration and its adjustment to the needs for producing good policy has led to positive results.

However, more needs to be done. The policy phases have to be synchronised. Planning, analysis and evaluation mechanisms have to be improved and specific attention should be paid to the policy formulation in ministries. The policy formulation must go beyond the ruling majority and consultations with interest groups or civil society have to be initiated. Finally, the role and input at the political level

(both ministers and their cabinets) and the administration in the policy development have to be set precisely. Whilst their relations have just begun to settle, it is critical to keep them in synergy with regard to the policy process.

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# Chapter 2



# Institutionalising the Cabinet Government in Ukraine

*Oleh Protsyk*<sup>1</sup>

This paper examines how a cabinet's ability to act as a collective decision-making body responsible for the design and implementation of central government decisions is undermined by institutional norms and informal rules that encourage the diffusion of decision-making authority and weaken the cabinet's capacity to enact a coherent legislative agenda. The persistence of competing centres of executive authority, compartmentalisation-inducing cabinet formation practices, and the weak position of cabinet vis-à-vis parliament are identified as major factors contributing to the limitations of the cabinet governance model in Ukraine, a country whose institutional framework and cabinet decision-making practices are, in many respects, representative of other country cases in the western part of the Commonwealth of Independent States.

The paper also contemplates a set of institutional changes that have the potential to make the cabinet decision-making processes more cohesive and collegial. Two types of changes are discussed. The first one deals with legal norms regulating the formation of the cabinet and division of responsibilities among the institutions of central government. The second type of change discusses the procedures and rules used for making decisions in the cabinet and on behalf of the cabinet, in the legislature. Whilst the December, 2004 amendments to the Ukrainian constitution contain some of the measures advocated in this paper, it is not clear at the time of writing (circa April 2005) whether changes formulated in these amendments will be allowed to take place, especially given the flawed design of some new constitutional norms and strong and justifiable criticism of these norms by experts and politicians in Ukraine.

High levels of political mobilisation and citizen participation that have characterised Ukrainian politics in the months prior to and after the so-called Orange revolution, however, suggest that the transformation of the Ukrainian political system will continue. The direction of these changes is a more inclusive and participatory form of government. This implies, amongst other things, a greater role for political parties in forming cabinets and designing government policies. In order to better understand the evolution of the government model in Ukraine, one has to develop a good sense of what were the main features of the government decision-making process during the first post-communist decade. This paper provides

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1 Collection of the data used in this article was supported by a grant from the Open Society Institute. The author would like to thank Iryna Mayevskaya and Vitaliy Zamnius for their assistance in collecting data.

such a review of the main characteristics of policy-making in Ukraine prior to the Orange revolution events.<sup>2</sup>

Three institutional players dominate the existing framework for policy-making in Ukraine: president, cabinet, and parliament. The relationship among these players can be analysed over several dimensions. One critical dimension, which has already been discussed in literature, is the extent of their independent ability to participate in the legislative process. Sundakov (1997) shows how the presidential and individual ministries' ability to issue legislative and quasi-legislative acts impedes the development of a stable legislative environment, imposes high burdens of coordination on the bureaucracy, and blurs the distinction between the political and civil service aspects of public administration. Sundakov's policy recommendations focus on self-restraint in legislative and quasi-legislative activity on the part of the president and individual cabinet ministries.

In the first part of this paper, another aspect of authority diffusion – the institutional conflict over the distribution of executive powers – is analysed. Some mechanisms and strategies for mitigating such a conflict are offered. Addressing this conflict is essential for eliminating the justification for competing policy agendas and parallel chains of command in the cabinet.

The second part of the paper discusses the principles of cabinet organisation and functioning. The arguments in favour of having technocratically-based cabinets are reviewed. The paper argues that despite some intellectual appeal of such arguments, cabinet formation along political lines could facilitate the cohesion and collegiality of cabinet decision-making. The paper also lists institutional and procedural changes that could facilitate greater involvement on the part of political parties in the process of cabinet formation and cabinet decision-making.

The third part of the paper offers a discussion of some changes in the procedures and rules governing the relationship between the cabinet and parliament in the legislative process. The effects of introducing changes in these procedures are compared with the effects of preserving the status quo. It is argued that the proposed changes can both underpin a greater political consistency of cabinet decision-making and encourage a more disciplined and cohesive legislative process.

### **Multiple centres of executive decision-making**

One of the major requirements for an effective executive management is the concentration of executive decision-making power in the hands of the cabinet (Manning 1999). The cohesiveness of the executive policy-making process suffers when competing decision-making arenas exist. In Ukraine, the executive authority of cabinet is effectively diffused by the decision-making activity of the president and individual ministries. The competing claims thus come from 'above' and 'below'

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2 An earlier version of this paper appeared as O. Protsyk. Cabinet Decision-Making in Ukraine: The Dual Executive and the Diffusion of Policy-making Authority. In: *Democratic Governance in the Central and Eastern European Countries*, edited by A. Rosenbaum and J. Nemeč, Bratislava: NISPAcee, 2006, p. 15 – 26.

the cabinet. From 'above' the cabinet, the president exercises his right to issue specific executive orders, as well as legislation-like decrees. From 'below', individual ministries and other central bodies of executive power, which have wide-ranging powers within their specific areas of responsibility, issue rules and instructions which often have the properties of cabinet resolutions and orders.

*Instruments of presidential involvement in the executive decision-making process*

Presidential participation in the executive is based on constitutional provisions which grant presidents the power to issue decrees on a wide range of policy matters and to veto executive and legislative decisions. The Ukrainian President issues legislation-like and executive decrees, orders, and specific instructions/task assignments that require government officials to take specific actions. The president also has the power to initiate a new piece of legislation and to demand priority consideration for it in parliament. Presidential control of these powers indicates that the president has proactive means to change the executive and legislative status-quo. The presidential ability to use veto powers also implies the president's control of reactive powers. His legislative veto allows the president to defend the status-quo in the legislative process. The executive veto empowers the president to annul cabinet resolutions, revoke ministerial instructions and cancel orders of other executive bodies.

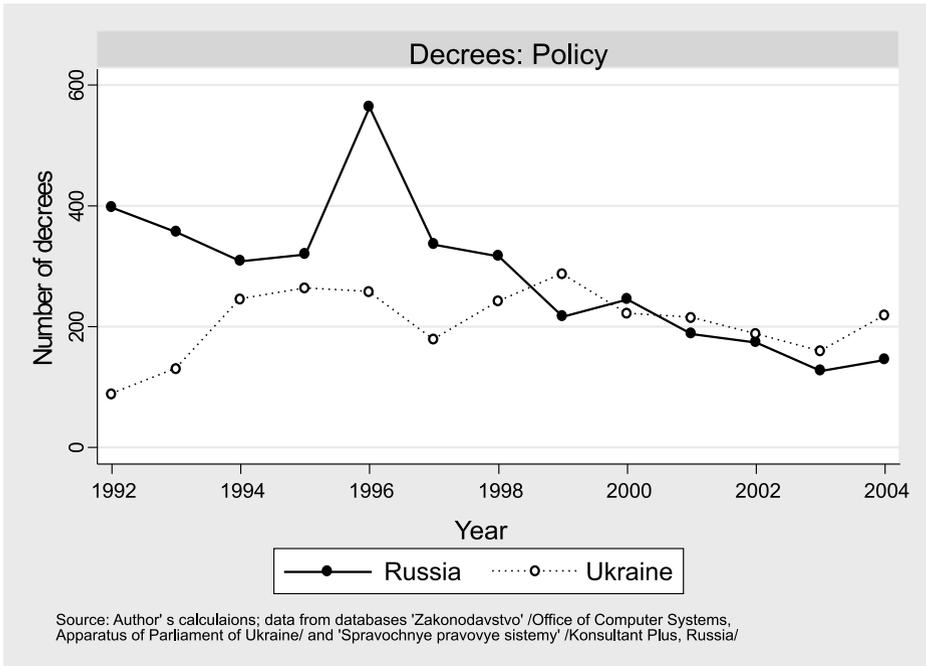
*Practice of presidential participation in executive decision-making.* Ukrainian presidents liberally use all these powers, which have enabled them to dominate, although to a different extent, the policy-making process in Ukraine. Throughout his ten year tenure in office, President Kuchma was especially active in relying on a combination of proactive and reactive powers that allowed him to intervene across many policy areas and at various stages of the decision-making process. As one illustration of his policy activism, Figure 1 provides data on policy-related decrees issued in Ukraine and Russia between 1992 and 2004:

Figure 1 lists data on the annual numbers of policy-related decrees issued by the Ukrainian and Russian presidents to establish new policies or change the existing policies in several broadly defined policy areas: polity, economy and society. These decrees were used, for example, to establish or reorganise central government agencies, improve pension provisions, or introduce new social services. As Figure 1 indicates, President Kuchma, during the 1994 – 2004 period, issued on average more than 200 policy decrees annually. The figure also indicates that during his last years in office, Kuchma was issuing even a larger number of policy decrees than his omni powerful Russian counterpart.

Policy decrees are only one type of policy-related decisions issued by presidents in Ukraine. They also issue so-called administrative orders used primarily to provide specific instructions to civil servants regarding the implementation of statutes and norms. Besides these two formalised types of presidential decisions, presidents give so-called 'doruchennia' or executive orders which instruct cabinet,

individual cabinet ministers, or top civil servants to take specific actions. Although these orders are often not written or formalised in any other way, they constitute a major tool of presidential involvement in executive matters. While the first months of Yushchenko’s presidency saw some decline in the number of decrees issued by the president, there are numerous accounts of a large number of executive orders/instructions given to cabinet members by the new president.

**Figure 1**  
Policy-Related Presidential Decrees in Ukraine and Russia, 1992 – 2004



*Institutionalisation of the Presidency.* Presidents’ ability to intervene in the executive matters is greatly enhanced by strong policy-making capacities of the presidential office. Although there is no mention of the presidential office in the Ukrainian constitution, the Ukrainian presidents have spent a very considerable amount of effort to strengthen the presidential office and to increase the scope of issues that the office deals with. At the height of Kuchma’s presidency, his office – the so-called Presidential Administration – had more than 600 permanent staff members. Other reports indicate that the total number of administration employees during his presidency might have varied from between 1000 to 1500.

The administration included a number of departments that covered functional areas equivalent to those covered by cabinet ministries. For example, there is a consensus among analysts that the Ukrainian foreign policy was more influenced by decisions made in the foreign relations department of the presidential adminis-

tration than by policy positions of the Ministry of Foreign Affairs. Even President Kuchma's former economic policy advisor acknowledges that too much power to make decisions in the economic sphere resided not in the cabinet, but in the hands of the president and his administration.

While newly elected president Yushchenko promised a radical overhaul of the presidential office, many skeptics claim that not much has changed apart from the title. Yushchenko's presidential office, the so-called Presidential Secretariat, boasts a very elaborate structure that enlists many directorates and services. The first reports have already surfaced that criticise the Head of the Presidential Secretariat for meddling in executive matters that fall under the cabinet's jurisdiction.

*What are the problems with presidential involvement in executive matters?*

To understand how the presidency affects cabinet functioning, the organisational properties of effective cabinet decision-making should first be mentioned. Effective governance requires streamlined structures of executive government which generally implies that the leadership of the cabinet is exercised from the office of the Prime Minister; all major policy initiatives come from the cabinet; all major policy decisions are results of collegial deliberation and ratification and all major outcomes of decision-making are presented in the form of cabinet resolutions and laws passed by parliament

As the previous section indicates, the president has powerful means to affect the work of cabinet. Although formally not a part of the executive, the president actively participates in the executive decision-making process. Active presidential involvement in matters of executive government creates several major problems for the functioning of the cabinet.

The presidential use of powers to issue decrees and executive orders results in the diffusion of decision-making responsibilities: a cabinet is no longer the only executive institution in the centre of government. Competing policy initiatives, parallel decision routes and excessive burden of bureaucratic coordination are all negative effects of the diffusion of executive powers.

Policy priorities of the president and the cabinet often clash, due to the different type of electoral concerns that each office faces. Since a significant number of executive governance issues can be regulated either by presidential or cabinet acts, alternative routes for decision-making are easily available for the various policy process participants. Depending on their ease of access to either the president's office or the cabinet, they advocate that the issue be resolved either by presidential decree/executive order or cabinet resolution/instruction. The existence of competing centres of executive decision-making and the proliferation of executive documents, which often establish contradictory and conflicting rules, impose a high burden of coordination on the civil service and undermine the bureaucratic capacity of government.

*Prospects for strengthening cabinet decision-making authority*

The concentration of executive authority in the hands of the cabinet that is envisioned by the December 2004 constitutional reform could alleviate some of the problems associated with the diffused decision-making and dual executive design. The reform may come into force in several months if the validity of the procedures that led to the legislative passage of new constitutional provisions and constitutionality of these provisions are not challenged in Ukraine's Constitutional Court. The reform will increase the cabinet's authority in policy initiation and implementation, limit the executive and legislative functions of the president and change the principles of cabinet formation,

If the reform is held up, it will be difficult for the cabinet to claim the highest authority in executive matters. Preserving the constitutional status quo will mean that the same set of policy instruments will continue to be available for the president to intervene routinely in cabinet decision-making. There are, however, several procedural and institutional mechanisms which can encourage the president's self-restraint in issues of his involvement in executive matters and help to minimise the effects of political competition between the president and legislature over the control of the cabinet.

While constitutions define the general principles of cabinet accountability, they usually do not specify how cabinet and individual ministries should function. Laws on cabinet and cabinet ministry, cabinet rules of procedure, ministerial statutes and other legal documents of lower order regulate cabinet decision-making. The law on cabinet and some related types of laws have never come into force in Ukraine<sup>3</sup>. These laws need to be passed in order to articulate principles of primacy of collegial cabinet decision-making in executive matters; to emphasise the priority of cabinet resolutions and instructions/task assignments in the workload of government officials and to specify the norms of ministerial subordination to the cabinet.

Such a strategy of the consolidation of executive functions in the hands of the cabinet, for example, produced some positive results in Poland. Despite the fact that the Polish constitution empowers the president with substantial legislative powers and with the right to nominate cabinet, subsequent legal acts defined more precisely cabinet responsibilities vis-a-vis the president and parliament thereby strengthening the supremacy of the latter (Law on the Matters of Government Administration, 4.09.97)

**Cabinet's Dual Subordination: Partisan and Technocratic Considerations in the Cabinet Formation Process.**

Both parliament and the president participate in cabinet formation in Ukraine. The constitutional provisions that are currently in place, however, privilege the president over parliament. The former has an exclusive right to nominate a prime minister

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<sup>3</sup> The draft law on Cabinet of Ministers was initially introduced in 1997. Since then the various versions of the law were passed by parliamentary majority 8 times. The president vetoed the law each time it was passed in parliament. As a result, the law was never enacted.

who must be approved by parliament. Upon the prime minister's nomination, the president appoints individual ministers. The president also controls the powers of cabinet dismissal. Cabinet dismissal powers, however, are symmetrical: both the president and the legislature can unilaterally dismiss the cabinet.

The constitutional requirement of joint participation of the president and parliament in the selection of the premier does not allow the president to secure the selection of his ideal candidates. To compensate for this lack of full discretion, the president in Ukraine frequently uses his dismissal powers: the majority of cabinet dismissals during 1991 – 2004 were initiated by the president (Protsyk 2003).

The dominant principle of cabinet formation in Ukraine has so far been technocratic. No Ukrainian cabinets since 1990, with the possible exception of the most recent Tymoshenko cabinet, were formed on the basis of formal party affiliation of candidates for ministerial portfolios. The primary criteria for ministerial selection were some sort of “technical” expertise in a specific area of government functioning. Party affiliation was always a secondary consideration and having strong party ties was often perceived as a liability, especially for candidates for key economic and “power” portfolios. The 2005 Tymoshenko cabinet, formed after the events of the Orange revolution, marked a radical departure from this principle: politicians with strong party identification and lack of specific technical expertise were appointed to many key ministerial positions. Yet this cabinet is a partisan cabinet only in the very loose sense of the term; cabinet composition is more a reflection of specific preferences of the newly elected president than a result of party coalition bargaining in parliament.

Both technocratic and political cabinets in Ukraine face the dilemmas of dual subordination or accountability. The cabinet is subordinate or accountable to both the president and the legislature because each of these institutions has the unilateral control of cabinet dismissal powers. In terms of a principal-agent framework, the cabinet has two principals which assign tasks to the cabinet and may sanction the cabinet's non-compliance, using the ultimate sanction of cabinet dismissal. Symmetrical powers of cabinet dismissal ‘confuse’ cabinet members. Especially when the president and parliament are at odds, the cabinet is confronted by the necessity to pursue contradictory or competing courses of actions advocated by its principals.

Using his power of cabinet and ministerial dismissal, the president may affect the individual positions of cabinet ministers, selectively providing them with incentives to advocate or defend policy proposals preferred by the president. As a result, the policy-making process in cabinet becomes fragmented. Cabinet decision-making is also likely to be less cohesive and decisive if cabinet members face the necessity to manoeuvre between the conflicting preferences of the president and the legislature. The adoption of contradictory cabinet policies and high policy volatility become, in fact, an optimal response strategy for cabinet ministers who are interested in remaining in office but face competing claims on the part of the president and the legislature.

Forming a cabinet along technocratic, rather than party lines, is sometimes perceived as advantageous for the quality of decision-making in the cabinet. Technocratic cabinet members usually have a deep knowledge of the sector of government they manage. They are expected to make their judgments on the basis of sectoral expediency and not electoral concerns. They are believed to be more capable of withstanding the pressure of special interests and more willing to initiate unpopular economic and social reforms. The empirical research on the subject, however, finds mixed support for such expectations. Consistent evidence of better performance of technocratic cabinets, as compared with party-based cabinets, is only found with regard to the initiation of reforms and not with regard to reform implementation and consolidation (Haggard and Kaufman 1995).

### *What are the problems with technocratic cabinets for the quality of cabinet decision-making?*

While the idea of technocratic cabinets may initially sound appealing, substituting the politicians' cabinet with a team of independent experts creates numerous obstacles for cabinet decision-making.

*Fragmentation of decision-making.* Although cabinet decision-making is often presented as collegial and team-spirited, it is, in fact, fragmented and personality-centered. This is due to the individual nature of ministerial selection. Ministers receive their portfolios, not because they are part of a political team, but on the basis of their individual merits. It is then rational for ministers, who are not party agents, to adopt strategies that promote their personal political popularity and foster clientelistic sector-specific ties rather than benefit the collective image of a cabinet team

Parochialism of ministerial interests. The technocratic nature of ministerial selection leads to parochialism in policy-making at the level of individual ministries. Ministers, whose professional roots are in the industries they are currently in charge of, have a tendency to associate themselves with the interests of that particular sector and not with the cabinet as a whole. They view themselves as representatives of their specific industries in the cabinet. They are oriented to satisfy the demands of their sectoral constituencies rather than the needs of the citizens who consume their goods or services. For example, the Minister of Transport is more preoccupied with the well-being of transport-related bureaucratic structures and enterprises than with the quality of transportation services that consumers receive. The technocrats in sectorally-based ministries are also more likely to favour the incumbent large state enterprises than private start-up companies, thus providing additional disincentives for private sector development.

*Potential for policy volatility.* Technocratic cabinets have more difficulties in mobilising political support to enact policies. Parliament, which approves the prime minister and cabinet program, does not take political responsibility for the actions of the cabinet. Cabinet approval and stay in office depend on the support of situational and not a party-based majority. Given the unstable nature of political sup-

port which technocratic cabinets manage to mobilise, they face greater uncertainty regarding their term in office. Threatened by the prospects of support withdrawal, they opt for policy reversals to ensure cabinet survival. Still, technocratic cabinets do not rate high in terms of cabinet duration: the author's earlier research found that the average cabinet term in Ukraine during the 1991 – 2002 period was 15.3 months as compared with the average of 21.8 months for the Eastern European parliamentary regimes (Protsyk 2003).

All things being equal, the cabinet's instability complicates the decision-making process by making policy objectives more volatile and policy outcomes less predictable. The high cabinet turnover undermines efforts for the creation of a stable legislative environment and encourages the development of such alternative arenas for decision-making as various presidential councils and corporatist bodies. By dismissing or accepting the resignation of some cabinet members and not all cabinet members, the president further undermines the idea of collegiality in cabinet decision-making.

### **Cabinet's Legislative Powers and Legislative Strength**

The right of legislative initiative is one of the key policy instruments available to cabinets across political systems. There is a growing tendency in advanced democracies to strengthen cabinet power in forming the legislative agenda. Cabinet ability to secure the successful passing of cabinet-sponsored bills is enhanced through the introduction of procedural norms that allow cabinets to submit their draft laws in a package, to declare a draft law as a matter of confidence vote and to designate certain draft laws as issues that require priority in legislative consideration.

It is argued here that the cabinet's ability to successfully pass its legislative agenda through the Ukrainian parliament is undermined by the specific design of procedural norms and by the persistent political fragmentation in the legislature.

#### *Cabinet legislative initiatives*

Table 1 below captures the variation in the legislative activity of Ukrainian cabinets. It lists the number of draft laws introduced by each cabinet since 1994. It provides information on how many draft bills became laws and measures the success rate that individual cabinets achieved in securing parliamentary support for their legislative agenda. As the numbers indicate, with the exception of the Yushchenko cabinet, there was a steady downward trend in the percentage of draft bills that cabinets were able to turn into laws. In other words, cabinets' ability to fulfill their legislative agenda was declining during 1994 – 2002.

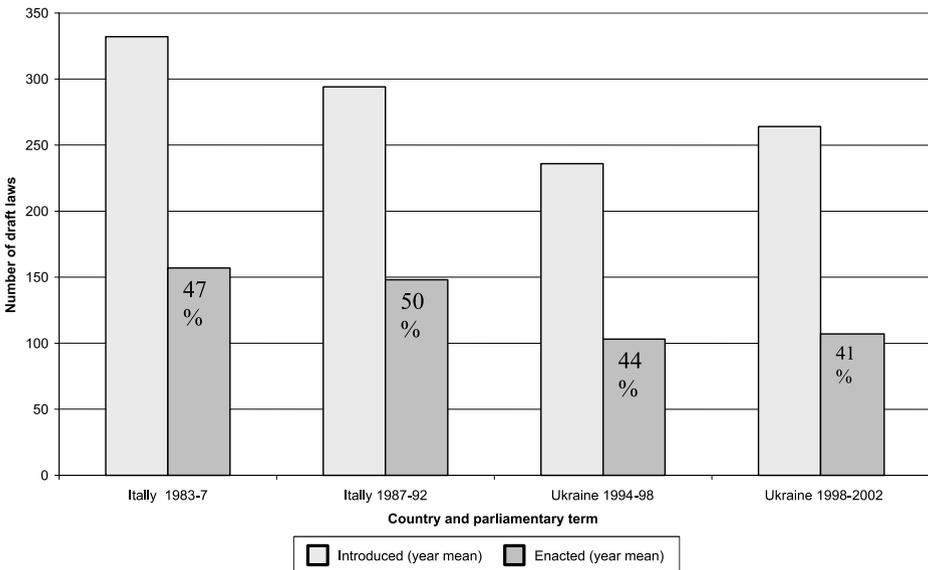
To put the activity of Ukrainian cabinets into a comparative perspective, Chart 1 provides data on the activity of Ukrainian and Italian cabinets during two parliamentary terms. The availability of detailed quantitative data on the Italian cabinets, as well as the fact that Italian cabinets are among the weakest in Europe in terms of their control over the legislature, makes this comparison interesting.

**Table 1**  
The Legislative Activity of Cabinets in Ukraine, 1994 – 2002

| Prime Minister        | Office term  | Law Drafts Introduced | Law Drafts Enacted | Law Drafts Failed | Success Rate (%) |
|-----------------------|--------------|-----------------------|--------------------|-------------------|------------------|
| Masol, Vitali         | 6/94 – 4/95  | 133                   | 77                 | 56                | 58%              |
| Marchuk, Yevhen       | 6/95 – 5/96  | 206                   | 88                 | 118               | 43%              |
| Lazarenko, Pavlo      | 5/96 – 6/96  | 33                    | 14                 | 19                | 42%              |
| Lazarenko, Pavlo      | 6/96 – 6/97  | 326                   | 135                | 191               | 41%              |
| Pustovoitenko, Valeri | 7/97 – 12/99 | 743                   | 289                | 459               | 39%              |
| Yushchenko, Viktor    | 12/99 – 4/01 | 316                   | 145                | 171               | 46%              |
| Kinakh, Anatoly       | 4/01 – 11/02 | 244                   | 89                 | 155               | 36%              |

Sources: Author’s calculation; data from *Upravlinia komp’iuternykh system Apparatu Verkhovnoi Rady Ukrainy* (Office of Computer Systems, Apparatus of Parliament of Ukraine).

**Chart 1**  
The Legislative Activity of Cabinets in Italy and Ukraine



Sources: Author’s calculation for Ukraine; data on Italy – Gary W. Copeland and Samuel Charles Patterson, *Parliaments in the Modern World: Changing Institutions* (Ann Arbor: University of Michigan Press, 1994).

The chart indicates that the Ukrainian cabinets during both parliamentary terms, which are included in the graph, introduced a smaller number of law drafts and were much less successful than even the legislatively weak Italian cabinets.

These findings underscore the general problems with the functioning of cabinets in Ukraine.

*How does party fragmentation affect government decision-making?*

One of the persistent myths in Ukrainian politics is that having many parties at the centre of government at the same time is conducive to democracy and good governance. The normative claim, which postulates that a more representative political system creates better democratic government, provides the primary justification for the proliferation of political parties. At the same time, there is almost a consensus in the literature on political economy about the trade-off relationship between government representativeness and effectiveness (Cox 1987, Shugart and Carey 1992). More representative parliaments face greater collective action problems and more representative cabinets face greater obstacles in the process of developing collegial decisions than more consolidated executive and legislative bodies.

Party fragmentation is a key characteristic of a party system that has an immediate effect on the process of decision-making in cabinet. Essentially, the term party fragmentation refers to how many political parties are significant players in parliament<sup>4</sup>. A strong correlation between the degree of party fragmentation and decisiveness of government policy-making is found in a substantial amount of empirical literature on the subject (Cowhey 1993, Haggard and Kaufman 1995).

*Government indecisiveness and lack of cohesion.* Because of the necessity to accommodate the interests of many collective members, the fragmented legislative majority face more difficulties in enacting legislative change than one party or stable coalition majorities. Even in relatively stable coalitions, the policy-making process is less coherent than in one-party governments, due to the necessity to negotiate policy decisions with coalition partners who are likely to be at odds with one another on at least one policy dimension.

Cabinets, which rely on the support of a fragmented and undisciplined legislative coalition, lack stable legislative backing to introduce and implement bold policy initiatives. Such cabinets are much weaker politically than one-party cabinets, which enjoy a stable majority support in parliament.

*Government instability.* Fragmented legislative majorities are prone to rapid disintegration. Political parties, whose stakes in sustaining a majority amount only to a couple of cabinet portfolios, easily flee the coalitions whenever there is a hint that their interests will be better served by staying in opposition. The prospects of an imminent coalition break-down have profound effects on the motivation of party leaders and individual legislators. Parties do not commit themselves to a sustained cooperation, thus reinforcing the vicious circle of government instability. Similar motivations affect the behaviour of cabinet members who often try to cope

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4 The literature on party fragmentation is quite sophisticated. A number of technical measures of party fragmentation are developed in the literature. See, for example, Octavio Amorim Neto and Gary Cox, "Electoral Institutions, Cleavage Structures, and the Number of Parties," *American Journal of Political Science* 41 (January 1997): 149 – 174.

with the uncertainty of their office term by maximising their personal political or economic benefits of cabinet incumbency.

*Blackmail potential of minor political parties.* Party fragmentation may also increase the relative importance of small parties in the decision-making process. When passing or rejecting a decision depends on a small number of votes controlled by a minor political party, the latter acquires a substantial leverage in coalition politics. Even when the party does not object to the proposed policy, it is likely to bargain using its leverage to get better deals in other policy areas. In this sense, the preferences of small parties can have a disproportionate effect on government decision-making.

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# Chapter 3



# **Explaining Russia's New Strategic Orientation – Presidents, Institutions and Regimes under Yeltsin and Putin**

*Pat Gray*<sup>1</sup>

The capacity of the Russian government for 'strategic orientation' (in the form of explicit plans, co-ordinated legislation, and the prudent and focussed management of public finances) declined dramatically during the transition from communism, reaching its nadir in the final years of the Yeltsin presidency. However, under President Putin, observers have begun to note a marked improvement; Putin's legislative record is extensive, co-ordinated, has clear policy goals and is related to a written programme elaborated at the start of his term of office<sup>2</sup>. Macroeconomic policy has enabled stabilisation since the crash of 1998. The contrast between Yeltsin and Putin in terms of their 'strategic orientation' could not be more marked. However, how much of this is due to changes in the institutions of the 'core executive' under Putin, and how much is due to other factors? How far can 'strategic orientation' really be seen as a function of institutions and the incentives they give to actors<sup>3</sup>?

This paper will argue that Putin has, until recently, made very little change to the institutional arrangements of executive power in Russia – a system considered by many to have serious shortcomings. The interesting puzzle therefore is to explain how strategic orientation can occur within such a 'defective' system.

Two explanations for this result are possible: either our understanding of which features (if any) of core executive institutions lead to 'strategic orientation' have, to date, been misguided or factors other than the institutions of executive power may enhance strategic orientation. In this latter case, these other factors may allow weaknesses in executive institutions to be 'over-ridden.'

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1 London Metropolitan University.

2 Though Putin presented himself to the electorate eschewing formal policy statements as a political strategy, German Gref's 'Programma sotsialno-ekonomukheckovo razvitiia rossisskoi federatsi' – Programme for the social and economic development of the Russian Federation – from the Centre for Strategic Development, provided the policy framework for much of the subsequent legislation enacted by his administration.

3 This paper deliberately focuses on central executive institutions in the period up until the formation of Putin's second administration in May 2004, which saw widespread changes introduced. The paper concentrates on 'strategic capacity' rather narrowly defined as coherent programme + legislative enactment. It therefore does not address the resource allocation system of the core executive, where there have been major efforts for reform, nor does it consider the equally important area of central-local relations.

## Overall approach

The relationship between specific ‘core executive’ institutions<sup>4</sup> and policy performance may be of crucial importance in designing future ‘governance’ reforms (see e.g. World Bank 2000, Grishankar, 2001, Blondel and Manning, 2002, Knack, Kugler and Manning, 2003) Effective executive institutions should create the conditions for macro-economic stabilisation and be designed in such a way that trade-offs between policies in different sectors are identified, and that ministers are held to account for the policies they pursue. A clear framework of accountable decision-taking will mean that civil servants in turn will then know what is expected of them, and that what has been agreed is likely to be adequately resourced. (Girishankar, 2001).

A number of fundamental claims can be made about institutions which will achieve these outcomes: 1) that whatever the specifics of particular executive institutions, the players must play (i.e. there must be incentives to participate) 2) the rules of the game must be credible and enforceable 3) there must be a realistic prospect of agreement (Manning et al, 1999) ‘Ideal’ executive arrangements may include: procedures to mediate disputes between ministers and provide advice and intelligence and the efficient scheduling of business: longevity in office sufficient to enable the recruitment and retention of experienced ministers: a number of ministries neither too large nor too small: a cohesive executive: and a limited number of independent veto points outside the executive (e.g. legislative, legal).

This paper seeks to outline the basic features of ‘core executive’ institutions under Yeltsin and Putin, highlighting the continuities in the system which include the absence of strong institutional incentives to ‘play the game,’ the shortcomings in credibility and enforceability of decisions, and the poor likelihood of reaching binding agreements. The paper will then highlight factors outside the range of the ‘institutional incentive’ paradigm that may explain improved performance under Putin, despite these institutional shortcomings. Strategic orientation we will suggest has emerged as a result of a new *regime* under Putin, a regime which transcends and incorporates executive institutions.

## Semi-Presidentialism and executive power

The formal powers of the Russian President under the 1993 constitution include the right to nominate the Prime Minister and government (the latter after ‘consultation’ with the PM), and to appoint to other key posts such as the head of the security council and the commander of the armed forces. The President’s choice for Prime Minister must however be ratified by the Duma, and the Duma may also dismiss the government through a motion of no confidence (or provoke an

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4 By the ‘core executive,’ we mean ‘all the organisations and procedures which co-ordinate central government policies and act as final arbiters of conflict between different parts of the government machine’ (Rhodes and Dunleavy 1995 p12). In Russia these include the President and Presidential Administration, the senior civil servants in the ministries, the Prime Minister and the members of the government.

election if the President chooses instead to dissolve the Duma). The President may veto legislation passed by the Duma and impose states of emergency.

‘The defining feature of president-parliamentarism is that both President and assembly can dismiss the government, and given their separate electoral origins, these two branches may differ in their preferences regarding the government.’ (Morgan-Jones and Schleiter, 2004).

The system provides some other checks in the form of a supreme court which may declare Presidential acts unconstitutional, and in the powers of the Duma, which may propose legislation, and veto presidential decrees if it is able to muster a 2/3 majority.

The institutional arrangements of semi-Presidential systems are sometimes held to have a number of inherent weaknesses, including persistent and irresolvable conflict between executive and legislature when both sides disagree (Shugart, 1996), or the monopolisation of power and the exclusion of legislative influence (Huskey, 2004, Shevtsova, 2004). Other writers conclude that semi-presidential constitutions can take a number of forms, depending on the alignment of political forces at particular times; ranging from ‘almost Parliamentary’ at one end of a spectrum through to ‘Super-Presidential’ at the other (Paloheimo, 2003, Siaroff, 2003). In the latter circumstances the success or failure of the system depends in large part on the person of the President. Where the President is disabled through illness (Yeltsin in the later period) the constitution provides few checks or alternative sources of decision. This inherent institutional flexibility in semi-presidentialism may make it difficult to provide an account based on the qualities of one institutional system. Rather semi-presidentialism may be seen as providing a range of possibilities for different institutional configurations, which actors may choose at different times under different circumstances – each of which may have different capacities for ‘strategic orientation.’

The Presidency in Russia remains responsible for foreign policy, defence, home affairs and security, and the government responsible for the social sphere and the economy. However, despite this formal separation – ‘The structure, personnel and internal dynamics of the Presidency may have a decisive effect on the use and distribution of power throughout the political system’ (Huskey, 1999 p 43)

The key roles inside the Kremlin include the head of the President’s administration (rukovoditel administratsi), the members of the Security Council, the Presidential assistants (8 pomoshniki) and advisers (sovetniki). However the formal significance of particular posts in making and co-ordinating policy varies greatly, depending on the post-holder, the circumstances of the time and the incumbent President. Important units for co-ordination in the Kremlin include the chancellery, the state legal administration, and the control commission. These control the flow of papers to the Presidency, the drafting of legislation and decrees, and the monitoring of programmes respectively. Each is formally under the management of the head of the President’s administration.

The key feature of the Russian executive system however lies not in specific posts and their responsibilities and inter-relationships. Rather it lies in the high degree of ‘path dependence,’ and the characteristics of the preceding system<sup>5</sup>. Under communism the system was highly centralised, with the communist party overseeing every branch of government, but also highly sectoral, with key sectors of the economy having a powerful voice in decision-making. Accountability was mainly upwards to superiors. Within such a system the role of the civil service was not ‘public service’, but ‘state service’ (Konig, 1992, Fortescue, 1997, Verheijen, 1999).

Despite the chaos of the early period of transition, many features of the old system may be discerned in the new – perhaps more than in other CEE countries, and certainly more than the reformers themselves might have expected. The Presidential Administration retains many of the institutional structures and functions of the old Communist party, but has lost three of the four main pillars which supported communist hegemony; the power to purge, to control ideology, and to indoctrinate (Huskey, 2004).

The party under communism played an important role as initiator of change, and liked to represent itself as cutting through red tape and bureaucracy – a tradition which has been maintained in the rhetoric of the Presidency under Gorbachev, Yeltsin and Putin. As a consequence a considerable degree of overlap and duplication of the functions of ministries and Presidential administration remains, with the appointment of deputies by the Kremlin in ministries providing a powerful vehicle for oversight much as party secretaries did under communism. The extensive decree powers of the President may also be seen as an expression of historical continuity – the ‘bold stroke of the pen’ which clarifies, and over-rules government in the wider public interest<sup>6</sup>.

The Russian system tends therefore to be dominated by a Presidential administration, which so far appears to lack stable and formal methods for resolving disputes, and reconciling conflicting priorities, beyond hierarchical processes of personal rule. The Russian cabinet has tended not to function as an instrument of collective rule<sup>7</sup> – co-ordination on contentious issues being achieved through bilateral meetings, often informed by ad hoc inputs of ‘expert’ advice. These can sometimes involve lengthy stalemates, or the production of brokered compromises which express unclear policy preferences. Indeed public disagreements within the Presidential administration, between ministers, and between Prime Minister and

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5 Russia is certainly one of those countries in which historical legacies have had far greater influence on executive formation than party systems or the lure of the ‘European model’ – see Brusis (2004)

6 As Protsyk (2004) shows, on average the Russian President signs up to 500 decrees annually, of which 300 relate directly to the appointments and dismissals of staff, with the remainder covering a wide range of policy issues affecting polity, economy and society.

7 Russia lags behind other CEE countries in developing ‘cabinet’ style working: Poland and Hungary for example both have party political cabinets with clear programmes, supported by a career civil service and effective control of public finance

president have been relatively frequent, so much so that it may even be possible at times to conceive of the Presidency and cabinet as a proxy parliament – fulfilling representational as well as executive functions<sup>8</sup>.

In terms of meeting the fundamental preconditions for executive rule, the current constitutional arrangements in Russia seem to be inadequate<sup>9</sup>. Firstly, at the level of providing *incentives to participate* in the game, the complex and overlapping jurisdictions of Presidential administration and ministries reduce the predictability of outcomes for ministers engaging in the 'game.' Alternative games are also being played on the same pitch – including a 'business' game (involving external sources of income), a local client game (involving selective benefits for local bosses to ensure compliance) and a 'court intrigue' game (involving scheming for personal advancement) These alternative games also provide strong incentives which are not compatible with effective strategic policy-making – ministers and officials in the Kremlin will certainly compete to participate in these games, but not to participate in the game that ought to be played.

In terms of the second criteria, that the *rules of the game are credible and enforceable*, the incentive system works very differently for Presidents and for ministers. Whilst ministers can be dismissed by both President and Parliament, Presidents can in reality only be dismissed by the electorate. Ministerial incentives therefore tend to lie in pleasing a strong President. The accountability that should apply to restrict diversion of players into other games is also absent for staff of the Presidential administration; unless a President begins to fear that the actions of members of his staff threaten re-election, there is little incentive to dismiss them. The political cost of holding on to a disgraced minister in the face of Duma opposition may be greater. The comparative de-institutionalisation of the Russian Presidential administration, and its tendency to act as a parallel government capable of providing selective opt-outs and privileges also militates against the enforcement of rules. The incentive structures alter as the President's term of office reaches its end, in which case the incentives for ministers' shift to those related to either pushing themselves forward as successors or attaching themselves to those individuals likely to be successors. In terms of the third criteria, the *possibility for agreement*, the absence of formal co-ordinating mechanisms certainly reduces the chances of agreement, as do the profound political cleavages in Russian society, the very weak and clientelistic nature of Russian parties, and the gravity of many of the issues 'up for decision.'

### **Clans and factions as elements of executive rule**

One important difficulty in understanding post-communist executives has been in assigning significance to informal and extra-constitutional relationships. All writers

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8 In the last year alone, Putin has blamed his prime minister in public for the failure of welfare reforms, fallen out with his economic adviser over changes in Ukraine, and market liberals in the cabinet have come under sustained attack from their ministerial rivals.

9 This is a preliminary attempt at analysis and I would welcome any corrections of fact or interpretation

agree that these relationships are extremely important. The Russian executive may be seen as occupied by competing 'clans,' whose influence transcends executive institutions through chains of patronage which may reach into administration, legislature, judiciary and beyond into the regions. Whilst key issues in the constitutional pattern may be the relationships between Presidents, Prime Ministers and the Duma, and between Ministers and each of these, key issues in the informal domain include the cohesiveness of members of this executive elite, the interests they represent, and the resources they deploy outside their formal position or rank within the government. The informal politics of the Yeltsin Presidency was one in which rival factions, representing differing constituencies competed for power in a brutal, de-institutionalised struggle which sometimes erupted in actual violence, or in wider appeals for public support through the various organs of the media attached to particular factions.

The informal political map of the Kremlin immediately prior to Putin's rise was dominated by what became known as the Yeltsin 'Family' – Dyachenko, Yumashev, Voloshin – family members and those whose business interests and personal loyalties were so closely intertwined with those of the President as to make them appear almost related. At any rate, members of the 'family' were motivated almost entirely by a desire to protect their own sizeable gains from privatisation, and the power derived from the patronage associated with these. The other main group, the so-called 'siloviki' or 'powerful' occupied the main ministries within the President's area of authority (Defence, Justice, Interior, the FSB) and were therefore predisposed to defend the interests of these ministries, and the competing vision of a strong, authoritarian state. The Kremlin however was also to become home to various liberal reformers, ranging from advocates of radical market reform, to more measured technocratic modernisers, such as German Gref, the minister for economic development. The essential feature of the Putin Presidency in its early period was therefore to be its 'Tsarist style intrigues and succession, elements of soviet style loyalty, new age utilitarianism and pragmatism – all (which) would become an impetus for mutually exclusive trends and possibilities' (Shevtsova, 2003 p76)

The puzzle therefore becomes to explain how from such a basis of formal and informal weakness, the new President was able to successfully mount a systematic legislative programme of 'state building.'

### **'Strategic orientation' under Putin**

Putin's main strategic achievements lie in the design and enactment of his legislative programme, which in turn reflects in detail many of the elements of the strategic plan prepared by German Gref while working at Putin's election HQ, and some additional elements which reflect the political and tactical vision of the leader.

1. The weakening of the upper chamber Federation Council and removal of the regional governors (2000). Summer 2004 saw new presidential powers to nominate and dismiss regional governors

2. The creation of 7 federal 'Okrugs' to ensure compliance with federal laws in each of Russia's regions (2000)
3. The 'revolutionary budget' of 2001, which established principles for the division of tax income between federal regions
4. Tax reform establishing a basic flat rate 13% income tax
5. Deregulation measures to clarify and standardize government inspection of businesses
6. Legislation on bankruptcy, banking and money laundering
7. Judicial reform
8. New laws regulating political parties. July 2001 creating threshold of 5% for party list representation in Duma, and requiring 10,000 signatories for recognition. Summer, 2004 – all deputies to be elected by party list (previously 50% of seats were reserved for individual constituency members)
9. Following the 2004 election, a complete re-organisation of the central executive which reduced the number of central ministries from 24 to 15, reduced the number of deputy ministers, and devolved some functions to semi-autonomous 'agencies'

Despite a number of setbacks and delays (in military reform, banking regulation, civil service reform, and pension reform) the legislative record of President Putin already seems impressive, in terms of the breadth of its ambition and comprehensiveness.

### **Explaining strategic orientation under Putin**

Where has Russia's improved strategic orientation come from? Although Putin appears to have firm control of the Duma in a way which Yeltsin could not, these changes cannot alone explain improved strategic orientation. The table below seeks to briefly summarise changes between Yeltsin and Putin. What has altered has been the way in which the 'game' has been played by the President, and 'strategic orientation' is thus a function not of the institutions alone, but of institutions which create an opportunity structure for executive leadership.

| <b>Yeltsin</b>                                 | <b>Putin</b>                                   |
|--|--|
| Duma opposition (veto point)                   | Control of Duma                                |
| Frequent dismissals of government/PM           | Ministerial and governmental tenure lengthened |
| Leader as monarch with supplicants             | Leader as ruthless manager of change           |
| Macroeconomic policy not controlled until 1999 | Macroeconomic policy controlled                |

Improvements in 'strategic orientation' may also be attributed to macro-level 'regime' building by the new Presidency, including the mobilisation of support and demobilisation and incorporation of opposition in the Duma, the discovery of

new sources of patronage and political credit in the war against selected oligarchs and the extension of 'vertical' power to the regions, the conscious manipulation of the media and electoral process, and the development of a clear 'national developmentalist' vision which has strong electoral appeal to both modernisers and traditionalists amongst the Russian public.

An important, though not autonomous role in many of these processes has been played by 'Yedinaya Rossiya' (United Russia), currently the most successful of all the Presidential 'Parties of Power.' The aftermath of the 1998 crisis in Russia and the impending struggle for the Yeltsin succession had led to a flurry of party activity orchestrated by members of the Russian elite. 'Otechestvo' and the 'All Russia' party (OVR) combined to compete for the crucial December, 1999 Duma elections. They swiftly faced opposition from the Yeltsin sponsored 'Unity' party, which was little more than a publicity machine for the government of the day and its Prime Minister, Vladimir Putin. Unity went on to gain 106 seats in the Duma elections, and were swiftly joined by OVR, cementing the pro-government majority. Following the election of Vladimir Putin as President, the two parties formally merged in April, 2001. In the December, 2003 Duma elections United Russia took 50% of the seats, and assured comfortable government legislative control through the allegiance of other Duma factions (Oversloot and Verheul, 2006). By January, 2005 United Russia and its supporters controlled 305 out of 450 Duma seats.

The characteristic features of a 'party of power' (*partiya vlasti*) are perhaps unique to certain transition states. Such 'parties of power' tend to be projects of the Presidential Administration, or 'administrative-political' projects in which the administration seeks to manage political space. The party in this case acts as a 'leading force in the process of political modernization' (Ilina, 2005 p6). The 'party of power' will therefore always align with the views of the government of the day. Given its closeness to power, and its patronage resources, adherence to the party of power will become more or less essential for elite groups.

The 'Party of Power' reverses the normal functions of parties in a democracy. It does not normally provide a channel for political recruitment, as access to key positions within it is achieved largely through 'insider' processes open only to a few. It does not provide the opportunity to aggregate societal interests, since its programme and policy are those of the leader it has been established to support. Adherence to the party is a means of ensuring access to benefits, rather than a means of expressing autonomous political views. Party activity moreover is often short-lived, coinciding with the electoral cycle and collapsing thereafter (see e.g. Riabov, 1996, Oversloot and Verheul, 2000, 2006). Its main 'policy' functions are thus to provide legitimacy for government, and to ensure that the leader's legislative programme is carried through. Although no party fully resembles this 'ideal type,' *Yedinaya Rossiya* comes fairly close. Previous 'Parties of Power' in Russia have however failed to form a cohesive platform either in terms of ideology or in terms of relationships between leading personalities. The apparently dominant position of Vladimir Putin, and his relatively consistent policies have however tended to

create a party in his own image: one that is socially conservative, nationalist, committed to market reforms, but populist, with a bias to authoritarianism coupled with limited action to protect the 'deserving vulnerable' in the population. This consistent policy stance reflected through the vehicle of United Russia has reinforced, but does not by itself account for, the improved effectiveness of Russian policy-making under Putin.

A broader 'regime' perspective may enable us to encapsulate the clear differences between Yeltsin and Putin in a way which concentration on formal institutions does not.<sup>10</sup> The key elements of a 'regime' include:

- a socio-economic support coalition that commands the majority of relevant resources
- a capacity to define and press the central issues in the polity
- a capacity to reward supporters and maintain the growth to do so

*(Pempel 1990)*

The Yeltsin period cannot be considered a regime: it did not have a basis of socio-economic support which commanded the majority of relevant resources. Crucially Yeltsin lacked the capacity to define and press the central issues. The crisis of 1998 removed his capacity to reward supporters and discredited his claims that reform led to growth. The Putin presidency (2000-date) however has many of the characteristics of a regime; it is electorally dominant, has a distinctive agenda, and has so far managed to maintain sufficient growth to keep its disparate coalition of supporters in place.

Other factors, both exogenous and endogenous have aided the emergence of this regime. These include the disastrous crisis of 1998 which focused the minds of reformers on the need for a new 'national plan', the historical legacies of communist rule which may have enabled the administration of a complex legislative programme into law, and the dominance of a new, if unstable coalition in the Kremlin between the 'siloviki' and the 'technocrats,' and against oligarchs such as Khodorkovsky who choose to stand outside the umbrella of the 'party of power'.

More generally the case shows that good institutions within the core executive are not always necessary for strategic orientation or good performance<sup>11</sup>. Under the specific conditions which we have identified even south-American style 'de-

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10 A 'Regime' involves something more than the government of the day, but something less than a particular constitutional order. A regime is a 'sustained fusion among the institutions of the state, particular segments of the socio-economic order, and a particular bias in public policy orientation' (Woo-Cumings p157) While governments may come and go (the players), and formal institutions remain fixed (the game), regimes, or non-formal 'rules of the game' lie in between. As such 'regimes are based on the interactions of specific social sectors and key state institutions...around commonly accepted principles for organising the nation's political economy and public policy' (p. 158)

11 In terms of policy outcomes the Putin regime has achieved impressive levels of GDP growth and poverty reduction, though the benefits of this have not been evenly spread. (World Bank, 2005)

sarrollista' regimes<sup>12</sup> can be effective. The challenge for further research is therefore to understand which features of these regimes, and which other conditions are necessary in order to secure continued performance, and to explore their risks and limitations.

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12 Such regimes have four features: appointive bureaucracy, politicised capitalism, explicit developmental goals (often expressed in nationalist terms) and a politics founded on exclusion. The picture fits Russia perfectly – see Schneider, B.R. 'The desarrollista state in Brazil and Mexico' in Woo-Cumings, M (1999) 'The Developmental State'

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# Chapter 4



# **In Search of Strategic Governance: Executive Reforms in Hungary**

*László Vass*

## **Preface**

This paper gives an overview and first analysis on the development of the strategic function in the Hungarian government. Institutional, operational, cultural and conditional components of the strategic capacity-building are discussed and some first conclusions will be drawn for further debate.

Unquestionably, studying the real world of strategic governance is a challenging, politically sensitive enterprise. This is one of the most politically influenced areas of the operation of the government at the crossroads of coalition politics, government decision-making process and policy management.

During the preparation of this paper, the author has used widely his own personal experiences and observations gained as a government senior advisor as well as the comprehensive lessons from interviews held with key players of the Hungarian political and administrative arena between 2000 and 2004. The survey aimed to discover the characteristics of a coalition government in Hungary, and the secondary analysis of the interview material also produced a valuable source of information for the discussion on strategic governance. Respondents, by positions held, were the following: former Prime Ministers of the first two government periods of 1990 – 1998; parliamentary party-faction leaders of the government coalitions; administrative heads of the Prime Minister's Office during the period 1990 – 2002 and chiefs of cabinets to the Prime Ministers during 1994 – 2002. The most important sources were the two heads (László Bogár and Imre Szekeres) of the PMO's Center for Strategic Analysis (STRATEK) from 1998 until 2004. The interviews carried out with them focused on the topic of this paper. (See the interview guidelines in Appendix IV.) Obviously, the range of the interviews was wider than the topic of strategic governance, and the answers included essential and comprehensive information, not only about the practice of governments, but also about the attitudes, preparedness and expertise of the government leaders in strategic governance and management.

It was impossible to collect cross-temporal information about the human and financial resources of the strategic units at the government centre. The number of staff with civil servant status is known, but the names and number of the contracted assistants is still not accessible information for research. I could not obtain information about the financial resources of the strategic units either. The budget of the PMO is one title in the national budget, but the details, like the allocation of the financial resources to the organisational units, is decided by the PMO and it is not open data.

This paper is the first outcome of a longer research program launched by the NISPAcee Workgroup III. Further surveys and analytical work are planned to reveal more details and evidence about the impact of STRATEK on the policy process and on the legal drafts at the government centre and also at the ministries.

### **Coordinating Function in Operation**

After the political transition and prior to 1998, there was no individual strategic unit in the Hungarian government structure. The fall of the Communist planning system left an empty space behind in the policy process. In the beginning, the Communist way of centralised and bureaucratic economic and social planning was seen as an inherent part of the command economy and, as such, it discredited the central planning. Evidently, the new political elite could not gain experience in corporate governance and very few of them had any knowledge of strategic management. We can say that the political environment and the cultural conditions were not given to the development of a strategic function in the government. Another important characteristic of the new, democratic development is the over-politicisation of governance, which has always been reflected in the operation and organisation of government offices. This situation directed the attention of the observers towards politico-administrative relations and the political obstacles to coherent policy-making. The strategic function of the government has been a missing link between the political program of the coalition government and the practical tasks of policy coordination.

In his analysis, Körösényi emphasised that “an important question regarding any government is whether it is politically united and has an independent policy program, and whether government policy is largely subservient to the different aims of the parties forming the government, to the personal ambitions of the ministers and to the pressure of lobbyists and to the goals of the administrative apparatus”. (Körösényi, pp.216 – 220) Regarding the internal structure of government, this question relates to whether ministers are the enforcers of government policy in the ministries or representatives of the interests of the ministries in the government. In other words: is there a united government policy or only the aggregation of the activities of the ministries? Is there a unity of policy action across government?

The question of the unity or fragmentation of government policy raises the problem of *co-ordination*. During the 1980s, the ability of the ministries to realise their own interests in Hungary prevented the development of a unified economic policy. Political analysts and sociologists have identified, as the main causes of lack of cohesion and coherence, the system of so-called branch ministries and the strength of large enterprises and economic lobbies in satisfying their interests. These problems are not, however, unique to Communist systems: they also characterise democratic governments. International comparisons generally identify the American presidential system as the clearest example of strong cohesion and unity and the Swiss collegiate executive as the example of greatest disunity. Considering the parliamentary governments which resemble more closely the Hungarian

system, the British and Italian governments give examples of, respectively, relative unity and disunity, while the German government lies somewhere in between them. These differences are explained by a combination of factors pertaining to the constitution, law, administration and party system. In what follows, we survey the organisations, instruments and institutions of governmental policy co-ordination operating in Hungary.

There are different instruments and institutions of governmental co-ordination. One consists of the powers of political leadership, administration and patronage exercised by the *prime minister*. Another is the classical coordinating institution of the cabinet system – the government meeting itself – where disputes between ministers are decided and a united government standpoint is determined. A third possible political instrument in the case of a coalition government is the *coalition policy reconciliation forum*, which may exist formally or informally, outside the government, and which may operate not only during talks on coalition formation, but throughout the term of the government. During the Antall government, this function was filled in Hungary, alongside the fortnightly meetings of the political state secretaries, by the prime minister's informal discussions and by the government meetings themselves. During the Horn premiership it was performed by a formalised institution operating outside the organisation of the government – the so-called Coalition Reconciliation Council.

Alongside political co-ordination, government involves *administrative* co-ordination – the harmonisation of the operation and direction of the huge administrative machines that are separated from each other into departments. In Hungarian governments, administrative instruments and institutions of coordination exist on three levels.

The first is the level of public administration and the reconciliation by the public administration of the various programs and draft bills put forward by the ministries. When, for example, a ministry produces a draft bill, that draft is, as early as the planning stage, sent out for consultation to interested ministries and public agencies, and often to organisations outside the state administration, such as interest representatives, the employers' and employees' sides within the Interest Reconciliation Council and the parliamentary groups of the parties in government. On the basis of the remarks of these groups, the ministry generally modifies the draft law, taking into account the opinions of the other affected ministries. Finally, the ministry sends the draft, through the Office of the Prime Minister (PMO), to a meeting of the administrative state secretaries.

A second level of co-ordination has emerged within the government. It involves, first, the development of a hierarchy among ministers and ministries and, second, the creation of narrower bodies that prepare the ground for decision-making such as *cabinets*, committees, advisors, and councils. The hierarchy among ministries is based upon political and sociological rather than legal foundations.

Traditionally there has always been a certain informal ‘inequality’ among the ministries. Particular ministries and their ministers traditionally possess greater prestige than others. In the current governmental system, following the Prime Minister, it is the Finance Minister and Interior Minister who top this hierarchy. The basis of the pre-eminence of the *Finance Minister* is his or her control over the budget, which gives what amounts to a veto right over the access demands of the individual ministers. The Ministry of Finance is always at the heart of the rivalry between ministries competing for funds. During the 1990s, the Ministry of Finance has been the most important ministry in the government, and the Finance Minister has thus been the most prominent individual within the government behind the Prime Minister. Finance Ministers during the 1990s have strived to obtain control over all aspects of governmental economic policy. On the one hand, this has further increased their conflicts with the other economic ministries. On the other hand, in the interests of the protection of political balance within the government and the prevention of excessive strengthening of the finance minister that might threaten the position of the prime minister, it has encouraged prime ministers to create counterweights to the power of the finance minister. One instrument used by prime ministers to counter the rise of finance ministers has been their frequent replacement: between mid-1990 and mid-1997 there were a total of six finance ministers. In 1998, the incoming Orbán government weakened the Ministry of Finance: its powers were curtailed, with some being transferred to the Ministry of Economic Affairs and the Office of the Prime Minister.

Alongside the finance minister, the interior minister also heads the governmental hierarchy. In the Antall and Boross governments, the interior minister had the right to deputise for the prime minister. During the Horn government, the Free Democrat interior minister (Gábor Kuncze) was the prime minister’s so-called coalition deputy – it was above all he who exercised the right of reconciliation and of veto established in the coalition agreement. It followed from this, for example, that the head of the ministerial *cabinet* at the Ministry of the Interior, as with the administrative state secretary of the PMO, received every draft law in advance at the stage of administrative preparation.

The pre-eminence of the prime minister, the finance minister and the interior minister within the government is indicated and strengthened further by the fact that they are the leaders of the three so-called *cabinets* that operate within the government as smaller decision-making bodies. While formally these *cabinets* only prepare the ground for government decisions, in practice they have become decision-making organs: within their competencies they possess essentially decisive powers: their decisions are generally not debated in-depth at government meetings, but instead, their recommendations are simply accepted.

The third level of co-ordination with respect to the activities of the government is filled by the PMO. Because of its important political and administrative role, we will deal with this in greater depth. The Office of the Prime Minister is as large as a ministry – during the 1990s, its staff numbered between four and five

hundred people. It has three functions. First, it organises the work of the Prime Minister. Second, it has administration and coordination responsibilities with respect to the operation of the government, that is, it is expected to ensure the unity of the governmental apparatus. Third, in organisational terms, the ministers and political state secretaries without a portfolio and the Prime Minister's advisory apparatus both fall within its domain. Reflecting these three functions, the PMO was divided into three distinct and independent organisational sections under the Antall and Horn governments.

The Orbán government, which entered office in the summer of 1998, planned the reorganisation and strengthening of the PMO along the lines of the chancellor's office in Bonn. Further, the leader of the PMO gained the rank of a minister.

### **Institutional Development**

The development of institutional arrangements at the centre of government for enhancing strategic leadership is a process very hard to follow. There are two difficulties:

- the interpretation of the strategic function at government is changing, depending on the conceptions of the governing elite;
- the formation of institutional arrangements, as such, has its own context: in a transitional system there are still very few stable elements of the institutional setting and the same functions may be practised by different institutions. (A very simple case: the easiest way to exchange an incumbent officeholder is an institutional reorganisation...).

In practice, the strategic function in government does not mean the same as being a business manager. Unfortunately, the distinctive nature of strategic behavior in government is a relatively undeveloped subject. Typical public management applications of concepts such as "strategy," which stress goals and accountability, are mostly derived from a business context in which executives manage hierarchies. There have been few efforts to apply the concept of strategy to the "organised anarchies" of government.

Strategic management in business is associated with decisive, easily defined, and clearly understood actions that have profitable consequences. Strategic management in government, in contrast, is associated with ferreting out limited spheres of autonomy and with persuasion, bargaining, and accommodation achieved through subtlety, indirection, and craftiness. (Lynn, p.138)

In addition, it is a fact that governments, which are suffering from the lack of resources, have to apply an issue by an issue approach in their work (see Verheijen in Peters, p.491), and the use of strategic approaches is fairly limited.

The next figures reflect the formation and development of the staff related to strategy tasks after 1989, as well as the significant increase of such staff during the last two governments.

## STRATEGIC POLICY MAKING IN CENTRAL AND EASTERN EUROPE

### Changes in Numbers of Strategic Staff at the Hungarian PMO

| <b>Governments</b>   | <b>STAFF</b> |
|--|--------------|
| 1989 Last State-Socialist Government: Office of the Council of Ministers     |              |
| Secretariat of Economic Policy   | 27           |
| Secretariat of National Minority and Social Policy                           | 18           |
|  | <b>45</b>    |
| <b>Antall-Government (Conservative)</b>                                      |              |
| 1990.June  |              |
| Secretariat of Economic Policy   | 20           |
| 1991.February  |              |
| Department of Economic Policy  | 4            |
| Advisory Corps to the Prime Minister   | 16           |
|  | <b>20</b>    |
| <b>Horn-Government (Socialist-Liberal)</b>                                   |              |
| 1995.December  |              |
| Personal Advisors to the Prime Minister                                      | 6            |
| Bureau of Modernization Program  | 3            |
|  |              |
| 1996.April   |              |
| Ministry desks subordinated to the Prime Minister and PM's personal advisors | 22           |
| Secretariat of the Cabinet of European Integration and Strategy Workgroup    | 6            |
|  | <b>28</b>    |
| 1997.February  |              |
| Secretariat of the Cabinet of European Integration and Strategy Workgroup    | 3            |
| Secretariat of Coordination of Economic Policy                               | 7            |
|  | <b>10</b>    |
| 1997.September   |              |
| Secretariat of Coordination of Economic Policy                               | 7            |
| Secretariat of the Workgroup of Integration Strategy                         | 7            |
|  | <b>14</b>    |
| <b>Orbán-Government (Conservative)</b>                                       |              |
| 1998.September   |              |
| Political State Secretaries and Advisors to the Prime Minister               | 17           |
| STRATEK  | 28           |
|  | <b>45</b>    |
| 1998.November  |              |
| Political State Secretaries and Advisors to the Prime Minister               | 20           |
| STRATEK  | 29           |
| Referatures [Ministry desks]   | 36           |
|  | <b>49</b>    |
| 1999.February  |              |
| Political State Secretaries and Advisors to the Prime Minister               | 27           |
| STRATEK  | 28           |
| Referatures  | 31           |
|  | <b>55</b>    |

## In Search of Strategic Governance: Executive Reforms in Hungary

|  |            |
|--|------------|
| 1999.July  |            |
| Political State Secretaries and Advisors to the Prime Minister | 28         |
| STRATEK  | 33         |
| Referatures  | 33         |
|  | <b>61</b>  |
| 1999.December  |            |
| Political State Secretaries and Advisors to the Prime Minister | 38         |
| STRATEK  | 34         |
| Referatures  | 38         |
|  | <b>72</b>  |
| 2000.April   |            |
| Political State Secretaries and Advisors to the Prime Minister | 47         |
| STRATEK  | 35         |
| Referatures  | 38         |
|  | <b>82</b>  |
| 2000.December  |            |
| Political State Secretaries and Advisors to the Prime Minister | 46         |
| Secretariat for Economic and Social Policy Research            | 5          |
| STRATEK  | 38         |
| Referatures  | 40         |
|  | <b>89</b>  |
| 2001.September   |            |
| Political State Secretaries and Advisors to the Prime Minister | 51         |
| Secretariat for Economic and Social Policy Research            | 5          |
| STRATEK  | 39         |
| Referatures  | 40         |
|  | <b>95</b>  |
| 2002.March   |            |
| Political State Secretaries and Advisors to the Prime Minister | 56         |
| Secretariat for Economic and Social Policy Research            | 5          |
| STRATEK  | 44         |
| Referatures  | 35         |
|  | <b>105</b> |
| <b>Medgyessy-Government (Socialist-Liberal)</b>                |            |
| 2002.September   |            |
| Political State Secretaries and Advisors to the Prime Minister | 31         |
| STRATEK  | 16         |
|  | <b>47</b>  |
| 2003.January   |            |
| Political State Secretaries and Advisors to Prime Minister     | 51         |
| STRATEK  | 33         |
|  | <b>84</b>  |

Source: Telephone Directories of PMO. Names are confidential.

Number of PMO Staff

| 1989 | 1991 | 1993* | 1995 | 1996 | 1997 | 1999 | 2000 | 2001 | 2002** | 2003** |
|------|------|-------|------|------|------|------|------|------|--------|--------|
| 432  | 481  | 481   | 472  | 458  | 316  | 434  | 516  | 572  | 654    | 780    |

Source:

*Year-Books of PMO*, \**Népszabadság*, 23 March 1993 p.6., \*\**HVG*, 30 November 2002.

### 1990 – 1994

After the political transition, the first Hungarian government inherited an externally constrained economic and political situation that left very little room for the government to manoeuvre. A survival strategy was dictated in the economic policy, and the strategic approach seemed to be limited in the field of foreign policy, namely the Euro-Atlantic integration process.

We may accept that strategic management is guided by four principles: (1) concern with the long term, (2) integration of goals and objectives into a coherent hierarchy, (3) recognition that strategic management and planning are not self-implementing, and most important, (4) an external perspective emphasising not adapting to the environment, but anticipating and shaping of environmental change. Strategic public management adds an additional ingredient: strategic thinking must be cognisant of the exercise of political authority. (Bozeman, Straussman, pp.29 – 30)

The first democratic government definitely began to build strategic capacities, but the efforts were weak and the concept was immature. The new government elite evidently had a serious lack of expertise and experiences in public management. Prime Minister Antall asked for technical assistance directly from the German Chancellor, Mr. Kohl. The advice suggested the building of a sectoral policy expertise corresponding to the ministerial portfolios in order to coordinate government policies. These ministry desks within the PMO were called *referaturák* and were modelled according to the example of *Spiegelreferate* in the German Chancellor's Office. Coordination can provide policy coherence, which is vital in efficient and effective governance. (Potůček, p.71)

The early form of the “mirror-referatura” was established in 1990, reflecting organisationally the ministry structure of the government. The “referatura” was subordinated to the political cabinet of the Prime Minister, while the other departments of the PMO were supervised by the administrative state secretary of the PMO. He was the head of the PMO and at the same time the permanent chairman of the regular meetings of the administrative state secretaries of the ministries. The real body of the coordination was this meeting, not the “referatura”, which reported to the Prime Minister but did not coordinate across the government.

It is not surprising that the economy and economic policy became the focal points in the government's work. At the end of the 1980's, the last state-socialist government had already established some institutional capacities for strategic economic policy. The Office of Council of Ministers, the predecessor of the

PMO, had an Economic Reform Workgroup, an Economic Policy Secretariat and a Privatisation Commission. After the elections, these units, as well as the Central Planning Office, a fundamental institution of Communist governance, were axed. The new Prime Minister could not rely on any coordinating support, because such institutional background simply did not exist.

He understood the importance of economic policy, but he was not familiar with it. At first he established a Secretariat for Economic Policy headed, by one of his personal trustees. This unit was intended to be the centre for economic policy-making. The head of this centre very soon came into conflict with the minister of finance, and the Prime Minister relieved both of them from office. This decision led to a strange situation: the PMO lost its key position and the Ministry of Finance became the most competent coordinator across government.

The Prime Minister introduced a balancing body in order to keep control over the economic and financial issues, namely the Economic Cabinet to the Government, which consists of the economic ministers (finance, trade and industry, international economic relations, agriculture, environment). Before the final decisions of the government, this body discussed the drafts on the government's agenda and gave its opinion on them. The Prime Minister usually automatically accepted the suggestions of this body. This body could not balance the overweight of the Ministry of Finance and during the budget negotiations the Minister of Finance de facto exercised the Prime Minister's authority.

During that period, the PMO was much more successful in coordinating the legislative functions across the ministries. The legal-administrative unit of the PMO dominated over the Ministry of Justice in the legal preparation process. It created some tensions between the PMO and the Ministry of Justice.

In the first period, the following key players appeared on the stage and remain until today:

- political cabinet of the Prime Minister
- economic policy cabinet of the government
- Ministry of Finance
- Ministry of Justice

The characteristic of the situation was more fragmentation than coordination.

### **1994 – 1998**

The regular meetings of administrative state secretaries became the most important professional fora in the process of governmental decision-making between 1994 and 1998. These fora represented the final stage of professional adjustment while they also held a filter function: public administration can inhibit the occasional overflow of political demands on strict professional grounds, or it can simply warn that a certain political intention cannot yet be translated into the 'language' of public administration. The fora took place every Monday and the preparation of the following government session (in principle the one that should follow the next

week) was also on the agenda. Very often, however, the proposals were submitted to the government meeting already during the same week. The shortened time framework naturally made the preparation of the other ministers and the experts of the coalition parties more difficult.

The administrative state secretary of the Prime Minister's Office chaired the regular meetings of administrative state secretaries. Being aware of professional alternatives, as well as of the standpoint of the Prime Minister, he was able to determine whether a given proposal that was tabled for the forum could be finalised and submitted to the government or needed further adjustment. The ministers' interest was to reach consensus on their proposal before the government meeting and thus avoiding debate.

The so-called Economic Cabinet (EC), presided over by the Minister of Finance, played a significant role in the adjustment process before the government meeting. The EC analysed the proposals from financial and macro-economic perspectives. In principle, all the proposals had to go through this filter. Since all proposals have certain financial consequences, the EC Wednesday meetings represented a kind of government session concerning economic and financial policies. The more the EC deployed broad and general perspectives in the discussion and evaluation of proposals, the more the government accepted its opinion and suggestions in the given affairs. In the case of particularly important issues, the coalition Vice-Premier also participated in the activity of the EC, thus giving extra weight to the standpoint and interests of his party in the debate.

Other bodies (such as the Cabinet on European Integration, the National Security Cabinet, the Inter-Ministry Council on Information Technology, the Co-ordination Committee for Youth Policy and the Council of the Affairs of Retired People) had similar professional functions but – due to their smaller weight – they played a smaller role in the decisions regarding their respective areas.

The standard adjustment process within the public administration branch also brought information to the surface. Information was accumulated in the hands of the administrative state secretary of the Prime Minister's Office, who controlled the final and most important stage of the adjustment process. If a proposal got stuck or the procedure was paralysed, he had to mobilise the process. Due to his position, he was able to see if the quality of a proposal did not meet the standards, or if political problems emerged. Thus, he could take the necessary steps for improvement or draw the Prime Minister's attention to the problem. Then the Prime Minister, as a kind of governor-manager, used his authority to solve the issue. His habit was to invite the main actors (whether they were ministers, other government people or leaders of interest representation bodies) of a debated 'problem case' to his office and settle the issue with the exclusion of the public. He often said: 'you cannot leave the room until you make a compromise'.

The administrative state secretary of the Prime Minister's Office had an important role in determining the schedule of the government and in determining its agenda.

As a last stage in the preparation for the government meeting, the coalition Vice-premier met with the ministers of his own party while the Prime Minister consulted with the public administration and political state secretaries of the Prime Minister's Office in the morning of the government meeting. Late Wednesday afternoon or Thursday morning the other ministers also studied the most important issues and prepared themselves for the government meeting. The ministers' colleagues – who held important positions – participated in these preparations: state secretaries, vice state secretaries and one or two persons from the ministerial staff. After this, but still before the government meeting (taking place at 10 o'clock), the last forum of adjustment occurred: the cabinet of the government held a session. The cabinet of the government consisted of the Prime Minister, the Minister of the Interior, the Foreign Minister, the Minister of Finance, while the administrative state secretary and political state secretary of the Prime Minister's Office (the latter being the manager of the cabinet) were regularly invited.

Eventually these sessions finalised those proposals envisaged for the government meeting on that day which would need further discussion before their acceptance and which embodied final and non-debated viewpoints. Occasionally, in the absence of a political agreement, these sessions also decided on the postponement of a certain proposal or they referred them to the further adjustment process. The working style of the cabinet of the government was very personal. Minutes or records were not prepared. Memoranda were occasionally written but they were not made public.

The ministers and the Prime Minister made their position explicit at the meetings of the cabinet of the government and the government itself. The position, in our view, is not simply the personal or political viewpoint or opinion of the given politician, but also represents his/her power. By introducing his/her position, the member of government might indicate the preferences that he/she would not give up, even in the case of a different government decision. In the background of a determinate position one can often find a mandate from the party, which would occasionally but inevitably lead to a coalition reconciliation process.

At the meetings of the cabinet of the government different positions were carefully considered. Thus the prospects of the proposals could be envisaged and the solutions of emerging conflicts could be planned for the government meeting. The style of discussion was personal and political. If afterwards, at the government meeting, the Prime Minister announced that: 'we discussed the issue at the cabinet of the government session and a particular solution was outlined', the message was clear to all ministers. (The political solution was then summarised and put into a professional format for government decision by the administrative state secretary.)

The government session regularly lasted only about two or three hours. Nevertheless, occasionally many (sometimes 40 or 50) and on average, 24 points appeared, and were covered on the agenda. The decisions of the government were made either without debate or after a debate, in the latter case either with or without a vote on the given issue. Points on the agenda that were planned to go undoubtedly might have triggered discussion if a member of the government initiated it and his ideas were built on solid grounds. Some topics were planned to be debated to increase the responsibility and personal commitment of the decision-makers – particularly concerning issues with high political or economic profile. Occasionally – indeed, very rarely – the government made a decision that differed from what had originally been planned by the forum of the administrative state secretaries or the cabinet of the government. No issue was determined as final before the government session. Debates were always practice-oriented and not ‘philosophical’ (strategic?): the debating partners briefly (within two or three minutes) presented their proposal and position.

The Prime Minister, who had the final word on every issue, always chaired the government session. The participants agreed that ‘at the end of a debate everyone would know and sense what the decision could be’. The Prime Minister made his decision on the basis of the proposals and even more so, on the basis of the positions. He referred all those cases onto further adjustment that he found unacceptable or that had not been fully and properly elaborated from public administration-professional perspectives. A vote did not necessarily mean the decision itself – the decision always resided with the Prime Minister. A vote might have served to test different positions. (When, during a vote, the ministers of the junior coalition party remained in a minority and the party did not veto, the decision was made.)

The above analysis already suggests that the Prime Minister has been the key strategic actor in the coalition government in Hungary.

At the government sessions, dividing lines occasionally emerged during the discussion. The divisions in most cases reflected the party affiliation of the ministers (political differences were always related to the affairs of the coalition) but sometimes the differences of standpoints did not correspond to the partisan composition of the coalition. The minister, who presented the proposal, sometimes was voted down and had to accept the Prime Minister’s decision, which was based on the majority position. Although a minister could ask for a vote, it was the exclusive right of the Prime Minister to order a vote. Thus, the Prime Minister was able to avoid a vote when the expected result was contrary to his own position (although in a minor affair it happened once that the Prime Minister voted with the minority and then accepted the majority decision). The Prime Minister had several possibilities to erase proposals from the agenda during the process.

Although all ministers received the proposals (24 on average) in advance and could prepare for the meeting, in practice, the ministers generally knew their own proposal best, acquired information about the debated ones on the agenda or on

the non-debated ones that were connected to their own field, but only rarely had the time to overview the others. The Prime Minister was well informed about all the important elements of each proposal. We can argue that generally only the Prime Minister was aware of the significant points and complexities of a proposal to the same degree as the proposing minister. The Prime Minister's interference in ministerial portfolios used to be contested between the Prime Minister and individual ministers.

Indeed, both the processes of preliminary adjustment and the decision-making procedures within the government justify the thesis about the strength of the Hungarian Prime Minister. This strength is due not only to the constitutional foundations and regulations but also derives from the personal leadership qualities of the Prime Minister and is based on the mechanisms prevalent in the activities of the government. The particular demand towards the institutionalisation of a chancellor-type governmental system was demonstrated when the youth, religious, ethnic affairs and the issues of public administration development were absorbed by the Prime Minister's Office. In addition to this, the leadership position of the Prime Minister's Office would have required a ministerial post already in the 1994 – 1998 governmental period (eventually, a minister was nominated to the position in 1998).

The Prime Minister was helped in his activities by the entire apparatus of the Prime Minister's Office. The administrative state secretary of the PMO informed him (on the basis of the work of the professional departments) about the professional alternatives in given issues (that is about the alternative solutions considered by the ministry and other so-called independent experts); the head of the PM's personal cabinet – at the rank of state secretary – informed him (using resources of the PM's advisory cabinet) about political issues or the political connotations of certain proposals (party-related issues, requests of Members of Parliament, the management of special programs); while the leader of the Prime Minister's Secretariat provided information coming from personal connections of the Prime Minister. Although these three areas are officially and practically separated, the information provided by them was not firmly divided. Since these areas are closely tied to the Prime Minister, their leaders, as well as the staff members in leading positions both in the office of the PM's advisory cabinet and in the Prime Minister's Secretariat, naturally were confidential positions.

During the period 1994 – 1998, the basic structure of the centre of government did not change significantly. The fragmentation continued and the only factor was the Prime Minister (and the administrative state secretary of the PMO) who dominated the decision-making process. The "referatura" was finally dissolved and consequently, the PMO became even weaker in the legal coordination as well.

Only one new element should be mentioned: this is the strategic centre related to European Union accession. A small unit was set up in order to overview strategic issues of the accession process. Although the results of the work of this

unit were not utilised in the PMO, the released publications were informative for the ministerial experts.

The most important strategic result of this period was the 1100/1996 Government Resolution on Public Administration Reform. In this document, the government commissioner responsible for the administrative reform, Mr. Verebélyi, set up strategic objectives in order to strengthen the strategic role of the PMO. The main proposals were the following:

- a minister should be appointed as head of the PMO,
- a more integrated organisation should be formed within the PMO, with stronger coordinating power,
- a stricter separation was necessary between the political and administrative appointments,
- the public management culture should be strengthened.

The Horn-government did not realise these proposals in practice, although the necessary legal conditions were established.

### **1998 – 2002**

The turning point in the development of strategic capacities at the centre of government was 1998, when the new Conservative (Young Democrats and Smallholders' coalition) government fundamentally reorganised the PMO. Following the model of the German Chancellors' Office, a comprehensive system of "referatura", a strong communication staff and a strategy centre were organised in the PMO, and a powerful minister was appointed as head of the PMO.

The main tasks of "referatura" officers in charge by the very first statutory of the PMO were listed as follows:

- preparing analysis and proposals for the Prime Minister,
- expressing an opinion on the (ministerial and other) propositions for the government sessions,
- expressing an opinion on the (ministerial and other) propositions to the Prime Minister,
- supporting the parliamentary work of the Prime Minister,
- coordinating the preparation of government decisions and reporting on the implementation,
- keeping contact with the ministries.

The "referatura" with the above tasks became an essential support for the Prime Minister in decision-making and a good, professional basis for a more expanded strategic function of the PMO.

Since a minister headed the PMO, by the standard, he had an administrative state secretary as the head of the administrative apparatus, and a political state secretary as general deputy. This minister, as a powerful political appointee, received the task

of managing the new, strategic unit, the Centre for Strategic Analysis (STRATEK). Setting up STRATEK, as a pillar for coherent governance and organisational place for making and maintaining government strategy, was a pioneer step and it proved useful in the longer term.

After two years of operation, the Government Control Office made an efficiency scrutiny in the PMO and released a SWOT chart about the experiences concerning STRATEK:

| Strengths  | Weaknesses  |
|--|---|
| <ul style="list-style-type: none"> <li>• the head of STRATEK has a sufficiently strong position in the hierarchy</li> <li>• direct connections to the Prime Ministers' Cabinet</li> <li>• strong professional competencies</li> <li>• high-tech IT background</li> <li>• good networking with the academic community</li> <li>• key organisational position in the advisory boards for the Prime Minister</li> <li>• complex and long-term thinking</li> </ul> | <ul style="list-style-type: none"> <li>• weak library and data access</li> <li>• bad working-conditions in terms of office rooms</li> <li>• the STRATEK opinion is not reflected in the official statement of the PMO</li> </ul>  |
| Opportunities  | Threats   |
| <ul style="list-style-type: none"> <li>• influence on policy decisions</li> <li>• innovative approach to new issues</li> <li>• good access to the political state secretaries across the PMO</li> <li>• presenting complex approach towards the government</li> </ul>  | <ul style="list-style-type: none"> <li>• conflicts with ministries</li> <li>• communication problems with the other units of the PMO and the political leaders</li> <li>• resistance of the administrative staff against the new approaches</li> <li>• political oversensitivity</li> </ul> |

The former head of STRATEK, Dr. László Bogár, emphasised that their task was a very wide angle analysis of new developments and challenges at the domestic and global levels (from philosophy to propaganda). In his opinion, the most problematic condition was the very low level of strategic thinking and the lack of an “interface” between STRATEK and other professional units. The Prime Minister relied on STRATEK, and expected STRATEK to “find out his next request”.

The Strategic Survival Guide, published by the Strategic Unit of the British Government says: “Some governments get by with improvisation, ideology or luck. But many of the most successful governments of recent years have placed a strong emphasis on strategy. As a rule, the best strategies in governments and public sector are:

- Clear about goals and relative priorities
- Underpinned by a rich understanding of causes, trends, opportunities, threats and possible futures

- Based on a realistic understanding of the effectiveness of different policy tools and the capacities of institutions (strategies that work well on paper but not in practice are of little use to anyone)
- Creative – designing and discovering new possibilities
- Developed with, and communicated effectively to, all those with a stake in the strategy or involved in its implementation.

Strategies vary greatly. Some are very precisely defined and are imposed top-down through organisational hierarchies. Others emerge in a more evolutionary and co-operative way from discussions, experiments and learning.

In either case, strategy is best conceived as an end-to-end process from the definition of goals to implementation. In a democracy, the end purpose will be to create public value – services and outcomes that are valued by the public. Policies need to be developed within the framework of a longer-term strategy, taking into account the practicalities of implementation. All strategies need to be adaptable, with quick feedback and effective information flows to take account of changing circumstances or unexpected events.”

The STRATEK at the Hungarian PMO has made some of the first steps toward this direction, but it is far from meeting the requirements above. Building strategic capacity in government requires strategic thinking, strategic management, performance management and coordination devices, linking the budget process to the policy-planning process, and consultation. (Andjekovic, pp.26 – 28.pp)

### **2002 – 2006**

In 2002 a new government came into office. The centre of government and PMO went through the deepest changes in personnel and organisational structure. “Referatura” disappeared again. In order to strengthen political governance, political state secretaries have been appointed to administrative managerial positions and the weight of the administrative part of the Office has decreased.

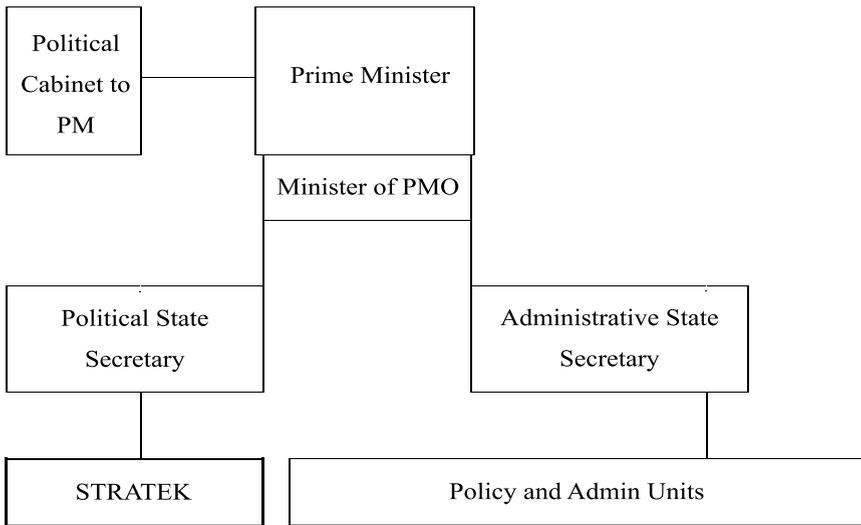
The new Socialist-Liberal government has kept STRATEK. In spite of the comprehensive organisational restructuring of the PMO, STRATEK is one of those few units having the same hierarchical position as it had during the previous government. The PMO is principally the most politically influenced office within the institutional structure of the government, and STRATEK as a politically key functional unit was subordinated to the political state secretary of the PMO, who is the political deputy to the Minister heading the PMO.

This organisational status of STRATEK reflects clearly that the Socialist-Liberal government had exactly the same approach to STRATEK as its Conservative predecessor. Namely, the strategic function of the government was supported by a political unit instead of a policy unit. The organisational position of “Referatura” shows that it was working under the supervision of a deputy state secretary headed by the administrative state secretary of the PMO. No doubt, “policy” and “politics” are not differentiated from each other in CEE countries, yet as happened in west-

ern government systems, this exact organisational status of the strategic function gives evidence of the partisan and ideological characteristics of strategy-making in the government. In fact, government strategy, as such, is much closer to political values than to policies. There is a good chance of the development of an undesirable distance in this structure between the policy units and strategy-making.

Functional and coordinating difficulties for STRATEK might come from the emergence of some new sub-centres in the centre of government dealing with strategy making in very important fields, such as the Office of the National Development Plan, or the Office of Regional Development. (Moreover, these Offices are also headed by heavyweight political state secretaries) Following the “traditions” of the previous, 1994 – 1998 Socialist-Liberal government, the fragmentation appeared again in the government’s organisational structure. The consequence was a devaluation and confusion in strategy making and a lack of policy coherence. Obviously, the EU accession process has been a disciplining factor in strategy making, giving a schedule and framework for the government strategies.

However, the head of the new STRATEK has exactly the same hierarchical position in the PMO as his predecessor.



*Hierarchical Position of STRATEK in the PMO Organization*

Political State Secretary Imre Szekeres summarised the mission of the STRATEK as follows:

“As general political state secretary of the Prime Minister’s Office my objective is to explore the interest of the Hungarian society and to formulate proposals for the government. The Strategic Analyst Centre (STRATEK) provides the scientific and technical basis for this activity. Here, political forecasts are prepared and

researches are conducted to measure the efficiency of governmental decisions as well as to deal with questions emerging in the society.

STRATEK is a “policy-making” think tank. It is the support basis for the governmental social, economic and integration policy. We have adopted the objective to facilitate that the government efficiently meets its targets, which are the creation of the prospect for EU accession and increasing competitiveness of the country. STRATEK wishes to provide theoretical background to these efforts supplementing the work of ministries and experts. We endeavour to find solutions to social problems such as demography and migration and to technical challenges such as competitiveness and specific issues of EU integration. STRATEK also monitors the fulfillment of the government program.

At the government’s request, we publish our analyses and proposals. STRATEK also edits brochures dealing with what it means to live in a member state and with demography-policy issues highlighted by the Demographic Government Commission as well as basic questions of innovation policy.”

The STRATEK analytical papers and research have reported on social, economic and foreign policy topics to a large extent. The publications were circulated in broad (government, academic and non-government) circles. STRATEK received some acknowledgements for its performance, but there is very little evidence of the use of the released strategic and policy papers by policymakers. Clear and formal organisational links were practically missing between STRATEK and the policy-making units, consequently the impact of the STRATEK was not guaranteed in the policy process. The informal influence of STRATEK and its politically well-connected head might be stronger on policies, but there are no valid indicators and evidence for measuring this impact yet.

In 2004, there was a significant change in the governance: the government coalition changed the PM. This change has been a starting point for a transformation period in governing which also included key strategic functions. Until 2006, the new PM, Ferenc Gyurcsány completed a slight centralisation within the PMO, transferring the authority from the minister of the PMO to his personal cabinet. Within the PMO, STRATEK slowly lost its functions, the strategy-making gradually concentrated in the hands of the PM, backed by his cabinet advisors.

### **2006 –**

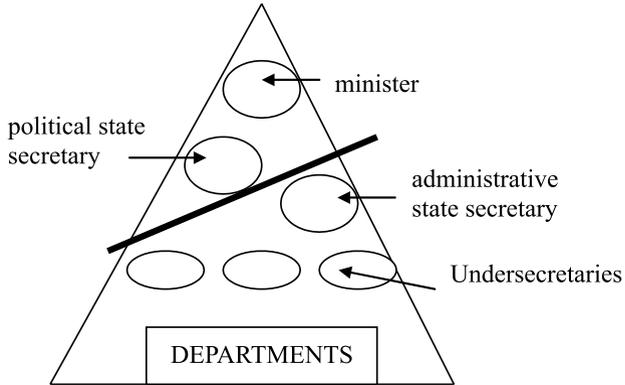
The year 2006 may be a turning point in the development of the strategic functions in the organisation of Hungarian government. The Socialist-Liberal coalition again won the Parliamentary elections with a new generation of the party-leadership. The young Prime Minister personally led the campaign, introducing a new, highly personalised campaign communication.

The new government declared the politics of the “New Governance”. The model for the concept was the British “progressive governance”. The “New Governance” is obviously not equal to “good governance” – instead, it is “political governance”.

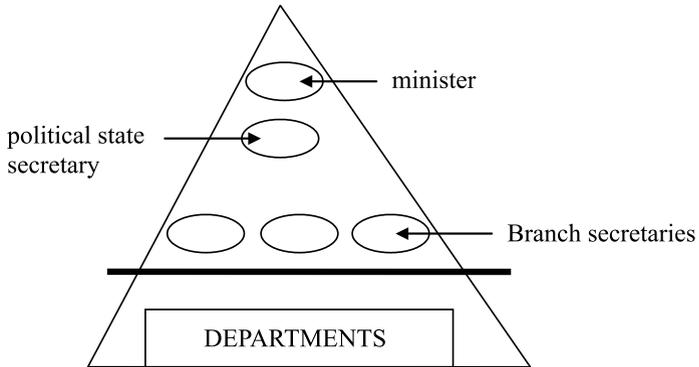
The Prime Minister expressed that his government is straight-talking, not following the hypocrisy about the separation of politics and administration. The first steps show a significant change in the pattern of politico-administrative relations in Hungary.

The borderline between the political and the administrative appointments moved down, and at the same time, strategy-making became totally politicised.

### Structure of the Ministry until May, 2006



### Structure of the Ministry after July 2006



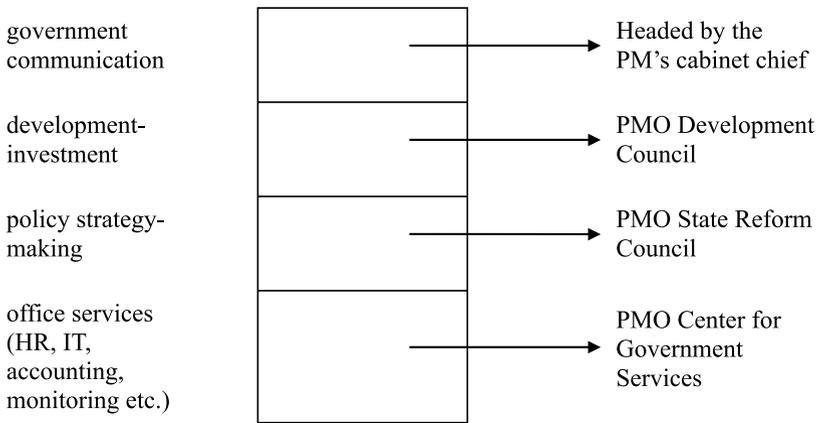
The structural change comes together with substantial functional changes. The Prime Minister wishes to establish strong strategic governance. In order to do this, the powers and authorities are essentially restructured between the ministries and the Prime Minister's Office.

The published key document of the PMO (New Governance: Development and Reform Government) creates three groups of ministries' functions:

- administration-policy implementation,
- development-investment,
- policy strategy-making.

The first function shall henceforward continue to be the basic function of the Ministry. The development and the strategy-making functions will be concentrated at the PMO level. In the ministry, the minister’s personal cabinet serves as a “pillar” for the government centre in order to transfer the Prime Minister’s political direction from the centre to the implementing organisation.

**Scheme of the New Governance**



The Prime Minister invited top managers from the private sector to become heads of the Development Council and the Centre for Government Services. The head of the State Reform Council is a former minister of finance. They have very broad authority to lead and manage the strategy-making processes, and they also can decide on strategies. The high level of the centralisation and concentration of the power has to serve a more efficient, better coordinated governance, and, at the same time, the effective implementation of austere measures in the next period in order to balance the state budget and use effectively the development resources from the EU structural funds.

In summary, the strategy-making capacities have been centralised and concentrated under the political umbrella, pumped out from the ministries and allocated to the PMO. The “interface” between the politics and administration is the group of branch secretaries, who also became political appointees, but who were also selected on a merit-basis. The highest level of the professional public service “career” is the layer of the heads of department. Every appointment over the department head positions are formally political ones. This structure makes explicit and “de jure” the earlier “de facto” practice and stabilises a politicised strategic governance.

## Appendix

### A1. Organisational Structure of STRATEK

| Orbán government 1998 – 2002 | Medgyessy government 2002 – 2004       |
|------------------------------|--|
| STRATEK sub-departments      |  |
| Economic and Social Analysis | Strategic Planning and Analysis        |
| European Integration         | European Integration and Modernisation |
| Political Analysis           | Research Coordination                  |
| Civil Relations              | Innovation                             |

*Inner Structure of STRATEK under the last two Governments*

### A2. Publications of PMO's Strategic Units, number by years and by topics

1996 – 42

(PMO staff published in general)

Public administration reform 37

Economic and labor policy 5

1999 – 67

Economic and social development, globalization 9

Economic policy, taxation 20

Pension system 10

Health policy reform 23

Welfare 5

2000 – 32

Energy policy 8

Economic development 5

Budget 4

Monetary policy and finance 4

Human resources 5

Housing and real estate 2

Foreign trade 4

2002 – 148

*European Studies* series

*Strategic Studies* series

*European Mirror* journal

Welfare, social, and health policies 4

Economy, competition, taxation 31

Agriculture 12

Culture, education, research 5  
Regional development 3  
Law 2  
Environment 1  
Foreign policy 1  
EU accession 89

### **A3. Guideline for the interview with heads of STRATEK**

Do we need a strategy at all?

If yes, what is a strategy?

What is the difference between government strategy and political ideology (value system) / party program / government program / government work-plan in terms of content, “level” and target audience?

What is a government strategy document?

Where is the central strategic function allocated in the government system? (Prime Minister or meeting of administrative state secretaries or a certain ministry or PMO or what?)

What is the fundamental characteristic of the government strategy by professional content: is it an economic, political, social, EU-related or complex program?

We have had the Széchenyi-plan (2000), National Development Plan (2003) and Europa-plan (2004). Are they comprehensive strategies?

What institutional background has been developed for supporting the government strategy function?

What is STRATEK? Where is STRATEK in the government command and report line?

How are the products of STRATEK used in the government? Is there any regular feedback to STRATEK about its results?

What are the most important results and obstacles of the strategic function?

How can strategic governance be simultaneously integrated into the processes of coalition politics and policy-making? In other words: between the political and policy dimensions, where is the place for strategic governance?

Can the daily pressures and determinations kill or seriously block the strategic functions in governance?

What is the relation between the STRATEK and the strategic function of ministries?

What is the relation between the STRATEK and the National Development Office?

What is the relation between the STRATEK and the Ministry of Finance?

Does the strategic function include the functions of program evaluation and impact analysis?

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# Chapter 5



# Strategic Governance and the Czech Republic: Theoretical Considerations, Real-life Performance

*Martin Potůček*<sup>1</sup>

## **Motto:**

“Setting the agenda of government, and getting programmes that may not have natural constituencies onto the agenda may be the most difficult, as well as the most important, aspect of the policy process when seen with some detachment. Crisis and the threat of crisis may facilitate that process, but governments (always operating with limited resources, including resources of time and attention) may not wish to invest heavily in the remote and the unseen. Saving money or lives for society in some remote future is of course beneficial, but it may not be perceived as being worth large amounts of political capital.” (Peters 2003)

## **Introduction**

The research project **Strategic governance** constitutes part of the project **Visions and strategies of the Czech Republic’s development** of the Faculty of Social Sciences, Charles University in Prague (Potůček et al. 2004). It brings in theoretical concepts of, as well as empirical evidence about, strategic steering mechanisms (or their absence) in the life of the country. It collaborates with other scientific teams in a joint effort to better understand the whole *problematique*, and more specific issues, in a comprehensive and better-to-apply way.

It is true that strategic governance has only developed in a satisfactory way in a few countries of the world. Central and Eastern European countries have also embarked on this path, but until now have only been able to make a few initial steps. (Potůček (ed.) 2004, 2006b)

The rationale of this chapter can be divided into two subsequent goals. First, we will present a theoretical framework for a better understanding of strategic governance related to changing societal conditioning and future challenges and opportunities of the region.<sup>2</sup> Second, we will summarise the first empirical findings of our research asserting the above theoretical concept of strategic governance in an empirical analysis of its progress in the Czech Republic after 1989.<sup>3</sup>

Let us begin with the initial proto-conceptualisation of the notion: **“Strategic governance can be understood as a dynamic process of the creation and implementation of policy, politics, and administration, that is animated by the**

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<http://martinpotucek.cz>; <http://ceses.cuni.cz>

2 Refer to Potůček (2006a) as well.

3 The detailed empirical findings have been published in Czech in a monograph, Potůček et al. (2007).

endeavour of manifold social and economic groups with different interests, but also by the search for a sustainable development orientation and social contract(s), that could counterbalance these interests in a way that will be compatible with the long-term interests of the whole society – including its future generations.” (Potůček et al. 2004)

To develop the theory of governance further is both a challenge and an opportunity: “*Governance theory has tremendous potential in opening up alternative ways of looking at political institutions, domestic-global linkages, trans-national co-operation, and different forms of public-private exchange.*” (Pierre 2000: 241)

Pierre and Peters (2000:69, quoted in Veselý 2004:12) assure us that “...it is virtually impossible to make any clear generalisation about governance since ‘it must be always contextualised and nuanced to be useful in describing particular settings’”. Consequently, the concept of strategic governance we are about to develop should be tailored to the specific present and future conditions of the Czech Republic: as a country on the borderline between the world centre and periphery and as a new member of the European Union, with its historical roots (including the legacy of communism) and specific public administration traditions etc.

A brief overview of the available literature already reveals certain preconditions of a sound analysis that are shared by most theoreticians: namely that governance is the core notion and its strategic dimension should be its derivative (Ochrana 2005a, see par. 1.1 and 4); and that governance is a holistic (par. 1.2), and multi-dimensional (par. 1.3) concept.

## **1. The notion of governance**

There is a clear demand for a new paradigm, which can respond to the profound changes of governing processes during the last decades... The general tendency of it is well characterised by Bovaird’s (2005) question: “... *are we moving to a future in which government remains the key player in public governance or is it realistic to assume that we might move through ‘governance in the shadow of government’ (Jesop, 2004) to self-organising policy and service delivery systems – ‘governance without government’?*” The uncertainty about the traditional theories of governance, associated with the emerging new approaches toward its conceptualisation, are well documented, apart from ‘public governance’, by many other adjectives associated with this core term: ‘new governance’ (Rhodes 1996, Rouban 1999, Salamon 2002), ‘socio-political governance’ (Kooiman 2003), ‘good governance’ (Governance 2000), or ‘progressive governance’.

Let us consider some of the definitions that are in line with these characteristics.

### *1.1 Definitions*

Governance means “... *collective capacity to influence the future for the better.*” (Dror 2001: xi)

“Governance is a system of values, policies and institutions by which a society manages its economic, political and social affairs through interactions within and among the state, civil society and private sector. It operates at every level of human enterprise.” (Governance 2000, quoted in Strategic (2002:1))

“Social-political governance means using an analytical and normative perspective on any societal governance that is ‘collective’. ‘Collective’, not in the sense that the care and development of these activities is looked upon as a public task (the ‘state’); a responsibility of the private sector (the ‘market’), or of the third sector (‘civil society’) in isolation, but as a shared set of responsibilities. (...) Interactions as a social phenomenon, and governing interactions as a specific type, are a rich source for analysing and synthesising insights into many facets of governance.” (Kooiman 2003:5)

There is a broad overview of other definitions in Veselý (2004:11 – 12).

The undisputable changes in the forms and ways of pursuing governance as a societal process in contemporary societies may suggest that the core of this concept is associated with processuality, plurality of actors, and comprehensiveness.

### *1.2 Holism in governance*

With the growing complexity and rising interdependence of societal actors, the bureaucratic forms of governance based on old-style public administration and hierarchies seem to be losing ground, being continuously replaced by more fuzzy forms of steering (or mismanagement). Nevertheless, the failure to effectively embrace complexity may end up in increasingly chaotic and paradoxical situations. (Encyclopaedia 1994 – 5) The core problem for governments is that they have inherited, from past centuries, models of organisation that are structured around functions and services rather than being focused on solving problems. **The key answer to these problems is a more ‘holistic’ government, which is organised more along outcomes and less around structures and institutions.** (Perri 6 1997: 9, 37, 49)

Salamon (2002:19) attempts to translate this demand into a more instrumental language better suited to the practice of holistic governance. He introduced the term: *‘tools of public action’*, i.e. identifiable methods through which collective action is structured to address a public problem.

The main paradox of contemporary governance is that governments are expected to solve ever more challenging and complex tasks in an increasingly interdependent world with less and less direct power and control at their disposal. **The only rational response to this tension is to develop such tools of public action that will be more effective with less direct control and involvement, such as: organising public discussions on important issues of public life; setting up priorities; mutual learning, encouragement and support; implementing general regulative frameworks and relying on interactive networks, and multi-level governance. The application of all these approaches is vitally dependent on sound coordination, based on the holistic conception of both reality ... and public action.**

### 1.3 Multi-dimensional approach

The holistic approach is much easier declared than applied in research practice. There is a legitimate second step of its application – to define the components of the whole to be studied. Most scholars have ultimately stopped trying to define governance. Given its relational nature, the notion of governance is “...*unlikely ever to be defined in ways which are so general that they will have universal validity*”. (Bovaird 2005:220).

The multi-dimensional approach makes it possible to identify all relevant aspects of the complex phenomenon studied – and to decide later, which of them should be taken into consideration when approaching a specific cognitive problem. Zürn and Liebfried (2005:1) conceptualise the modern nation-state with four intersecting dimensions: the control of resources, the rule of law and sovereignty, its legitimacy *vis-à-vis* its citizens, and social welfare. Veselý (2004:16) suggests a similar way of operating with the four dimensions of governance: its level (local, national, supranational, and global), its modes (hierarchies, co-ordination/co-operation, and self-governance), its dynamics (structures/institutions vs. processes), and its normative content (‘good’ vs. analytical governance).

For the purpose of our research, the development of the multi-dimensional approach is a must. Without a good definition of relevant dimensions of governance, preferably exclusive and independent of one another, there will be no language enabling us to understand and agree upon the specific field of our study. Hence, we will not have an effective tool to decide what belongs and what doesn’t belong to the field of our research interest.

## 2. Dimensions of strategic governance

Governance cannot be reduced to the national (state) level any more. Thus the researcher should take into account both the supranational (in Central and Eastern Europe especially the European Union) and the sub-national levels (par. 2.1). This cannot be reduced to the government and its activities. Thus, other regulators and actors should be taken into account, namely the market, the civic sector, and the media (par. 2.2). The contemporary, and even more so, the future governance should not put all their stakes on hierarchies; they should rely on horizontal links as well as on informal networks (par. 2.3). The above listed three core dimensions of governance in general are valid also for strategic governance and thus they should be taken seriously into its analytic consideration.

What follows is a conceptualisation of strategic governance as a specific segment of governance. The trial to specify a strategic dimension of governance out of a general notion of governance will always suffer from a measure of arbitrariness. I suggest that a distinction be made between its resources (that have also their parallel at the level of general governance) and (more specific) qualities, differentiating it from tactical and/or operational mode of governance.

There are four core resources of the strategic dimension of governance at the start of the 21<sup>st</sup> century: the global ethic (par. 2.4), the cognitive resources (including education) (par. 2.5), the institutional resources (including tools) (par. 2.6), and the social capital (par. 2.7). There are three core qualities of the strategic dimension of governance: the ability to anticipate potential futures (par. 2.8), the capacity ‘*to choose a society*’ (par. 2.9), and the ‘*emergent strategies*’ (par. 2.10).

Let us consider all of them while being aware of their mutual dependence.

### 2.1 *Multi-level governance*

The age of sovereign nation-states is over – at least in Europe (if there has been any at all). Governance is still to a large extent executed at the national level. Nevertheless, its increasing shares go either upward to the supra-national level (especially to the level of the European Union – e.g. the rule of law) or downward to the sub-national (especially regional) level. (Zürn – Leibfried 2005:25; Pierre – Pieters 2000) The need to cope with the increasing complexity of policy-making processes gives rise to the concept of multi-level governance (MLG). (Bovaird 2005:219); Veselý (2004:16) adds up the global level of governance that is still *in statu nascendi* (Dror 2001).

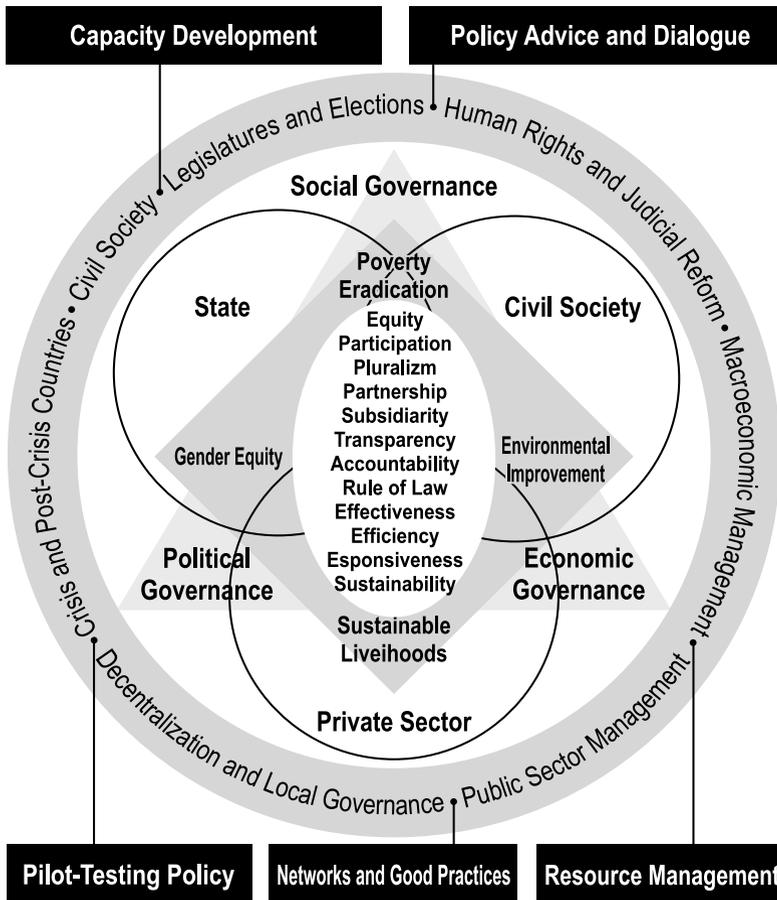
The trends of this development are not clear: it is not possible to identify a standard development for the (nation) state; one is moving toward a situation of structural uncertainty; the term ‘*post-national*’ defines a new constellation only in the negative sense, as something which has ceased to exist. (Zürn – Leibfried 2005:26) At most there is the broad concept of devolution of the nation-state as a whole, proceeding on to a mediated ‘*state without sovereignty*’, similar to the federal sub-units in the US (states) or Germany (*Länder*) in the 19<sup>th</sup> century. (Stolleis 2004:26)

The recent reform of public administration in the Czech Republic that shifted considerable responsibilities from the central to regional levels of public administration, and the EU’s enlargement that shifted certain parts of sovereignty of the new Member States to Brussels, are other examples of this tendency.

### 2.2 *Regulators 3+1: market, state, civic sector, and media*

The influence of the market, state, and civic sector on public life, and the impact of their mutual interactions – sometimes synergic, sometimes contradictory, is carefully studied by many social scientists. Nowadays it is almost a *trivium* to assure that governments cannot fulfil their tasks alone, without engagement of the other two regulators in public life. The concept of governance based on such presupposition is sketched in Figure 1.

**Figure 1**  
The concept of governance based on market-state-civic sector interface



Source: Strategic Round-Table (2002)

Peters (2003:22) pointed out the core of this approach in the following way: “... a basic concept of governing that involves building, within the public sector, a capacity for collective goal-setting and a capacity for steering the economy and society to reach these goals. Such a concept need not, and increasingly is not, based on hierarchical imposition of rue from the centre, but it does involve an ability to translate goals and ideas into action. Governance may be created in conjunction with individuals and organizations in the private sector, and indeed may rely heavily on those instrumentalities for their success.”

Kooiman studies the state, market, and civil society as institutions which he feels are situated in the intermediate position in societal governance. Nevertheless

he has defined a special role for the state: "...the state, the market and civil society each represent specific societal needs and capacities. As long as the state is expected to intervene where the other institutions fail, it will remain playing the 'all-round' role in representing the society in governance". (Kooiman 2003:167) Veselý (2004:18) offers in the same context the concept of government with "structured interactions" with market and civic society. For similar entities, Benáček (2005) suggests the terms: markets, hierarchies and kinships. Analysing the role of the state and the market and civil society in post-communist countries, I prefer here, instead of the rather all-embracing term 'institutions', a more specific term 'regulators'. (Potůček 1999)

Peters (undated: 34) analyses the danger of capturing the state by either the institutional representatives of the market or the civic society: "A standard critique of most patterns of linkage between State and society is that the State, or at least some organizations within the State, become ensnared by societal interests. That can indeed be a problem but need not be if the institutions for linkage are designed carefully."

This concept of governance is based on the presupposition that the sharing of ideas and information needs to go not only from civil society toward government, but also the other way round. "That is, individual citizens and organizations in society are not able to participate effectively if government is not transparent and does not make enough of its information and thoughts about future policy directions available to citizens." (Citizens as Partners 2001, wording by Peters 2003: 35).

The relatively new, understudied yet increasingly relevant and influential actor and regulator of public affairs, is the media. (Bovaird 2005). The influence of the media on governance is neglected or underestimated by traditional conceptual frameworks of political science and public administration, and there are not many theories that include them, along with the state, market and civic sector, as regulators of public affairs... There are more questions than answers: "We simply lack the means to evaluate and select what is essential in the great flood of unstructured information." (Hostages of the horizon 2005:20) El Hassan, President of the Club of Rome, asks whether the "global networking of multimedia has resulted in a public attention deficit disorder that leaves little time for critical inquiry and political action by a permanently distracted audience". (ibid)

Thompson's (2004) societal theory of the media represents an important contribution to understanding the interweaving of the market, the state and the media. For him, the present situation is a real threat of uncontrolled distortion of public space by media activities – especially at the global level. He even suggests some remedies that could bring the media out of the influence of both the market and the state and secure pluralism in communication and in public space in general.

**The market-state-civic sector-media regulative square is at the core of the conceptual grasp of governance.** It represents an enormous challenge for social scientists: "The problem of mapping influence patterns now seem even greater with the growing interest in the behaviour of 'complex adaptive systems' in which intensive and ever-changing system interactions, with non-linear characteristics, give rise to non-

*predictable but self-organizing outcomes (Haynes, 2003), although it is still unclear how well such models apply to decision-making in the public domain.*" (Bovaird 2005:218) There is an obvious imbalance between the nation-state's embeddedness and the global operation of the market, the media and, to a non-negligible extent, the civic sector as well. (Thompson 2004:191). *"The Club of Rome-esque approach emphasises alternatives in which global democracy, the global market economy, and a harmonious global civilization (instead of hierarchy of any type) form the only sustainable basis for a politics of humanity. So far these kinds of social limits have been successfully set up only on the level of the nation state and, as such, with limited results. These achievements alone have required several centuries to emerge. What would be the means and joint efforts that could hasten similar progress at a global level?"* (Hostages of the horizon 2005:18)

### 2.3 Actors' networks and networking

The spread of democracy around the globe in the late 20<sup>th</sup> century, coupled with an upsurge in the new information and communication technologies, has inspired some scholars to develop the concept of network society, interpreted as the embodiment of a new historical trend: *"Dominant functions and processes in the information age are increasingly organised around networks. (...) The new information technology paradigm provides the material basis for (their) pervasive expansion throughout the entire social structure. (...) Presence or absence in the network and the dynamics of each network vis-à-vis others are critical sources of domination and change in our society."* (Castells 2000:469) No more are the basic units of analysis, the actors, involved in governing processes, but *"...the network, made up of a variety of subjects and organisations, relentlessly modified as networks adapt to supportive environments and market structures."* (ibid, 198) According to Rhodes (1997:15), inter-organisational networks can rely on interdependence, resource exchange, self-organising, respect for the rules of the game, and significant autonomy from the state. Kooiman (2003) distinguishes networks as one type of governance (along with communicative governance, public-private partnerships, and co-management).

Networking is dear to the hearts of the Central and Eastern Europeans: networks (such as Solidarity in Poland) were the political instrument that finally destroyed the tough and rigid hierarchical structures of communist party-states. Thus there is a good deal of understanding for the role of interactive networking in this region. (Kovač 2004:16)

Some authors have coined the term '*policy networks*' (see Bovaird 2005:218) or prefer to speak about '*information networks*'. (El Hassan 2004:1)

Salamon (2002:9) suggests that the network is the opposite of hierarchy and represents one of the differences between new governance (refer to par. 1 of this paper) and classical public administration. The network theory argues that the standard relationship among the actors involved in a network is one of interdependence. Thus no single actor can enforce his/her will upon others. This is due

to the four crucial attributes that commonly characterise policy networks, making the task of network management very demanding:

- their pluriformity – a range of diverse organisations with limited experience cooperating with each other;
- their self-referentiality – each actor has his/her own interests and approaches the relationship with a different set of perspectives and incentives;
- their asymmetric interdependencies;
- their dynamism.

As a consequence, the task of securing concerted actions within networks composed of a plurality of actors becomes a major administrative challenge. (ibid:13)

**Better understanding of the place and role of the actors' networks in contemporary governance exposes analysts to one of the major challenges.** Without it, one of its key dimensions will be missed.

#### 2.4 *The global ethic*

As values represent the indispensable component of human affairs' steering, there is a legitimate question about the specific values appropriate for strategic governance. As the contemporary world is increasingly interdependent, there is a need for the development of global ethic capable to orientate the activities of myriads of individual and institutional actors... Time and space proximity have ceased to be a relevant indicator of ethical importance. Our responsibility reaches people who are very much remote in time and space from our present deeds: and not only people. It also reaches nature in general, increasingly connected with the fate of humankind (Thompson 2004:209). The Commission on Global Governance hopes for widespread acceptance of a global ethic, namely the *"norms and values that should guide the world, the ethics that should inform life in the global neighbourhood ... Without them, it will be hard – if not impossible – to establish more effective and legitimate forms of global governance."* (Encyclopaedia 1994 – 5, part 6.2 Governance: providing a strategic framework) *"Real politics postpone resolving the core problems; therefore we need the moral politics, (which could create) moral principles for a dialogue of cultures."* (Makram-Ebeid in Hostages 2004:19). An early but well elaborated concept of global ethic was submitted for public discussion by a leading Czech environmentalist, Josef Vavroušek (1993).

#### 2.5 *Cognitive resources, including education*

The complex and ever-changing tasks of governance cannot be effectively approached without a sound understanding of the problems, opportunities and options in a relevant context. El Hassan (2004:4) speaks about the prominence of the realm of thought and reflection called *'cogitosphere'* in order to focus governance on the real challenges facing humanity. Peters (2003:32) goes even further and suggests the establishment of an institutionalized learning capacity. According to him, learning is difficult for governments and therefore some formalized capacity for the

long-term consideration of policy, and for the development of clear ideas where to go in the longer term must be built into the system. (ibid, 26) Nevertheless, his concept can be broadened and applied to all actors operating in the field of strategic governance. They all are in need of specialised high-quality training.

### 2.6 Institutional resources, tools

Institutions are defined in a rather broad sense here as norms, rules and organisations. (Kooiman 2003:154n, Heracleous 2005) The institutional arrangements for the strategic dimension of governance should not be developed for their own sake. On the other hand, the existence and operation of specific institutions for strategic decision-making and implementation of strategies forms their indispensable part – and a necessary condition as well.

Peters does not question the importance of building a strategic capacity in government. Dror (2004:17n) suggests that institutions of strategic governance be structured as the *Central Governmental Strategic Brains (SGSBs)* including seven main components:

1. a professional strategic thinking and planning enclave near the head of government;
2. smaller strategic thinking and planning staffs near main future-impacting ministries;
3. good access of these units to top decision-makers and main choice processes;
4. a national research and development organisation (think-tank) developing long-term fundamental policy directions;
5. a professional crisis management unit;
6. similar capacities in parliaments and sub-national levels of governance;
7. a whole system consisting of its interacting, networked parts. Salamon (2002:2;600) characterises this as “*an elaborate system ... in which crucial elements of public authority are shared with a host of non-governmental or other-governmental actors... whose participation must often be coaxed and coached, not commandeered and controlled*”.

An important, but often neglected part of institution building, is the linkage of the budget process with the rest of the institutional framework of strategic governance. (Ochrana 2005b) “*Budgeting needs to be integrated into the more general aspects of strategic planning and management.*” (Peters undated: 32)

The tools used by strategic governance (defined as methods through which collective actions are structured to address strategic problems – *sensu* Salamon 2002:19) represent an additional relevant institutional framework for further consideration.

As most problems people have to cope with in their lives can no longer be solved at the national level, the supra-national institutional level of strategic governance should not be neglected, even if (and perhaps as) it has not matured to be sufficiently visible and sufficiently effective (see par. 2.1).

### 2.7 Social capital

*“Governance should be understood as a collective capacity to come to a coherent agreement on the way we would like to go visions or goals – as well as the collective capacity to achieve these goals.”* (Veselý 2004:14) Coping with the future requires concerted collective action, frequently without visible benefits, in some cases even with immediate losses for at least some. Such an action is not manageable without a sufficient level of mutual trust among all the relevant social actors. In other words, social capital is another resource of strategic governance. *“Trust is one coping mechanism by which stakeholders can respond to their perception that they face a growing climate of risk and uncertainty in a context of unequally distributed power.... The building of such trust is now a critical task for public administration.”* (Bovaird 2005:224,226)

An alternative approach based on the system of ‘checks and balances’ countervailing power to multiple stakeholders is functionally cumbersome, and much more expensive.

### 2.8 Anticipation

The first quality of strategic governance is defined as the capacity to foresee the long-term potential future developments, and thus to be able to react to them in an anticipatory way. El Hassan (2004) characterises the task of strategic governance as *“changing ignorance and the lack of vision into global responsibility and awareness”*. Perri 6 (1997) goes on by pleading for anticipatory government, applying foresight methods and techniques. Kovač (2004:7) stresses the importance of steering strategic economic and social development namely for small countries.

### 2.9 The ‘choice of society’

The second quality of strategic governance is seen in its capacity to induce important changes compared with the way society has been functioning in the past. Some authors call it the *‘choice of society’* (Roebroek 1992, Potůček 1999:127); it can be associated with issues considered as prior in public discourse and decision making, with changing competences of different levels of governance, the interface between the state, market, civic sector and media, or the way the horizontal steering links are operating in society. The changes introduced by the Reagan and Thatcher administrations in the USA and the United Kingdom respectively, the transformation of post-communist countries, or the building of the European Union fit well into this category.

### 2.10 Emerging strategies

There is a third quality of strategic governance, which is not mentioned frequently but which, in my view, is of profound importance for understanding its nature: it can be understood as the negotiated outcome of many interacting policy actors and processes, and called the *‘emergent strategies’*. This concept is much better suited

to real-life processes in the contemporary societies than the notion of ‘*strategic planning*’ (Mintzberg 1994).

### 3. Strategic governance and the Czech Republic

The Centre for Social and Economic Strategies (CESES) asserted the above theoretical concept of strategic governance in an empirical analysis of its progress in the Czech Republic after 1989. The research outcomes were presented in Czech in a voluminous monograph, Potůček et al. (2007). Let me use selected criteria of evaluation of strategic governance capacity (see Table) to help me briefly summarise our findings.

**Tab. 1**  
Evaluation criteria of strategic governance capacity

|  |
|--|
| Strategic specification from higher level of governance  |
| Extent of political support for strategic governance   |
| Institutional resources (specialised work stations on corresponding public administration level) |
| Cognitive capacities (analytical and forecasting work stations/agencies)                         |
| Social capital (potential participation of civic and expert communities in strategic governance) |
| Outcomes of strategic efforts  |

Clearly, the European Union framework has always been by far the most significant context of developing strategic governance in the Czech Republic. From the outset of preparations for joining the EU, this country has had to come to terms with requirements for the production of strategic documents in the field of regional development, employment policy and social cohesion. The EU’s Lisbon Strategy that attracted domestic actors to topics such as economic competitive strength or the support of a knowledge-driven society was a strong impetus. Focus on sustainable development and fighting global poverty is characteristic of the United Nations (resolutions of the Earth Summit in Rio de Janeiro, Millennium Development Goals). All in all, it is safe to say that these external challenges often clashed, in the local environments, with the wall of misunderstanding, incompetence, internal strife, and political opportunism. A classic example of this is the fate of three consecutive sustainable development strategies, with only the last of them passed by the Czech government long after the expiry of the deadline it had committed itself to honour.

Past experience shows that political support for strategic governance is a necessary but not sufficient condition for asserting this concept in everyday life. Obviously, Miloš Zeman, a former forecaster and prime minister in 1998 – 2002, differed from his predecessors by being an avid proponent of strategic governance. However, not even his support was sufficient for effective promotion of the strategic governance vision in a state apparatus that functioned without adequate

competences and institutional capacities and under constant pressure from the operative circles. After his departure from the cabinet, even the modest offshoots of these capacities were gradually pruned in the Office of Government (The Council for Social and Economic Strategy, established in 1999, was replaced in 2003 by the Council for Sustainable Development with severely curtailed administrative capacities and powers.).

A sufficient analytical and forecasting base is one of the important prerequisites for strategic governance – examining possible futures as a condition of proper orientation and subsequent decisions. However, two new centres have opened that possess specialist capacities and a measure of experience in the field: the Technology Centre of the Academy of Sciences of the Czech Republic, and the Centre for Social and Economic Strategies at the Faculty of Social Sciences of Charles University. Other research centres have been asserting themselves as bodies analysing relevant problems, such as globalisation and Europeanisation processes, in addition to specialised consulting and advisory agencies focusing on given issues, notably at the regional and municipal levels.

The process of preparing a series of strategic documents on practical governance involved the participation of many experts, civic and commercial sector activists, and citizens interested in public affairs. It must be said that for the most part, their interest exceeded the capacity of authors to systematically process and implement the findings and ideas offered by them; in other words, the existing social participation capital was not fully tapped. The need for proper communication and overall coordination channels was generally underrated.

By and large, the outcomes of strategic efforts in the Czech Republic thus far have been rather modest. On the positive side, the actors participating in strategic governance have been gradually honing their craft as to both the methods at their disposal and the thematic cultivation of problems within this category. We have also discerned considerable interest in strategic governance at the level of some municipalities and recently established regions. There also exists a fairly considerable social and expert strategic governance capital. However, the cons far exceed the pros; including an unenlightened political leadership, the absence of matching organisational structures at the state administration level, poor contents and methodological provisions of strategic control documents, lack of coordination, and above all, the ensuing implementation gap: all strategies worked out and adopted in the Czech Republic to date have been sent off as non-binding platonic appeals, often without clearly defined objectives, implementation deadlines, delineated responsibilities, and definite control mechanisms. At the beginning of the 21<sup>st</sup> century, the Czech Republic lacks a functional system of strategic governance, which could help prevent many unnecessary social and economic losses, and help the country to quickly overcome the handicap of civilisation backwardness inherited from the wars and totalitarian regimes of the past century.<sup>4</sup>

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4 Other post-communist countries fare no better – cf.: Potůček (ed.) (2004).

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# Chapter 6



# **Executive leadership and policy management System: The case of Slovakia**

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## **Introduction**

With the accession process completed almost 3 years ago, political attention in Slovakia has shifted away from meeting formal and largely technical criteria for membership to issues related to purely national domains, such as health, education and pension reforms. However, the question of executive leadership demonstrating the real capacity for 'strategic orientation' and effective policy management (in the form of strategic planning, coordinated policy-making, and the civil service management) remains open. The policy management system and administrative capacity is crucial as one of the overall determinants of a country's (a) national competitiveness (b) ability to benefit from membership (c) ability to be an effective part of the EU decision making process and (d) ability in designing future governance reforms (World Bank 2000).

Slovakia initiated some policy management reforms in 2000 – 2001 under the first broad coalition government under the leadership of the Prime Minister Dzurinda (1998 – 2002), mainly under pressure from the EU and other international players. Reform initiatives have been formulated rapidly with little political consensus, due to the broad coalition and thus the system showed some serious shortcomings. The second Dzurinda's right wing oriented government (2002 – 2006) brought an opportunity to streamline the 'defective' system into a strategic one. The paper focuses on the relationship between the specific 'core executive'<sup>2</sup> of the second Dzurinda's executive leadership and policy management systems and tries to assess whether any strategic orientation has occurred. The paper is based on an extensive review of formal documents regulating the institutional arrangements and operation by the executive leadership and interviews conducted with key civil servants prior to the parliamentary elections in June 2006.

## **Political Leadership vis a vis Policy Management**

Policy-making is central to the ability of governments to deliver. Evans and Manning (2003) name policy as the primary output of governments. Thus, for policy-making two key building components are essential: a) the political leadership that provides vision and guidance for the electoral cycle and beyond, and b) policy management system or formal and informal procedures and processes of strategic planning, horizontal and vertical coordination, legislative and non-legislative drafting, impact

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2 By the 'core executive' it is understood 'all the organizations and procedures which co-ordinate central government policies and act as final arbiters of conflict between different parts of the government machine' (Rhodes and Dunleavy 1995, p. 12).

assessment and civil service management. Many scholars (Goetz 2001, Goetz 2005, Grabbe 2001) have written on the new democracies which have become the EU members recently, as having suffered from weak institutional executive leaderships and have therefore been more vulnerable, if not more open, to EU pressures over pre-accession institutionalisation of policy management systems. Emphasis on the 'administrative capacity' and subsequent involvement in civil service and policy-making reforms have become one of the cornerstones of the accession process (Dimitrova 2002). Clearly, the administrative reform undertaken by CEE countries during accession will have some effect, even though its overall effects are seen as limited<sup>3</sup>. This paper outlines an attempt to identify strengths and weaknesses at the executive center with an aim to improve the policy management capacity.

In many ways, the dynamics of political leadership influences the policy management system set up. The key feature of the Slovak Executive leadership is the tradition of the pluralistic parliamentary democracy<sup>4</sup>, which necessitates electoral alliances and a need to form ad hoc coalition governments to provide a measure of coherence<sup>5</sup>. The inherited public administration from the communist times, together with the lack of reform in this sphere in the 1990s, created several problems, mostly related to high responsiveness of public sector employees to political pressure and therefore little political accountability towards the people. This was the legacy of mixing party bureaucracy and state administration (Beblavý 2002). Despite the few institutional reforms conducted in the early period of transition, the policy management system has remained a key building block for transformations yet to be tackled.

### **1. Strategic planning and Coordination**

The first building block of an effective policy management system is strategic planning which ensures that policy priorities are identified, that policy planning is linked to the budgetary process, that policies are effectively implemented; that their results are properly and systematically evaluated and the outcomes are thoroughly assessed as inputs to the next planning round. Multi-dimensional complexities of modern governments require effective policy coordination for their effective functioning, as Ben Gera (SIGMA, 2004) points out. The core tasks of the Cabinet in a Parliamentary state are – setting major policy priorities of government, and making choices within those priorities (Manning et al, 1999). The centrality of policy management capacity is reflected in the fact that SIGMA/OECD measured progress in this area for EU acceding countries on behalf of the European Commission.

In 1999, the Government of Slovakia, supported by the EC Delegation, UNDP and DFID, commissioned (Government Resolution No. 985/1999) an independent

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3 Goetz, 'The new member states and the EU', pp. 272-73.

4 This tradition originates back to the First Czechoslovak Republic (1918 – 38).

5 See Peters, B.G., L. Vass and T. Verheijen (2005) for details in the discussion of influence of coalition building on the nature of governance and policy-making.

functional review of the system of public administration (Audit of central authorities of state administration, 2000), which recommended changes in the structure of the Government Office to strengthen its execution and co-ordination tasks. On the basis of this, the Government Office is the central body for policy-making whose functions are precisely defined by the Competency Law (Act No. 575/2001). According to this law, the role of the Office is defined as follows:

- Coordination of the ministries' activities;
- Preparation of material and documentation (initiatives, analyses, expertises, comments) for the Cabinet meetings (prime minister, vice prime ministers and other members of the Cabinet);
- Oversight of task fulfilment by the civil service in the individual ministries and oversight of the spending of the finances dedicated to the fulfilment of the tasks;
- Initiation and coordination of the reports on the state and development trends in economic, social and cultural areas of the Slovak republic.

Thus, the Government Office is the central coordinating and strategic planning unit where all major policy initiatives should be screened prior to their submission to the Cabinet meeting. However, despite these precisely written roles of the Government Office, a noticeable feature of the Slovak public administration is the weak control exercised at the centre of government. The Office of Government, which took a strong leading role in economic reform and the EU accession process between 1998 and 2004<sup>6</sup>, has rapidly declined in influence since membership was achieved. Its functions have been reduced<sup>7</sup> and the turnover of senior staff means that its staff is now very young and lacks the quality for an analytical and coordinating role. This situation is regrettable at a time when there is still much to do in areas where central direction is needed, notably in civil service management and policy management.

Some of the foundations for a strategic planning system were created in 2001 – 2002 by creating a central policy planning unit in the Office of Government, tasked with the implementation of Audit 2000 recommendations, particularly in the design and implementation of policy impact assessment systems and policy planning guidelines. However, the reduced influence of the Office of Government after 2002 led to delays in and the eventual abandonment of much of the innovations that had been planned. Currently, there is no single unit which coordinates policy matters within the government or within the ministries, other than for the fulfilment of technical formalities and procedures. Some line ministries have estab-

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6 The Executive leadership and the Office of the Government was considered to be even stronger during Mečiar's "cohesive" coalition in 1994 – 1998 due to its dominant party and strong discipline within the party and across the coalition (Laštic 2004, Peters, B.G., L. Vass and T. Verheijen 2005) rather than to institutional set up. This has caused almost full control even over the Parliament.

7 Entry to the EU has tended in Slovakia to increase the institutional weight of the Ministry of Foreign Affairs as the senior coordinating agency in the national government.

lished analytical units or strategic units which handle target setting and analytical issues but with no support from the centre, these efforts are left in a vacuum.

The existing system does not allow for prioritisation or strategic planning of issues to be tackled in the long term or short term because the Office of Government lacks a strategic planning unit comprised of civil servants. Real discussion of priorities takes place informally but regularly between the Prime Minister and his Ministers at weekly Cabinet meetings and Coalition partners meetings. Coalition meetings became a *de facto* substitute for formal policy planning and management mechanisms which led to the danger that their decisions were of a purely political and short term nature and did not take into proper consideration all the facts and did not have a proper analysis of the legal and financial implications or plans for the monitoring of implementation.

Most policy initiatives in Slovakia are derived from the Government Program, which is agreed during the period when a coalition is created after elections. The program is translated into a Plan of Legislative Activities, which is further divided into annual plans that are followed by line ministries. The program is not elaborated in a systematic manner or linked to the fiscal budgeting system. Rather, it is linked to a four-year election cycle and thus long-term strategic planning is difficult and mostly absent. Strategies are elaborated in isolation by individual ministries or for horizontal issues by units and plenipotentiaries in the Government Office. These, however, lack the competence *vis à vis* the ministries to carry out a strategic function.

The Plan of Legislative Tasks itself, based on the proposals received from line ministries, is prepared and put together by the Government Office. This is mostly done mechanically by compiling the various requests with almost no coordination among ministries or attention to the fiscal realities. There seems to be no clear procedure for priority setting. If the items defined in the Plan of Legislative Tasks are not carried out by the individual ministries, they are simply transferred to the following year and similarly if an item is not on the agenda, it is simply added if it is in line with the Government Program. Thus, the Plan of Legislative Tasks does not imply proper planning of work in an analytical or realistic manner. Consequently, in practice, the Ministry of Finance becomes the final arbitrator between the political wishes expressed in the Government Program and translated into the Plan of Legislative Tasks.

Otherwise, coordination takes place only after the legislation is developed during the formal review process in the adoption phase of legislation (the so-called 'commenting period') and follows a very formal sequencing as stipulated in the Legislative Rules. In this process, the relevant department of the ministry prepares and drafts a policy document or a piece of legislation, which then progresses through a review process in the following steps:

- intra-ministerial review by other departments and leadership of the ministry (review by other organisational units within the ministry)

- inter-ministerial review by other ministries and subordinated institutions (the so-called commenting period) based on internet with a possibility of input from all interested parties, including the public
- review by the Ministry of Finance (impact on the state budget)
- review by the Office of Government (Institute for the Approximation of Law: compliance with EU legislation; Legislative department)
- review by relevant advisory councils of the government (Legislative Council: legislative logic and compliance with the Constitution and other laws)
- approval by the government
- review by a relevant committee of the Parliament
- approval by the Parliament (3 readings)

In general, there is a strong sense that ministries are autonomous organisations. Although the Plan of legislative tasks is an indicative plan of draft laws to be adopted within a timeline which creates the possibility for a consulting, cooperating and reviewing process in the development phase, it is not utilised to its full extent. The practice of using working groups for facilitating the experience and viewpoints among the internal and external stakeholders is the best consultative medium with the interest groups before drafting any important policy proposal. The use of external bodies for the analysis and development of policies is a welcome source of additional and alternative information that can be utilised. However, this has to be met by the ministries with the internal capacity to process these inputs. There is no sense of a need for collaboration between ministries; rather there is a general reluctance to share information or to cooperate with other Ministries. There are exceptions in the ministries where political appointees of the same party have pushed for better cooperation and the civil servants utilise informal means and consult each other via telephone or in face-to-face meetings whenever possible. However, this consultation is carried out at lower levels with no authority given to the civil servants to reconcile problems if major disagreements arise. Thus, the system further increases the scope for party-political tension to ‘get in the way’ of the government pursuing the business of a ‘joined-up government’.

The system for resolving disputes over proposed legislation has also improved in recent years through the introduction of a dispute resolution mechanism at lower levels of the hierarchy, prior to the weekly government meetings. However, the meetings are still overburdened with many minor decisions that ought to be settled elsewhere as many issues are being referred to these meetings rather than settled through the dispute resolution mechanism. Although informal meetings among civil servants to resolve disputes are, in general, increasing, these are still not systematic and depend on the individual relations and party affiliation between ministers or state secretaries.

Items for discussion at government meetings are also screened by the advisory councils of the government. The advisory councils differ in importance (for example the Legislative council is the most important and permanent one) and functions

– some existing advisory councils do not function in practice: for example the Economic council has met only once a year in the past 3 years. The Legislative council has become a body where, not only technical issues are resolved, but also where various stakeholders are represented and the impact of the legislation is discussed. The stakeholders are, however, political nominees and if not selected carefully, the body of Legislative council can be easily politicised. This strategic role of policy harmonisation fulfilled by the Legislative council is viewed as extremely important and there is a need to strengthen it, particularly if the Legislative unit of the Government office takes over the nomo-technical guidance. Currently, the Legislative unit does not have the staff capacity to focus on this role, although the ambition is to also prepare methodological guidance for legislators in the line ministries.

For countries with coalition governments, effective policy coordination also means ensuring that ministries, led by ministers representing different political coalition partners, act as a connected government. The inter-connectedness of policies also dictates the necessity for good coordination and often integration of policies across ministerial lines. This becomes crucial for new EU members faced with formulating coherent national positions with respect to evolving common EU policies, as well as participating with one voice in EU operational-decision making and EU-level programming (e.g., the EU Structural Funds). The system of both vertical and horizontal coordination at central level is weak in Slovakia. First, there seems to be a strict division between EU policies and other issues. For the design of EU policies, the Ministry of Foreign Affairs has taken the lead by setting up inter-ministerial coordination committees for each sector to tackle EU Commission proposals and agree negotiating positions for Slovakia. It has been reported (Darulová, 2006) that this system is functioning well, although it happens that positions are not always coordinated among line ministries and individual opinions of line ministries are de facto ‘stapled’ together, rather than jointly developed (Sedlačko, 2006). Institutional adaptation to the EU has been evident in the role of the European Affairs parliamentary committees and their relationship with the government. This EU parliamentary committee has taken some time to establish itself<sup>8</sup> because of certain reluctance in government circles over executive accountability. For non-EU matters ad-hoc inter-ministerial working groups are set up with no central coordination (Staronova, 2004). Second, there is lack of consistency in the pursuit of major reform ideas across line ministries. If horizontal coordination is needed for a certain reform agenda, a plenipotentiary is appointed for that subject to push for better coordination. However, even this is not without difficulties, due to the low competence of plenipotentiaries vis à vis

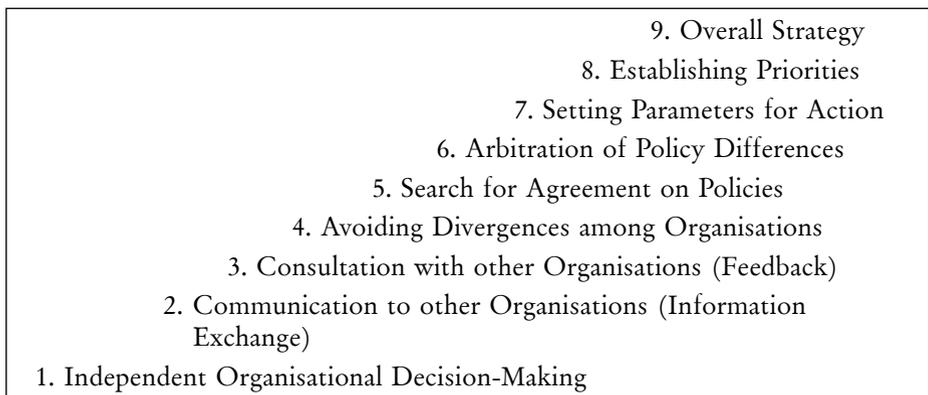
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8 It took more than 12 months to pass legislation that would govern the EU parliamentary committees since their creation in May 2004.

the ministries. Third, extreme independence (so called ‘resortism’)<sup>9</sup> of ministries prevents efficient networking.

In order to evaluate the degree of policy co-ordination throughout the government in Slovakia, the Metcalfe (1993) diagrammatic representation ‘Policy Co-ordination Scale’ was used (see Figure 1 below). This tool allows an assessment to be made of the extent of policy co-ordination on a scale of 1 – 9, where a ranking of “1” implies that governmental organisations are acting independently and are failing to pursue the same ‘grand’ policy objectives across all levels and functions. A ranking of “9” however suggests that all are working consistently. Rankings are made with reference to ‘The Weakest Link’ in the chain, therefore a high ranking can only be given if all (not most) organisations are working in coordinated fashion. For instance, if there is a perfect overall strategy within central government (9) and the local government network is working with a set of fully agreed and perfectly congruent priorities (8), the ranking is not 8.5. In this scenario, even if there is perfect coordination between such central and local government networks, the overall ranking of the public administration system as a whole cannot be higher than the weakest link, i.e. 8. Alternatively, if central and local government networks are acting independently of one another, the overall ranking of the public administration system as a whole cannot be higher than “1”, regardless of the fact that each network may be well-integrated in its own right.

**Figure 1**  
The Policy Co-ordination Scale



*Source: Based on Metcalfe, 1993*

Despite the progress made by the introduction of the internet based inter-ministerial review process (commenting process), all levels of government appear to suffer from poor horizontal co-ordination. As a whole, the policy coordination

<sup>9</sup> This extreme “resortism” was also identified by the Audit of central authorities of state administration (2000) and is attributed to the nature of the coalition government, where disputes among political parties in the coalition are reflected in disputes among their ministries.

system is still not comparable with that which would be expected in the EU15 and the overall evaluation of co-ordination can only be somewhere between Level 2 (Information Exchange) and Level 3 (Active Consultation).

## 2. Policy-making Process and Impact Assessment

Effective governments respond to core citizens' and businesses' needs. They identify problems, formulate solutions and deliver results. In the last decade, the growing complexity of policy-making in terms of strategic policy management has encouraged a growing interest among researchers and practitioners for the use of an evidence-based approach to public policy. For this purpose, most members of the European Union or OECD use the so-called "impact assessment"<sup>10</sup> as a tool for policy-making<sup>11</sup>.

In Slovakia, the policy-making process is highly formalised, rigid and mostly regulated by the legislative procedures (Staronova 2004, Laštic 2004). The formal framework for policy-making is set by the Constitution and laws, primarily by the Legislative Rules of the Government of Slovakia, Guidelines for the Preparation and Submission of the Material for Sessions of the Government of Slovakia and the Law of the National Council on the Rules and Procedures of the National Council. There are no formal rules or guidelines relating to a broader policy process. These regulate the role of individual bodies in decision-making, coordination and the process of adopting laws.

The line ministries are responsible for the actual development of policies, such as strategies, conceptual issues and draft laws and enjoy a large degree of independence in this respect. There are three main ways of developing documentation and materials: a) by an individual civil servant in the ministry; b) by setting up a working group consisting mostly of outsiders; c) by outsourcing to an external body – institutes, think tanks or consultants. The second and third of these appear to be the routes most often utilised in Slovakia. However, the analytical capacities of individual ministries are quite limited. As a result, ministries which rely heavily on outside advisers, experts and institutions without having the capacity to check for themselves the real quality of the product delivered, are highly vulnerable to 'state capture'.

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10 For the purposes of this paper Impact Assessment is defined as the systematic assessment of the potential or actual effects of a government intervention on the economic, social and environmental areas as suggested by the European Commission.

11 For an overview of the practice in the use of Impact Assessment as a policy-making tool see OECD and European Commission material and publications on better regulation available online on their respective web sites (e.g. *OECD Guiding Principles on Regulatory Quality and Performance*, 2005 or *Commission report on impact assessment, Next Steps*, 2004), Radaelli, Claudio (*How context matters: regulatory quality in the European Union*, 2005) and Renda, Andrea (*The Impact Assessment in the EU: The State of the Art and the Art of the State*, 2006) for evolution and assessment of the status in its use in the European Union countries and Hahn, Robert (*Recommendations for Improving Regulatory Accountability and Transparency*, 2003) for an overview of the practice in the United States.

The policy objectives of the vast majority of draft proposals are poorly, ex post or even not formulated at all, and as such are not clear or are inadequate for the drafting of quality regulations and policies. This reflects on all subsequent phases of the drafting process. Often, drafting is done by the same people, and those in charge of drafting regulations rarely have access to adequate and well-defined political answers and positions on issues which should have been previously resolved. In turn, the fact that many of the basic choices end up in the hands of the drafters alone means that the drafting can develop in a political vacuum, with obvious negative consequences at the time of submitting the draft law for approval. Usually when a conceptual paper or strategy is developed by the responsible department or a working group, it does not contain any budgetary implications. Budgets of individual ministries are prepared independently by their respective finance departments with little or no input from the responsible departments.

The volume of legislation passed before EU accession created pressure which did not allow for any conceptual work to be done prior to the development of a new law or any impact studies prior to its adoption. According to civil servants and the Legislative Council, the volume of legislative activity did not decrease after accession; indeed – when combined with the absence of long-term strategy planning, quite the opposite. The fact that there is only a short time for introducing reforms during the 4 year election cycle results in inadequate conceptual and analytical work prior to policy development. Moreover, the so-called ‘fast track procedure’<sup>12</sup>-utilised for the purpose of catching up with EU harmonisation prior to accession – is still applied with no real justification for the same percentage of draft legislation or amendments which further endangers the quality of the final product.

‘Audit 2000’ introduced new measures for impact analysis by amending Legislative Rules in 2001 and recent changes to the guidance on inputs to policy-making in 2005 introduced the idea of so-called analytical papers but so far, these have not had much effect in practice. One of the reasons is that documents (Legislative Rules and Guidelines) that describe the procedures and required elements to be attached to a draft law in the form of explanatory notes for government sessions are not very clear themselves on the nature of the impact assessment process and its role within the existing policy-making system. Most of the information about future effects of the draft law is to be found under the relevant section of the explanatory memorandum entitled “impact assessment” or “statement of impacts”. Some information that is related to the impact assessment (such as rationale, purpose and need for the draft laws, results of the consultation process, references to other studies, and organisational support for the implementation etc.) is to be found in different sections of the explanatory memoranda. Some of the same information is asked for in different parts of the explanatory memoranda which only contribute to a relatively disorganised way of presenting the necessary information.

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<sup>12</sup> Fast track procedure has been introduced as of January 1, 1997 allowing the executive to ask Parliament to approve law proposals without time constraints foreseen by 3 Parliamentary readings. In practice this meant passing legislation within few day times.

Moreover, no central body exists (either in the central government office or in the designated ministry) that would coordinate or check the quality of the impact assessments conducted by individual ministries. As a consequence, no additional handbooks or manuals exist for a deeper explanation of the terms used or about the process of preparing impact assessment. This absence of both a coordinating body and additional literature that could assist the civil servants in the conducting of the assessments might have a decisive influence on the interpretation of the categories where impact assessment is required, but also on the quality of analyses conducted. Thus, this stage is mostly reduced to the development of legal documentation, and only occasionally of concept papers and strategies.

Formally, all draft legislation in Slovakia complies with the Slovak requirement of attaching an impact assessment to the material that goes to the government sessions. However, in a research conducted on 93 draft laws submitted to the Government sessions during the period 1 May – 31 December, 2004 (thus, the period after EU accession) as many as 63 draft laws (67%) only formally state expressions such as “no impact” or “will bring positive impact” (Staronova, 2007 – see Table 1). Thus, for the time being, the assessment of draft laws from the point of view of their adequacy in terms of the proposed alternative solutions and contents; their compliance with the objectives intended to be achieved; and the accurate estimate or likelihood of a whole range of effects has for the most part been turned into a box ticking exercise. They offer no quantitative or qualitative substantiation in all four required categories (fiscal, economic, environmental and employment). An additional 11% (10 draft laws) also provide only formal information, although expressed in monetary terms. However, again, any evidence or information as to how the figures have been calculated is lacking, and thus there is no possibility of checking the validity of the estimates. Only twenty draft laws (22%) have undergone substantial impact assessments which not only quantify the estimates of impacts, but also show exactly how the quantification has been calculated (and even provide alternatives). These quantifications are conducted in the area of fiscal impact assessment, notably on the issue of costs to the state budget. However, none of the draft laws in Slovakia had a substantial analysis in more than two categories at once, which fundamentally breaks the principle of ‘integrated’ IA in social, economic and environmental aspects as proposed by the European Commission.

**Table 1**  
Sample characteristics for 93 draft laws: existence and extent of IA  
(May – December 2004)

| Category       | No IA | Formal IA |          | Substantial |         |
|----------------|-------|-----------|----------|-------------|---------|
|                |       | Verbal    | Monetary | Partial     | Complex |
| No of Drafts   | 0     | 63        | 10       | 20          | 0       |
| 93 drafts=100% | 0%    | 67%       | 11%      | 22%         | 0%      |

Source: Staronova, K. (2007)

Currently, the relevant ministries are developing methodologies for impact assessment: Ministry of Finance for fiscal IA, Ministry of Economy for business environment and employment, Ministry of Environment for environmental IA and Ministry of Labour, Social Affairs and Family for IA on households. However, these are being prepared in isolation rather than in an integrated manner as the EC recommends and it is not clear how the quality of individual IA is going to be checked. Furthermore, IA is treated as a foreign implant attached to the Explanatory memoranda, not utilising the information from the consultation process, general goals or alternatives of policies. The ministries do have some limited access to sources for statistical data but however, there is only limited capacity for their processing and interpretation. The data are mostly used for budgetary purposes. Alternative sources of information such as pilot testing, public consulting, or commissioning a particular type of research are hardly used.

Specific space is left for a so-called 'commenting period', both in Legislative rules and Guidelines. This period asks for opinions on draft legislation and it is an internet-based system that enables comments to be sought from all ministries and other interested parties, including the general public. It is the main mechanism for overcoming the problems of extreme independence of individual ministries. There is a large volume of documents circulated for comment: for example, the Legislative Council reports being asked to comment on up to 100 legislative and non-legislative items a month. The system requires the listing of all parties consulted, comments received and their accommodation, including comments by the public if signed by more than 500 (300 for non legislative material) people. If comments are not accommodated, the system requires provision of written explanations for this. The new internet publication and commenting procedures are a considerable improvement on the previous practice. Still, however, consultation is understood primarily as an inter-ministerial process of gathering opinions, which is a passive way of gathering opinions rather than the active involvement of the specific groups that will be most affected by the draft proposal. The EU approach to impact assessment is more pluralistic than the one presented above because it draws explicitly on notions of participatory governance and on the idea of democratising expertise (Mandelkern, 2001).

### **3. Civil Service Management**

In Slovakia, the Civil Service Law was adopted in 2001 under pressure from the EU when it warned that Slovakia's entry chances could be hurt if the reform was not passed (Regular report, 2000). These long-awaited legal rules – Civil Service and Public Service Laws –, which had been in preparation for almost two years, took force on April 1, 2002. The main ambition of the Civil Service Law was to make the civil service more professional, and to reduce the vulnerability of civil servants to changes in government. The endeavours to establish a professional and neutral civil service, however, were not without difficulties. The main problems were diverging views on key issues such as conditions for tenure, pension rights of civil servants and employment conditions. Due to the time pressure created on

the Slovak authorities, the process of political discussion on the law was cut short. There were two opposing views as to what type of law was required, a flexible framework law creating a top level civil service or more comprehensive, but also more rigid instrument, which would set out a detailed framework for the management of employment conditions in a much wider civil service system. The law, as it was finally adopted in parliament, contained some elements of compromise between these two views, but was strongly biased towards the comprehensive, labour code oriented approach.

Since the adoption of the Civil Service law in 2001, Slovakia seems to manage a complete 360 degrees u-turn, from complete political influence on public administration, through a neutral civil service guaranteed by law to ending up once again with a heterogeneous system of civil service regulation with no politically independent central authority. The Law on the Civil Service set the legal framework for the civil service, aiming at the creation of a professional, impartial, politically neutral, efficient and flexible civil service. The new law clearly distinguishes between a political post (minister and state secretary) and a professional career post (head of the office, director generals of the section, heads of units and other staff at the ministry). The law established the Civil Service Office, responsible for the implementation of the law, with functions ranging from recruitment, training and information to preparing secondary legislation. The relevant secondary legislation was enacted in 2002 and 2003, with minor delays at the beginning. The Code of Ethics for civil servants was envisioned to be published soon after, with the control department of the Civil Service Office performing both internal and external control functions; however, this has not yet taken place.

The salami method, applied on laws in the 2002 – 2006 period, resulted in slow deconstruction of the basic principles of the law. Thus, although the law on civil service was effective just a few weeks, the first changes were introduced in the last year of the Dzurinda's first government in 2002. Already in that year, with elections coming, parliament introduced a specific category within the civil service, *nominated civil service*, which was to reward a few dozen top officials with specific salaries and more job protection compared to regular civil servants. With a new, centre-right government in office after the 2002 elections, the civil service law was to be changed profoundly, by calling for more political impact and flexibility, especially at the ministerial level. As later development showed, the law was to be amended fifteen times over the next four years, slice by slice, ending up with a civil service that can be easily dismissed if a new political coalition comes in with new elections. A new type of service was introduced, *temporary state service*, which was aimed to bring people close to the ministers in the government, aiming to attract young qualified candidates for the civil service. The most important change brought about in the civil service was the flexibility and freedom exercised by individual ministries with regard to the variable component of employees' salaries. This change resulted in an increase in political appointments, but also opened the system for people from a commercial sphere, who entered, temporarily, the civil service.

Another amendment to the law has empowered the head of the Civil Service Office to delegate the competencies for recruitment to the service offices (e.g. ministries), making it possible to speed up the recruitment process. Subsequent amendments decreased the level of job protection for civil servants, in an attempt to make the civil service system more flexible and competitive. A specific problem, connected to the country's accession into the EU was a lack of qualified EU experts on ministries and central agencies. Several changes in the civil service were made in order to attract these people, especially by creating separate salary tariffs.

The last piece of legislation, passed in March 2006, definitely revoked the 2001 law idea of an independent civil service guided by independent agency. The parliament approved the government's amendment of the civil service law, which abolished the Civil Service Office and transferred its powers to the service offices (e.g. ministries and governmental agencies) and increased the powers of ministers and heads of agencies over civil servants. The changes are explained by the attempt to bring the civil service closer to the business-oriented model, by putting more pressure on performance. It introduced the same type of flexibility in the civil service as the 2003 Labour Code Amendment. However, it is yet to be seen how this kind of policy u-turn develops after the 2006 parliamentary elections. What the preliminary evidence suggests is that the new government of R. Fico, which took office in the fall of 2006, used the opportunity and practice created by the previous government in loosening the rules on political nominations and patronage and took them to another level. In the last months of 2006 the new governing coalition managed to amend several laws that dealt with the nomination procedures in several governmental regulatory agencies (Health Care Surveillance Authority; Regulatory Office for Network Industries), in order to strengthen the political control over these institutions and personal nominations.

## **Conclusion**

The experience of Slovakia shows that the policy management system manifested in the policy-making capacity and the ability to set priorities, as well as implementation capacity, seem to be lagging behind the original reform goals of Dzurinda's Cabinet. Although this study has documented clear attempts of the second Dzurinda's government at creating strategies in specific aspects of public policy management system, these efforts have been on the whole ineffective, because they were pursued in isolation, without vigour and often without clear executive leadership and ownership. Moreover, the external pressures, such as the EU civil service framework, which have facilitated overcoming internal partisan disagreements and imbedding institutional systems prior to EU accession, have not lasted long. Once having entered the EU, the external pressures weakened due to the end of the accession conditions. As a result, some systemic defects that have occurred prior to EU accession were deepened by some changes that occurred after EU accession, such as the abolition of the Civil Service office and return to the complete politicisation of the civil service. Thus, the key aspects of this EU-accession driven reform are already being eroded and dismantled after only a few

years of (largely ineffective) operation. The overall trend in the development is a continuous weakening centre of government and drifting towards a segmented ministerial government.

The incoming Fico government must urgently develop a clear strategy for wide ranging improvements in public policy management systems and must create central structures to drive the process under clear executive leadership. Without political support based on consensus, commitment and continuity so that the necessary initiatives are pursued beyond the four-year political cycle, any efforts will be doomed from the start. Unfortunately, a clear policy management strategy is not likely to happen under Fico's government as the Cabinet's Memorandum has not dedicated any attention to this problem area.

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# Chapter 7



# Measuring the Quality of Regulatory Impact Assessments in Poland 2002 – 2003

*Radoslaw Zubeck*

## Introduction

This chapter assesses the quality of regulatory impact analyses (RIAs) performed by Polish ministries between April 2002 and December 2003 for 104 pieces of draft parliamentary legislation<sup>1</sup>. The quality of the Polish RIA practice was first assessed by the Organisation for Economic Cooperation and Development in 2002 as part of a more general review of regulatory reform (OECD 2002). This paper supplements and updates the OECD study by examining the Polish RIA system in the first two years of its operation. In doing so, it develops and applies an original evaluation methodology. The paper consists of four sections. First, it introduces the main elements of the RIA system. Second, it describes the methodology applied in the assessment of the Polish practice. Third, it presents the principal findings from the survey. Fourth and finally, it explores the institutional underpinnings of the RIA quality.

## I. What is Regulatory Impact Assessment?

Regulatory impact assessment (RIA) is an analytic tool that helps identify the effects of legal regulations according to best professional knowledge. Although RIA methodology differs from country to country, the shared characteristics are its focus on an analysis of costs and benefits of regulations. A typical RIA will have the following elements (cf. OMB 1996; OECD 1999; Cabinet Office 2002; European Commission 2002):

|   |  |
|---|--|
| Purpose of regulation                   | RIA defines the regulatory purpose and the kind and scope of expected outcome as well as identifies the actual size of the problem that a regulation is designed to address. |
| Identification of alternative solutions | RIA identifies available regulatory alternatives and evaluates their potential efficiency in attaining the designed objectives.  |
| Analysis of costs and benefits          | RIA examines, and where possible quantifies, costs and benefits of regulatory solutions.   |
| Impact assessment                       | RIA identifies the impact of the regulation on key public policy objectives such as innovation, competitiveness and support for small and medium enterprises.                |

RIA uses scientific analysis methods for regulatory assessment. These methods can be divided into four major categories (cf. Cabinet Office 2003):

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1 The author would like to acknowledge the financial support for this research from the Ernst & Young Better Government Programme in Poland.

*Experimental methods* examine the effectiveness and efficiency of regulatory intervention by experiment. The most widely used are controlled random sample tests involving a comparison of results for the test group with the results for a control group that was not subject to the experiment.

*Qualitative methods* assess regulatory options by analysing the opinions, views and standpoints of the parties affected. Qualitative analysis uses models based on public policy theories. The most popular tools include interviews, questionnaires, observations, consultations and focus groups.

*Economic analysis methods* involve the use of economic theories in assessing social and economic impacts of regulation. The most popular of these methods are the cost-benefit analysis and the cost-effectiveness analysis. The former attempts to find to what extent regulatory benefits exceed costs, while the latter examines to what degree a specific regulatory intervention provides benefits at the lowest possible costs. Other methods include compliance cost analysis, risk analysis, sensitivity analysis and multi-criteria analysis.

*Ethical and philosophical analysis methods* evaluate regulatory interventions from the point of view of certain ethical or philosophical values, such as rationality, tolerance, equality and social justice. One example of such methods applied to regulatory assessment is legal analysis.

A well-functioning RIA system makes it possible to improve economic governance by lowering the regulatory burden. That the cost and size of regulation affects growth, investment and competitiveness is widely acknowledged (Kaufman, Kay et al. 1999; Scarpetta and Tressel 2002; Alesina, Ardagna et al. 2003; Nicoletti and Scarpetta 2003). The regulatory impact analysis contributes to better regulatory quality by reinforcing substantive argumentation during law-making. RIA makes it possible to avoid unnecessary laws, not least because it identifies the actual size of the problem to be regulated. It may enhance democratic legitimacy of regulation by preventing the state from undertaking regulatory intervention with an illicit purpose. Furthermore RIA contributes to a better regulatory effectiveness through facilitating a systematic review of available regulatory and non-regulatory solutions. Finally, by considering the costs and benefits of regulation, RIA may improve regulatory efficiency.

Some form of RIA has been implemented in most OECD countries since the mid 1990s (OECD 1999; OECD 2002). The process gained momentum after all OECD countries, including Poland, undertook in 1997 to implement RIA as a permanent element of their respective legislative processes. In 2000, 22 out of the 28 OECD countries applied RIA methodology at various stages of the lawmaking process. In Poland the requirement to perform RIA was introduced in the internal cabinet rules in September 2001 and was subsequently reformulated in April 2002. Now RIA must be performed for all government-initiated legislation. RIA methodology may also be used in developing cabinet positions on non-governmental legislative proposals. According to the cabinet rules, a summary of RIA results

must be attached as a separate section to the explanatory notes. A statement of RIA results should consist of four elements:

- It should identify parties affected by the regulation.
- It should present the results of public consultations.
- It should identify impacts that the regulation will have on public finances including central and local budgets, labour market, internal and external competitiveness, and regional development.
- It should indicate sources of funding, in particular where proposed legislation imposes costs on central and local budgets.

In July 2003, the Cabinet adopted “Methodological guidelines for regulatory impact assessment” to provide basic RIA principles for governmental administration (KPRM 2003). Regulatory impact assessments for draft laws are co-ordinated by the Government Legislative Centre (RCL). The body charged with disseminating knowledge of regulatory impact assessment methods is the Regulatory Quality Task Force, headed by the Minister of Economy, Labour and Social Policy. The Secretariat for the Group is maintained by the Department of Competitiveness located at the Ministry of Economy, Labour and Social Policy.

## **II. Evaluation Methodology**

This report evaluates the quality of Polish RIAs against a benchmark identified through an independent review of best practices in the United States, the United Kingdom and the European Commission (for similar approaches see Hahn, Burnett et al. 2000; Radaelli 2003). In addition, the report draws on the practice of the Organisation for Economic Co-operation and Development. Many analysts believe that the most developed RIA systems currently in use are those in the United States and the UK. The European Commission, which has implemented its impact assessment framework only recently, also drew on the best practices of the member states. The review of international best practices has made it possible to identify a set of five basic contents criteria that a RIA should meet in order to contribute to enhanced quality of legislation:

- RIA should analyse the need for and purpose of regulation

RIA practice in the United States, the United Kingdom and the European Commission demonstrates that RIA should analyse the purpose of the regulation. A precisely defined purpose provides a reliable measure of suitability and efficiency of various regulatory solutions. Moreover, RIA should set out the expected outcome of the regulation and analyse the scale of the problem that the regulation is designed to address. A precise recognition of the problem and the resulting hazards enables law-makers to understand the actual need for state’s regulatory intervention. RIA should also consider the most likely developments under the ‘do nothing’ scenario.

- RIA should present the results of consultations, both inside and outside the government

According to best practices, RIA should present the results of consultations with external actors, and more specifically should indicate the parties consulted, summarise their responses, identify accepted and/or rejected proposals, and provide reasons for acceptance and rejection. The consultation section may also refer to intra-cabinet discussions (as is the case in the United Kingdom). The presentation of consultation results enhances transparency of the legislative process and contains references to outside data sources used during RIA development.

- RIA should address alternative regulatory options

Best practices indicate that RIA should analyse alternative regulatory solutions and assess the suitability of each for attaining the designed purposes. This helps determine whether the chosen option is the least costly of those viable and offers the best balance of costs and benefits. Moreover, a systematic review of various regulatory options allows the decision-makers to consider non-legal intervention measures as an alternative to law.

- RIA should analyse costs and benefits of regulation

According to international best practices, RIA should identify the parties affected by the policy and analyse their economic significance. It should analyse the costs and benefits for public and private actors and, where possible, use quantified and monetised data. This RIA function is key for better lawmaking. The review of best practices conducted for this paper demonstrates that, in addition to identifying costs for the parties affected, an RIA should examine the regulation's wider consequences for key public policy objectives. In the United States, RIAs verify impacts on small and medium enterprises, the environment, red tape, child protection, public health and security, energy sector, employment and economic growth. In the United Kingdom, RIAs additionally address equity, fairness and competition. By investigating inter-sectoral effects of regulations, RIAs function as an instrument of policy co-ordination. RIAs should, where possible, use quantified and monetised data.

- RIA should compare costs and benefits

RIAs should provide a systematic comparison of costs and benefits of various policy options. Some commentators go as far as suggesting that if RIA results contain no comparison of costs and benefits, no impact assessment has actually been performed. A good example is the practice of the United Kingdom and the Commission, where costs and benefits are presented in a tabular form at the end of each RIA. In the United Kingdom, the minister in charge of the draft signs an acknowledgement that he/she has read the RIA results and believes that the benefits of the policy justify its costs.

**Table 1**  
Sample characteristics for 125 draft laws underlying the present analysis

|                    | <b>RIA is attached</b> | <b>RIA is not attached</b> | <b>Total</b> |
|--------------------|------------------------|----------------------------|--------------|
| Finance            | 27                     | 5                          | 32           |
| Economy and Labour | 19                     | 2                          | 21           |
| Agriculture        | 18                     | 4                          | 22           |
| Infrastructure     | 13                     | 4                          | 17           |
| Health             | 6                      | 4                          | 10           |
| Environment        | 5                      | 1                          | 6            |
| Justice            | 5                      | 0                          | 5            |
| Internal Affairs   | 4                      | 0                          | 4            |
| Competition        | 4                      | 0                          | 4            |
| Culture            | 3                      | 0                          | 3            |
| Treasury           | 0                      | 1                          | 1            |
| <b>Total</b>       | <b>104</b>             | <b>21</b>                  | <b>125</b>   |

This analysis uses the following quantitative indicators to determine compliance or non-compliance with best practices criteria:

| <b>Qualitative criteria</b>                     | <b>Indicator</b>  |
|---|---|
| RIA analyses purpose of and need for regulation | Percentage of RIA results presenting purpose of regulation.<br>Percentage of RIA results analysing the scale of the problem regulation is to tackle.  |
| RIA presents results of consultations           | Percentage of RIA results indicating parties consulted and summarising their responses.<br>Percentage of RIA results identifying rejected and accepted proposals.<br>Percentage of RIA results giving reasons for rejection and acceptance.                       |
| RIA analyses alternative regulatory solutions   | Percentage of RIA results presenting alternative regulatory solutions.<br>Percentage of RIA results estimating costs of regulatory options.<br>Percentage of RIA results considering developments under the 'do nothing' scenario.                                |
| RIA analyses costs and benefits of regulation   | Percentage of RIA results identifying parties affected.<br>Percentage of RIA results analysing costs and benefits for parties affected and for implementation of important public policy objectives.<br>Percentage of RIA results quantifying costs and benefits. |
| RIA compares costs and benefits                 | Percentage of RIA results comparing costs and benefits.   |

This study seeks to examine the extent to which the RIA practice in Poland is consistent with the five criteria discussed above. It is based on a sample of 104 RIAs attached to explanatory notes to 125 government-initiated economically

significant draft laws. Twenty-one of the drafts had no RIA attached (see Table 1). The sample selection was made by four independent experts according to the degree of socio-economic significance of the legislation and was based on the following criteria: (i) legislation is a major amendment or a new systemic regulation, (ii) legislation has direct impact on business, (iii) parties affected have high market significance. The substantive quality of the government's impact assessment is taken as given. Instead, the study focuses on comprehensiveness and precision of information contained in the RIAs.

### **III. Evaluation Results**

#### *Five Contents Criteria*

- Criterion 1: RIA should analyze purpose of and need for regulation

The Polish RIA practice is partially in line with international best practices. 26 percent of RIAs present the purpose of regulation, though none discusses the need for regulatory intervention. Although this information is generally set out in other sections of explanatory notes, a preliminary examination shows that the information regarding the purpose of and need for regulation does not always meet RIA requirements. This is for two principal reasons. First, only a limited number of RIAs assess possible threats that may arise if regulatory intervention is not undertaken. The explanatory notes hardly ever give the results of any research or analysis, whether performed by the administration or by independent entities, to justify regulatory intervention. Second, where intervention is being justified by the need to close legal loopholes in the existing laws, the need for more regulation is assumed, whilst insufficient consideration is given to de-regulation.

- Criterion 2: RIA should discuss the results of consultations

The Polish RIA practice is partially in line with international practices. The analysis demonstrates that 83.5% of all RIAs under review contain the 'public consultations' section. However, it must be noted that the information contained in RIAs is frequently of relatively low quality. A large proportion of RIAs do not explicitly identify the parties consulted. Where parties are identified, this is most often done by type of organisation rather than by full name. Some RIAs summarise the process of consultations by simply indicating that the draft regulation has been posted on the ministry's website. Only 42 per cent of the RIAs that contain this section, present responses received from the parties consulted. Even a smaller percentage of RIAs specify which of the received proposals have been accepted or rejected (29% and 31% of RIAs, respectively). Note that although 23 assessments out of 27 give reasons for rejections, only 8 in 25 justify acceptance. It seems that the transparency of the legislative process would be better served if the reasons for acceptance had equal, if not greater, importance in public consultation as reasons for rejection (see Table 2).

**Table 2**  
Precision of data in ‘consultations’ section

|                                    | <b>Number of RIAs</b> | <b>%</b> |
|------------------------------------|-----------------------|----------|
| Summarise results of consultations | 37                    | 42       |
| Present accepted proposals         | 25                    | 29       |
| Give reasons for acceptance        | 8                     | 9        |
| Present rejected proposals         | 27                    | 31       |
| Give reasons for rejections        | 23                    | 26       |

*Source: own compilation (this section is present in 87 out of 104 RIAs)*

- Criterion 3: RIA should analyse alternative regulatory solutions

The Polish RIA practice does not comply with best practices. None of the 104 RIAs under review provides a systematic discussion of alternative policy options. Where legal and non-legal alternatives are not explicitly considered, it is impossible to determine whether the option chosen is the least costly of those viable or offers the best balance of costs and benefits. Neither do any of the RIAs consider the ‘do nothing’ scenario.

- Criterion 4: RIA should analyse costs and benefits

As regards costs and benefits for the parties affected, the Polish RIA system is inconsistent with international standards. Only 52 out of 104 RIAs (50%) give information on parties affected by the regulation. Such a poor result seriously undermines the utility of RIA as a tool of better lawmaking. The absence of precise identification of parties affected prevents any reliable discussion of costs and benefits.

The RIA results rarely present costs and benefits for the parties affected: 21% and 31%, respectively. The information presented is frequently of relatively low quality. First, those RIAs that address impact on the parties affected tend to focus on consequences for the public sector (e.g. state-owned undertakings and administrative or public agencies) rather than for private actors. The practice of considering regulatory impact primarily for the public sector seems widespread. To illustrate, the RIA attached to the draft laws amending the law on interest support for certain bank loans (draft no. 1567) and the draft law amending the Commercial Companies Act (draft no. 1666) contain a statement that no in-depth impact assessment was undertaken because the legislation does not have a financial impact on the state budget. Second, the costs and benefits assessments themselves are of rather poor quality. Only 13% of the RIAs provide data on size and economic significance of parties affected, while 13% and 11% express the costs and, respectively, benefits in numerical terms (see Table 3).

**Table 3**  
Precision of data under 'parties affected' section

|                                 | <b>Number of RIAs</b> | <b>%</b> |
|---------------------------------|-----------------------|----------|
| Indicate significance of actors | 7                     | 13       |
| Indicate costs                  | 11                    | 21       |
| Quantify costs                  | 7                     | 13       |
| Indicate benefits               | 16                    | 31       |
| Quantify benefits               | 6                     | 11       |

*Source: own compilation (this section is present in 52 out of 104 RIAs)*

As regards the impact on key public policy objectives, the Polish RIA practice departs from international best practices. Even though the RIA results generally do address regulatory impacts on public objectives (see Table 4), the quality of this information is low.

**Table 4**  
Percentage of RIAs containing a given section (%)

| <b>RIA Section</b>       | <b>Percentage of RIAs</b> |
|--------------------------|---------------------------|
| Central Budget           | 96                        |
| Labour Market            | 87                        |
| Regional development     | 87                        |
| Internal competitiveness | 77                        |
| External competitiveness | 77                        |
| Local budget             | 35                        |

*Source: own calculations*

Four general observations can be made in this regard. First, all of the RIAs generally tend to focus on benefits rather than costs. Except for the section on central budget, costs are identified by only a marginal proportion of RIAs – labour market (1%), internal (1%) and external competitiveness (4%), regional development (0%). See Table 5. This stands in marked contrast to a high percentage of the RIA results that identify benefits of regulation (34% – 55%). This imbalance may indicate a strong bias towards using RIA to justify decisions ex-post. Second, the RIAs rarely use quantified or monetised data. Except for the section on public finances, costs and benefits are almost exclusively discussed in qualitative terms. While clearly it is not possible to quantify all impacts, a reluctance to use numerical data undermines the empirical authority of RIA. Third, the review shows that RIA authors seem to lack an in-depth understanding of what exactly is to be measured under some of the required headings. This is most evident in the assessments of competitiveness and regional development. In the former, some RIAs analyse the financial position of domestic enterprises, while others focus on antitrust rules. In the case of

regional development, some RIAs repeat the information on local finances, while others look for influence on the developmental outlook of individual regions. In the absence of clearly defined indicators, many assessments contain, in essence, merely statements of purpose. Finally, a high proportion of the RIAs conclude that a regulation is likely to have no impact. This troubling result is most common for local budgets (75%) and regional development (61%). While these results may just as well be accurate, they may also indicate that there is a need for more sophisticated analytical methods to be employed in assessing regulatory impacts.

**Table 5**

Precision of data concerning impact on key public policy objectives (%)

| <b>RIA section</b>       | <b>RIA identifies costs</b> | <b>RIA quantifies costs</b> | <b>RIA identifies benefits</b> | <b>RIA quantifies benefits</b> | <b>RIA concludes 'no impact'</b> |
|--------------------------|-----------------------------|-----------------------------|--------------------------------|--------------------------------|----------------------------------|
| Central budget           | 43                          | 38                          | 31                             | 19                             | 44                               |
| Local budget             | 13                          | 13                          | 13                             | 5                              | 75                               |
| Labour market            | 1                           | 0                           | 46                             | 11                             | 50                               |
| Internal competitiveness | 1                           | 0                           | 50                             | 0                              | 44                               |
| External competitiveness | 4                           | 1                           | 55                             | 0                              | 39                               |
| Regional development     | 0                           | 0                           | 34                             | 0                              | 61                               |

*Source: own calculation*

- Criterion 5: RIA should compare costs and benefits

The Polish practice does not meet this international standard. Out of the 104 RIAs under review, only two attempted to compare costs and benefits. The inability to generate such comparisons is largely the result of (i) limited cost information, except for costs to the budget, and (ii) low quality of information on regulatory benefits. The absence of cost and benefit comparisons impairs RIAs authority as a lawmaking tool.

### *Summary Assessment*

The review of 104 RIA results demonstrates that at present the RIA system provides only limited support to Polish policy-makers. First, Polish RIAs hardly ever reliably and precisely analyse the regulatory burden imposed on the parties affected, except for costs to central budget and state actors. Second, the discussion of impact on the labour market, competitiveness and regional development is, in most cases, limited to general and imprecise descriptions of potential benefits of the regulation. The table below summarises the results of our RIA quality evaluation.

| Best practices criteria            | Evaluation         |
|------------------------------------|--------------------|
| Purpose of and need for regulation | complies partially |
| Results of consultations           | complies partially |
| Alternative solutions              | does not comply    |
| Costs and benefits analysis        | does not comply    |
| Comparison of costs and benefits   | does not comply    |

In general, the information provided in Polish RIAs may be categorised into three principal groups: (i) good precision data combined with high frequency of occurrence – this group includes the data on the impact on the central budget; (ii) medium quality data combined with low frequency of occurrence – this category encompasses information provided under the headings of ‘parties affected’ and ‘impact on local budget’, and (iii) poor quality data combined with high to medium frequency of occurrence – this category covers the data provided in the majority of RIA sections. It is only the first category information that may provide empirical assistance to the policy-making process. The data in the two remaining groups is too limited to provide a substantial input because it is either too imprecise or too infrequently introduced into RIA.

*Precision*

| Low  | Medium                           | Good           | <i>Frequency of occurrence</i> |
|--|----------------------------------|----------------|--------------------------------|
| Labour market<br>Regional development                  |                                  | Central Budget | <b>High</b>                    |
| Parties consulted<br>Internal/external competitiveness |                                  |                | <b>Medium</b>                  |
|  | Parties affected<br>Local budget |                | <b>Low</b>                     |

Indeed, in many cases, it seems that the information provided in sections other than those dealing with public finances does not reflect the results of genuine impact analysis but, rather, has been generated ex-post and added to the explanatory notes solely to comply with a formal requirement.

### III. Conclusion: Institutional Configurations and RIA Quality

Although this paper does not purport to provide a systematic analysis of the causal linkages between institutional configurations and RIA quality, it concludes by signalling some institutional incentives and opportunity structures facing line ministers and their staff that may contribute to the overall weakness of the RIA practice in Poland.

- RIA scope

Impact assessment is performed for all draft regulations, whatever their nature and impact. In accordance with the Cabinet Rules of 19 March 2002, RIAs are required for all government-initiated draft policy measures as long as they are subject to obligatory promulgation in Polish official journals (*Dziennik Ustaw RP* or *Dziennik Urzędowy "Monitor Polski"*). This means that, formally, RIA should be performed also for routine administrative actions that have no economic, social or environmental impacts, such as cabinet regulations creating working groups, appointing government representatives or establishing public schools. The formal requirement to have an RIA for each draft may impair the credibility of the whole system in the eyes of government officials. It may also prevent the line ministries from focusing efforts on areas where RIA is most needed.

- Obligatory RIA contents

The existing rules of procedure and methodological guidelines concerning obligatory RIA elements do not require the provision of information on the regulatory alternatives and costs and benefits comparisons. Although the Prime Minister's regulation of 20 June 2002 – Guide to Legislative Techniques – requires potential legal and non-legal regulatory instruments to be determined before legislation is drafted, the duty is not formally integrated with the RIA system and does not require setting out the costs and benefits for each of the options. Third, the Guide to Legislative Techniques does not consider RIA as the tool for determining which policies are "appropriate considering the circumstances". The document lacks an explicit reference to the balance of costs and benefits as a measuring rod for justifying regulatory interventions. If such a reference was introduced, RIA results could have practical use in selecting best policy solutions.

- Legislative planning

The most serious procedural gap is that there is no requirement to perform preliminary regulatory impact assessments at the stage of developing periodic legislative programmes. Furthermore, once developed, legislative programmes are not consulted on with the RIA team at with Government Legislative Centre. This means that the cabinet formulates legislative programmes without an in-depth understanding of potential regulatory impacts. It seems that a requirement to have preliminary RIAs for all policy proposals submitted to the legislative programme would help identify those draft laws which need a

more developed analysis. This would, in the end, have a positive effect on the quality of results.

- Central quality control

RIA quality may be assumed to be positively correlated with central monitoring by a specialised central institution that employs professionals with expertise in economics, statistics and the law. In Poland, the quality of RIAs prepared by various ministries is subject to on-going control by the Government Legislative Centre (RCL). But, given the substantial number of RIA opinions, the RCL seems to have inadequate human resources. In 2003, a team of six provided opinions on RIAs for 1839 drafts. Furthermore, the centre offers limited procedural and methodological guidelines for government administration. These are laid down in a document called 'Methodological RIA guidelines' developed by the Ministry of Economy and adopted by the Cabinet in July 2003 (KPRM 2003). But the document offers little value. It repeats the cabinet rules as regards the procedural matters and introduces few new guidelines that would be practical and helpful for the ministries. The discussion of analytical methods – based, to a great extent, on the general study published by OECD in 1997 – is too cursory and written in an unintelligible language.

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# Chapter 8



# Governance Indicators and Executive Reforms in Central Europe

*Martin Brusis*

## Introduction

The simultaneity of transitions from state socialist systems of political rule and the similarity of the aims of political and economic reform have rendered Central and Eastern Europe a region uniquely suited to cross-national comparative evaluation. The monitoring of EU accession preparations and criteria by the EU Commission has so far been the most comprehensive and politically important evaluation in the region. The annual progress reports of the Commission have to be seen as part of a wider trend associated with processes of transnational integration and interpenetration. Benchmarking or rating exercises are increasingly used by international organisations and agencies to support lesson-drawing and the transfer of best practices across national settings. Benchmarking is also expected to disclose practices of bad governance and to provide incentives for negatively rated states to improve their performance.

For the donor community and the international public, benchmarking increases the transparency of development processes and activities. Moreover, indicator-based country evaluations inform and orient the allocation of development aid, for example when the US Government links access to its Millennium Challenge Account to good performance with respect to “governing justly, investing in people and promoting economic freedom” (Radelet 2003). Reflecting these trends and expectations from policy-makers and practitioners, scholars have begun to develop systematic evaluations of the policy performance of governments (Berg-Schlosser 2004; Lijphart 1999; Roller 2006; Schmidt 2002).

Such assessments rely on quantitative or qualitative data, surveys or polls and they are frequently expressed in numerical ratings, allowing for positioning or ranking of countries in the respective monitoring dimensions. Some ratings assess the quality of democracy or human development; others focus on particular aspects of governance, such as the perception of corruption or economic competitiveness (Landman 2003; Sudders and Nahem 2005). Some indicators seek to monitor input or process aspects of the political system (e.g. accountability, citizen participation); others relate to the quality of public administration and management or to more specific policy outcomes. Thus there are a variety of concepts and measuring techniques that are covered by the summary terms “governance indicators” or “governance ratings” in this paper.

While most existing governance indicators do not focus on executives and the institutional arrangements observable in central government, many of them provide information on the governance effects one might expect from a change of government or from major reforms of public administration and policy-making.

Moreover, governments themselves usually explain particular executive arrangements or institutional reforms with their expected policy effects. If an executive configuration matters for how a country is governed, one can assume that its effects are reflected in governance indicators.

This chapter will assess the utility of existing governance ratings for the study of executives by comparing four different indicators that have been developed to measure the quality of governance and policy-making. These are the “Governance Indicators” developed by the World Bank Institute, the “Nations in Transit” study by Freedom House, the “Progress in Transition” rating by the European Bank for Reconstruction and Development and a newly created rating of governance performance, the “Bertelsmann Transformation Index”. All four studies use some quantitative data but qualitative assessments constitute the main basis of the numerical ratings and their aggregation to indices. In this respect, they differ from rankings based exclusively on objective, quantified data, such as the UNDP’s Human Development Index.

First, the methodology of these studies will be analysed and compared. Second, the numerical assessments – ratings – are compared for 27 central and eastern European countries (CEEC), including the new member states of the European Union, the south-east European states and the countries belonging to the Community of Independent States. Third, the paper will study whether and how the ratings reflect cross-temporal variation in the configuration of executives and policy changes for a small subset of CEEC: Bulgaria, Hungary, Serbia and Slovakia.

### **1. The methodology of governance ratings**

Among the existing ratings, three well-known studies are selected that assess “governance”, understood in relatively broad terms, and that are based upon qualitative judgements of experts: Freedom House’s study “Nations in Transit”; the World Bank Institute’s governance indicators; and the progress in transition ratings by the European Bank for Reconstruction and Development. In addition, a new index, published by the Bertelsmann Foundation for the first time in 2004, is included.

(1) The US-based NGO Freedom House (FH) rates progress and setbacks in political reforms in 27 east European countries with its expert poll “Nations in Transit” (Goehring 2006). The study has been carried out annually since 1995 and covers events in the respective preceding year. Until 2003, “Nations in Transit” also comprised assessments of economic reforms. Freedom House evaluates the progress made by countries with respect to democratisation. The “democracy score”, calculated by FH, consists of seven sub-categories rated separately: national democratic governance; electoral process; civil society; independent media; local democratic governance; judicial framework and independence, and corruption.

In the context of the present paper, the national democratic governance sub-category is the most relevant. Under this category, the study “considers the democratic character and stability of the governmental system; the independence, effectiveness and accountability of legislative and executive branches and the democratic

oversight of military and security services.” (Gohring 2006, 9) The study provides individual country analyses organised according to the seven sub-categories which are further detailed in checklists of 5 – 10 questions per sub-category. The numerical ratings are based on a scale of 1 (consolidated democracy) to 7 (consolidated authoritarian regime). They are determined by Freedom House after consultation with the involved experts. The rating is developed in four steps. First, the authors of the country reports suggest scores for all six sub-categories. Second, a board of academic advisors reviews the ratings, compares them across countries and establishes a consensus. Third, report authors may criticise a score if the advisors revised the author’s proposal by more than 0.50 points. Fourth, Freedom House staff approves the final ratings of the subcategories and calculates the two category ratings by averaging the sub-category ratings.

(2) The World Bank Institute (WB) measures the quality of governance in 213 countries and territories by constructing aggregate indicators from information on governance performance provided by 25 different organisations in 31 separate data sources (Kaufmann, Kraay, and Mastruzzi 2006). The “governance indicators” have been published since 1996 and provide scores on an annual basis since 2002. The authors of the study define governance broadly as “the traditions and institutions by which authority in a country is exercised. This includes (1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them” (Kaufmann, Kraay, and Mastruzzi 2004, 254). Six dimensions are distinguished: voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; control of corruption.

For the purposes of this chapter, the dimension of “government effectiveness” is most relevant since it comprises data on the “the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to policies.” (Kaufmann, Kraay, and Mastruzzi 2006, 3) The government effectiveness indicators for the 27 east European countries are constructed from 13 sources: three surveys of firms and ten expert polls conducted by the World Bank, two business associations, six commercial rating agencies, one university, the Bertelsmann Transformation Index and Freedom House’s Nations in Transit study (see annex). From these sources, items associated with government effectiveness are selected, standardised and weighted according to their representativity and precision. This procedure allows estimating governance as “the mean of the distribution of unobserved governance conditional on the [...] observed data points” for a country (Kaufmann, Kraay, and Mastruzzi 2004, 259). Most estimates range between –2.5 (worst governance) and +2.5 (best governance), and a margin of error is given for each estimate. In the following calculations, the point estimate is used.

(3) The European Bank for Reconstruction and Development (EBRD) rates progress in transition to a market economy for 27 countries of Eastern Europe and the former Soviet Union (EBRD 2006). The ratings have been published since 1994 and cover reform developments on an annual basis since the beginning of the transition. EBRD staff assesses the extent to which transition countries have reached the standards of industrialised market economies in nine areas covering four main elements of a market economy: markets and trade (3 areas), enterprises (3 areas), infrastructure (1 area) and financial institutions (2 areas). The ratings range between 1 (little or no change from a centrally planned economy) and 4+ (standards equal to an industrialised market economy). While the EBRD aggregates its indicators on the level of the four elements of market economy, it does not provide a summary index for progress in transition to a market economy. For the purposes of this paper, such a composite indicator is constructed from the unweighted average of the nine area indicators. This aggregation can be justified by a reliability analysis performed for the indicators from 2006. Cronbach's Alpha is 0.962 for all nine disaggregate indicators, which clearly exceeds the threshold of 0.7 usually considered to be the minimum value required for the assumption that items measure the same construct.

(4) The Bertelsmann Foundation (BF), an NGO based in Germany, publishes an index that measures the progress made by 119 developing and transition countries on the way to democracy and market economy (Bertelsmann Stiftung 2005). The ranking is an expert poll and was published for the first time in 2004. It consists of two indices that reflect the state of democracy and market economy in a country (Status Index) and the political management of the transformation towards democracy and market economy (Management Index). Additional indicators depict the trends of democratic and economic development. The indices are based on 19 criteria and 58 individual questions that are analysed and rated. The point scores range from 1 (worst) to 10 (best). The ratings are determined in four steps. First, country experts analyse and rate the extent to which a country meets the standards implied by the questions. Second, each country report is reviewed by another country expert who suggests a second rating. Third, regional experts review the reports and establish a rating on the basis of the two proposals, thereby considering differences among countries of the same world region. Fourth, a board of academic advisors reviews, recalibrates and decides the ratings by comparing across regions. In the perspective of the present paper, the management index is most relevant as it provides ratings for the following four criteria: steering capability; resource efficiency; consensus-building and international co-operation.

The main features of these four studies are compared in the table below. A key methodological difference between the studies is that the World Bank Institute creates its governance indicators by selecting and synthesising data from other polls, while the three other studies are based on data generated by the monitoring organisations themselves. The WB Governance Indicators and the Bertelsmann Transformation Index rank the countries, based on their ratings. In contrast, FH's Nations in Transit and the EBRD indicators on progress in transition rate countries

but are not summarised in rankings. Nations in Transit and the Bertelsmann Transformation Index provide detailed verbal country reports that aim at substantiating the ratings. The EBRD's Transition Report also includes detailed country data, but this information is not organised according to the structure of the ratings. The WB study does not contain any verbal country assessments, expecting authors to rely on numerical indicators exclusively.

While the EBRD report measures the results and the quality of economic policy-making, all other studies seek to assess "governance", a concept that is understood in a broader sense insofar as it includes other, non-economic policy areas and in a more specific sense related to the practice of governing as such and not to particular policy outcomes.

BF, FH and WB differ with respect to how the notion of governance is specified, reflecting the lack of convincing conceptualisations in the literature on governance. None of the studies devotes attention to deriving and developing concepts from the theoretical debate about governance among scholars of public administration (Pierre 2000; Pierre and Peters 2000). Freedom House includes aspects of the "input" dimension of the political system such as the accountability of executives to parliament. The World Bank Institute and the Bertelsmann Foundation focus more on policy-making and the government machinery. Their governance concepts highlight practices or activities, while the Freedom House concept is more concerned with rules and institutions of governance. Notably, the broad understanding of governance formulated by the World Bank Institute does not seek to operationalise the criteria of good governance proposed by the World Bank in an earlier study: "Good governance is epitomised by predictable, open and enlightened policy-making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; a strong civil society participating in public affairs and all behaving under the rule of law." (World Bank 1994, vii)

Contrary to the other two institutions, the Bertelsmann Foundation emphasises that its governance concept does not measure qualities of the politico-administrative system but is centred on the performance, responsibility and capacity of leading political actors. This is reflected by the fact that its management index is calculated by weighting the governance ratings with a "level of difficulty". This variable is envisaged to capture the difficulty of structural conditions (poverty, legacies of civil war, absence of civil society traditions, weak state capacity and weak human capital) governing elites are faced with in a transformation process.

Table 1  
Overview of governance indicators

|                                | <b>FH: Nations in Transit</b>   | <b>WB: Governance Indicators</b>   | <b>EBRD: Progress in Transition</b> | <b>Bertelsmann Transformation Index</b>   |
|--------------------------------|---|--|-------------------------------------|---|
| Institution                    | NGO   | international agency   | international agency                | NGO   |
| mode of comparison             | rating  | rating & ranking   | rating                              | rating & ranking  |
| country coverage               | 27  | 213  | 27                                  | 119   |
| period measured                | 1 year  | 2 years  | 1 year                              | 2 years   |
| frequency                      | 1995- annual  | (1996) 2002- annual  | 1994- annual                        | 2004- biannual  |
| broad concept of measurement   | progress in democratization   | quality of governance  | progress in economic reform         | status of democracy and market economy, governance performance, trend                   |
| specific concept of governance | governance  | government effectiveness   | -                                   | governance performance  |
| attributes of governance       | democratic character and stability of the governmental system; the independence, effectiveness and accountability of legislative and executive branches; and the democratic oversight of military and security services | quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to policies | -                                   | steering capability, resource efficiency, consensus-building, international cooperation |
| concept dimensions             | 1   | 6  | 4                                   | 4   |
| categories measured            | 6   | 276  | 9                                   | 58  |
| measurement level              | ordinal   | ordinal  | ordinal                             | ordinal   |
| scale differentiation          | 1 - 7 (24 levels)   | -2.5 - +2.5 (continuous); initial scales not specified   | 1 - 4.3 (11 levels)                 | 1 - 10 (10 levels)  |
| data basis                     | qualitative   | qualitative  | qualitative                         | qualitative   |
| data generation                | expert poll   | secondary analysis of existing data sources  | expert poll                         | expert poll   |
| index construction             | unweighted mean   | mean, weighted according to representativity and precision   | no aggregation                      | means, partly weighted by level of difficulty   |

## 2. Comparing the results of governance ratings

This section investigates how the four studies differ in their assessment of governance. The conceptual differences between the studies suggest two hypotheses: As the EBRD focuses on economic reforms rather than “governance”, its ratings should differ more from the ratings in the other three studies which are more concerned with the political dimension of governing. A second conceptual difference was observed between the input-related dimensions of governance included by FH on the one hand, the emphasis on output and implementation found in the WB and BF studies on the other. It can thus be assumed that FH ratings differ more from WB and BF than the two studies differ among each other.

To examine these hypotheses, a first step is to compute the aggregate correlations among the ratings for the subsequent periods of time that are covered by the studies. These periods overlap but are not identical. The 2006 edition of “Nations in Transit” refers to the period from 1 January to 31 December 2005. The WB ratings published in 2006 mention 2005 as the year of the underlying surveys, which is, however, in some cases the year of publication, not the year that was examined. The 2006 EBRD ratings largely comprise the period from Summer 2005 until Summer 2006 (the annual “Transition Reports” do not give exact dates) and the BF study monitors the period from January 2003 to January 2005. Thus, Table 2 below is based on the 2006 editions of the four studies, mainly referring to the year 2005. The following table contains the correlation coefficients from previous studies published between 1998 and 2004.

The tables reveal very high correlations among the studies, despite the different concept specifications discussed in the previous section. Although the FH governance ratings cover aspects of democratic accountability, they do not differ from the WB and BF ratings which are focused on the efficiency and management dimensions of governance. Rather, the results support the assumption that all studies measure aspects of closely related empirical phenomena or even the same occurrence. Even the EBRD ratings, designed to assess economic policy-making and economic reforms, are strongly correlated with the other ratings and indicate the close relationship of governance and economic performance. The EBRD and FH ratings seem to have become less similar in the course of the years, whereas no clear trend is visible for the WB rating and the other two ratings.

Pearson coefficients, based upon all 27 central and east European countries rated by the 2006 editions of the four studies. The calculation uses the unweighted BTI management scores. Negative correlations between the FH ratings and the other ratings are due to the fact that FH assigns lower scores to better performing countries, whereas the other studies associate better performance with higher scores.

**Table 2**

Bivariate correlations among governance indicators published in 2006

|   | <b>WB, Government Effectiveness</b> | <b>FH, Nations in Transit, National Governance</b> | <b>BF Management Index</b> |
|---|-------------------------------------|--|----------------------------|
| FH, Nations in Transit, National Governance | -.947                               |  |                            |
| BF, Management Index                        | .962                                | -.941  |                            |
| EBRD, Transition Progress                   | .913                                | -.840  | .901                       |

**Table 3**

Bivariate correlations among governance indicators, subsequent editions

|           | <b>2006</b> | <b>2004</b> | <b>2002</b> | <b>2000</b> | <b>1998</b> |
|-----------|-------------|-------------|-------------|-------------|-------------|
| BF – EBRD | .913        | .858        | –           | –           | –           |
| BF – FH   | -.941       | -.946       | –           | –           | –           |
| BF – WB   | .962        | .930        | –           | –           | –           |
| EBRD – FH | -.840       | -.833       | -.910       | -.920       | -.920       |
| EBRD – WB | .913        | .890        | .916        | .832        | .870        |
| FH – WB   | -.947       | -.964       | -.973       | -.891       | -.923       |

These correlations (Pearson coefficients) refer to the 27 Central and East European countries and are based on subsequent editions of the specific governance indicators shown in table two. As in Table two, unweighted BTI management scores are used and FH scores are negatively correlated with other sources.

A principal component analysis of the ratings provides further support for the uni-dimensionality of the governance concept underlying the four studies. The analysis was performed for the 2006 editions of the four studies. All four sets of ratings could be reduced to a single component that explains 94 per cent of the total variance. This component is most closely correlated to the WB indicator of Government Effectiveness which confirms WB’s claim that its indicators represent most of the information provided by sources relying on primary data. While three components of the BF Management Index and FH’s governance rating are data sources of Government Effectiveness, no EBRD ratings are taken into account by WB. Nevertheless, EBRD ratings correlate closely with WB.

Table 4 shows the degree to which ratings have changed over time. It measures the bivariate correlations of the ratings published between 1997 and 2006. As the table illustrates, there has been little change from one period to another. The results reveal a declining degree of change in governance performance, but also indicate the time demands of governance reforms, whose results materialise only in a mid-term perspective.

**Table 4**

Bivariate correlations of each governance indicator with its previous edition

| <b>Editions</b> | <b>BF</b> | <b>WB</b> | <b>FH</b> | <b>EBRD</b> |
|-----------------|-----------|-----------|-----------|-------------|
| 2006/05         | .920      | .985      | .994      | .998        |
| 2005/04         |           | .987      | .988      | .997        |
| 2004/03         |           | .994      | .995      | .998        |
| 2003/02         |           | .959      | .988      | .998        |
| 2002/01         |           |           | .985      | .985        |
| 2001/00         |           | .909      |           | .994        |
| 2000/99         |           |           | .982      | .996        |
| 1999/98         |           | .923      | .974      | .990        |
| 1998/97         |           |           | .992      | .973        |

Correlations (Pearson coefficients) refer to the 27 Central and East European countries and are based on subsequent editions of the specific governance indicators shown in table two. As in Table two, unweighted BTI management scores are used and FH scores are negatively correlated with other sources.

In a second step, this section looks at the disaggregate level of individual country ratings, asking how many and which countries are assessed equally by the studies. Such a comparison may be based on the rankings of countries, assuming that the EBRD and FH ratings can be translated into rankings. Alternatively, a comparison could rely on the indicator values, which entails the assumption that the distances between countries contain meaningful and important information for a comparison. Table 8 compares both the ranks and ratings of countries. To make the different scales comparable, all four ratings are standardised by subtracting the mean (across countries) and dividing by the standard deviation (across countries), so that each indicator has a mean of zero and a standard deviation of one (“z-transformation”). In addition, the FH ratings are inverted to make them comparable with the other three ratings and rankings.

If countries are sorted according to decreasing ranks and index values, one can discern the (sub-) regional groupings well-known to scholars of Central and Eastern Europe: the new EU member states from East-Central Europe are in the first positions, followed by Croatia and the recent EU entrants from South-eastern Europe, Bulgaria and Romania. The lower middle echelons are held by south-east European countries, Russia, Ukraine and the Caucasian countries. All four studies place the Central Asian countries and Belarus at the bottom. Obviously, this discernible sub-regional structuring does not tell anything about the validity of the ratings.

Of the 27 Central and East European countries, 16 are ranked equally by at least two of the four studies and two countries are ranked equally by three of the four studies (Romania and Turkmenistan). Spearman’s rank correlation coefficients

range between .857 (EBRD-FH) and .957 (BF-WB). Comparing the standardised and rounded indicator values shows that 13 countries are rated equally by two of the four studies and one country (Slovakia) is rated equally by three studies.

**Table 8**  
Disaggregate country rankings and ratings

| 2006 editions      | Ranks |      |    |    | Z-Transformed Ratings |      |      |      |
|--------------------|-------|------|----|----|-----------------------|------|------|------|
|                    | WB    | EBRD | FH | BF | WB                    | EBRD | FH   | BF   |
| Estonia            | 1     | 2    | 5  | 3  | 1.5                   | 1.4  | 1.2  | 1.3  |
| Slovenia           | 2     | 10   | 1  | 1  | 1.5                   | 0.5  | 1.4  | 1.4  |
| Slovakia           | 3     | 4    | 1  | 2  | 1.4                   | 1.1  | 1.4  | 1.4  |
| Czech Republic     | 4     | 3    | 6  | 4  | 1.4                   | 1.2  | 1.1  | 1.2  |
| Lithuania          | 5     | 6    | 6  | 5  | 1.3                   | 1.0  | 1.1  | 1.1  |
| Hungary            | 6     | 1    | 1  | 6  | 1.2                   | 1.5  | 1.4  | 1.1  |
| Latvia             | 7     | 7    | 1  | 8  | 1.1                   | 0.9  | 1.4  | 0.9  |
| Poland             | 8     | 4    | 8  | 9  | 0.9                   | 1.1  | 0.9  | 0.7  |
| Croatia            | 9     | 9    | 10 | 7  | 0.8                   | 0.7  | 0.5  | 1.0  |
| Bulgaria           | 10    | 8    | 9  | 10 | 0.5                   | 0.7  | 0.8  | 0.7  |
| Romania            | 11    | 11   | 10 | 11 | 0.1                   | 0.4  | 0.5  | 0.5  |
| Armenia            | 12    | 12   | 18 | 16 | 0.0                   | 0.1  | -0.4 | 0.2  |
| Macedonia, FYR     | 13    | 12   | 12 | 13 | -0.2                  | 0.1  | 0.3  | 0.1  |
| Serbia             | 14    | 21   | 13 | 14 | -0.2                  | -0.5 | 0.2  | -0.1 |
| Ukraine            | 15    | 17   | 15 | 17 | -0.4                  | -0.1 | -0.1 | -0.4 |
| Russian Federation | 16    | 14   | 21 | 22 | -0.4                  | 0.0  | -1.0 | -0.8 |
| Georgia            | 17    | 15   | 19 | 12 | -0.4                  | 0.0  | -0.7 | 0.2  |
| Albania            | 18    | 18   | 13 | 15 | -0.5                  | -0.2 | 0.2  | -0.1 |
| Bosnia             | 19    | 22   | 17 | 18 | -0.5                  | -0.7 | -0.3 | -0.4 |
| Kazakhstan         | 20    | 16   | 26 | 20 | -0.7                  | -0.1 | -1.4 | -0.7 |
| Azerbaijan         | 21    | 23   | 21 | 23 | -0.8                  | -0.7 | -1.0 | -1.1 |
| Moldova            | 22    | 20   | 20 | 24 | -0.8                  | -0.2 | -0.9 | -1.1 |
| Kyrgyzstan         | 23    | 19   | 21 | 21 | -1.0                  | -0.2 | -1.0 | -0.7 |
| Tajikistan         | 24    | 25   | 24 | 19 | -1.2                  | -1.1 | -1.1 | -0.7 |
| Belarus            | 25    | 27   | 27 | 25 | -1.4                  | -2.0 | -1.6 | -1.5 |
| Uzbekistan         | 26    | 26   | 24 | 26 | -1.9                  | -2.8 | -1.6 | -1.8 |
| Turkmenistan       | 27    | 28   | 27 | 27 | -1.4                  | -1.4 | -1.1 | -2.0 |

The rankings differ most widely in the cases of Slovenia, Kazakhstan and Russia. Slovenia is ranked tenth by the EBRD while the other three studies qualify it as the first or second best performer in the region. This discrepancy could

be explained by the more gradualist trajectory of economic reform in Slovenia reflected in the moderate EBRD assessment. Kazakhstan and Russia are ranked much better by the EBRD than by the other three studies, again indicating the economic reform focus of EBRD. The difference between EBRD and the other sources is also reflected in the indicator values, which are most different in the cases of Kazakhstan, Turkmenistan and Russia. Thus, the differing rankings and scores confirm the difference one would expect from the comparison of concepts in the first section of this chapter.

While WB rankings in 15 cases coincide with the rankings of another source, ten BF ratings are identical with other sources. The varying degrees of identical ratings shown in Table 9 do not correspond to the similarities in concept specification identified in the first section. That is, although BF and WB seek to measure a concept of governance that is more policy- and management-oriented than the input-related concept of FH, their ratings and rankings do not match each other more frequently than with the other two studies.

**Table 9**  
Patterns of identical ratings and rankings

|      | <b>WB</b> | <b>EBRD</b> | <b>FH</b> | <b>BF</b> |
|------|-----------|-------------|-----------|-----------|
| WB   |           | 7           | 2         | 8         |
| EBRD | 1         |             | 4         | 4         |
| FH   | 3         | 2           |           | 1         |
| BF   | 2         | 4           | 4         |           |

*Note: Figures in the top right corner denote the numbers of identical rankings, italicized figures in the bottom left corner are identical ratings.*

### 3. Executive changes and governance ratings

This section investigates how the ratings reflect the changes of executives in selected countries. Four countries were selected for the comparison: Bulgaria, Hungary, Serbia (previously called Serbia and Montenegro, Federal Republic of Yugoslavia) and Slovakia. They represent both an advanced transition country where only minor changes of executive configurations occurred in the period from 1996 and 2006 (Hungary) and countries that experienced major political changes in that period (Bulgaria, Serbia, Slovakia). This allows checking the sensitivity of the ratings with respect to small-scale and large-scale changes in governance.

To compare the ratings over time, Table 10 contains the raw indicator values for EBRD, FH and WB. Since there are no longer time series for the BF index, the comparison is confined to the three other studies and covers their editions between 1997 and 2006. Raw indicator values allow comparing the assessment of one country by one study over time, but are not well suited for a comparison among studies. Therefore, diagrams are plotted from the standardised governance ratings discussed in the previous section. The standardised FH ratings are inverted

so that the curves are intuitively comparable. As FH did not publish ratings in 2000 and WB published its scores only biannually until 2003, the missing indicator values for 2000 (FH), 2002, 2000 and 1998 (WB) are imputed by the values of the respective subsequent years. Since the time scale shown in the diagrams refers to the editions, one has to take into account that they represent governance-related events with a certain time lag. Due to the chosen approach of standardisation, the 0.0-value on the y-axis represents the average rating for the 27 CEEC.

**Table 10**  
Trajectories of governance in selected CEE countries, absolute scores

|                 | 1997  | 1998 | 1999  | 2000 | 2001  | 2002 | 2003  | 2004  | 2005  | 2006  |
|-----------------|-------|------|-------|------|-------|------|-------|-------|-------|-------|
| <b>Bulgaria</b> |       |      |       |      |       |      |       |       |       |       |
| WB              | -0.64 |      | -1.03 |      | -0.12 |      | 0.00  | -0.07 | 0.00  | 0.23  |
| EBRD            | 2.81  | 2.81 | 2.96  | 3.11 | 3.18  | 3.26 | 3.30  | 3.37  | 3.41  | 3.48  |
| FH              | 4.25  | 4    | 3.75  |      | 3.5   | 3.5  | 3.75  | 3.75  | 3.5   | 3     |
| <b>Hungary</b>  |       |      |       |      |       |      |       |       |       |       |
| WB              | 0.39  |      | 0.76  |      | 0.83  |      | 0.80  | 0.75  | 0.70  | 0.79  |
| EBRD            | 3.70  | 3.78 | 3.81  | 3.85 | 3.85  | 3.85 | 3.85  | 3.89  | 3.96  | 3.96  |
| FH              | 1.75  | 1.75 | 2.5   |      | 3     | 3    | 2.5   | 2.5   | 2     | 2     |
| <b>Serbia</b>   |       |      |       |      |       |      |       |       |       |       |
| WB              | -0.71 |      | -1.11 |      | -0.80 |      | -0.61 | -0.50 | -0.12 | -0.31 |
| EBRD            | 1.48  | 1.44 | 1.44  | 1.48 | 1.85  | 2.33 | 2.41  | 2.44  | 2.59  | 2.70  |
| FH              |       | 5    | 5.5   |      | 5.25  | 4.25 | 4.25  | 4     | 4     | 4     |
| <b>Slovakia</b> |       |      |       |      |       |      |       |       |       |       |
| WB              | 0.17  |      | 0.00  |      | 0.32  |      | 0.46  | 0.57  | 0.73  | 0.95  |
| EBRD            | 3.19  | 3.22 | 3.30  | 3.33 | 3.41  | 3.52 | 3.59  | 3.67  | 3.70  | 3.74  |
| FH              | 3.75  | 3.75 | 3     |      | 2.75  | 2.25 | 2.25  | 2.25  | 2     | 2     |

*Please note that lower FH scores, in contrast with EBRD and WB, denote better performance.*

For most years, the raw and standardised indicator values are roughly parallel. For *Bulgaria*, FH ratings improve from 1997 until 2002, reflecting the initiative taken by the government of Ivan Kostov to reform public administration. The FH country reports positively the adoption of laws on the state administration, civil service and public access to information. The 2003 FH rating is slightly worse, criticising that governments failed “to meet the expectations of Bulgarian society, particularly in the economic arena.” (Karatnycky, Motyl, and Schnetzer 2003, 185) The FH and EBRD ratings do not reflect the economic and government crisis of 1997; the EBRD rating only shows a decrease in relation to the region as a whole, whereas raw scores even rise from 2.33 (1995) to 2.81 (1997). In contrast, the WB ratings fall deeply below the regional average between 1997 and 1999.

The FH ratings for *Hungary* decline in parallel with the government of Viktor Orbán entering office. The 2001 report criticises the government's attempts to shift power from the parliament to the executive (Karatnycky, Motyl, and Schnetzer 2001, 201-202). In the following report, Hungary's governance rating is downgraded further, arguing that the Orbán government reduced the time for parliamentary deliberation, adopted a two-year budget, rejected opposition attempts to set up investigative committees and sought to partially replace the parliament's legislative functions with government decrees (Karatnycky, Motyl, and Schnetzer 2002, 203). Contrary to FH, the WB ratings decrease only slightly from 2000 to 2004, suggesting that the effectiveness of the government did not decline significantly. The EBRD ratings increase, but decrease compared to the regional average.

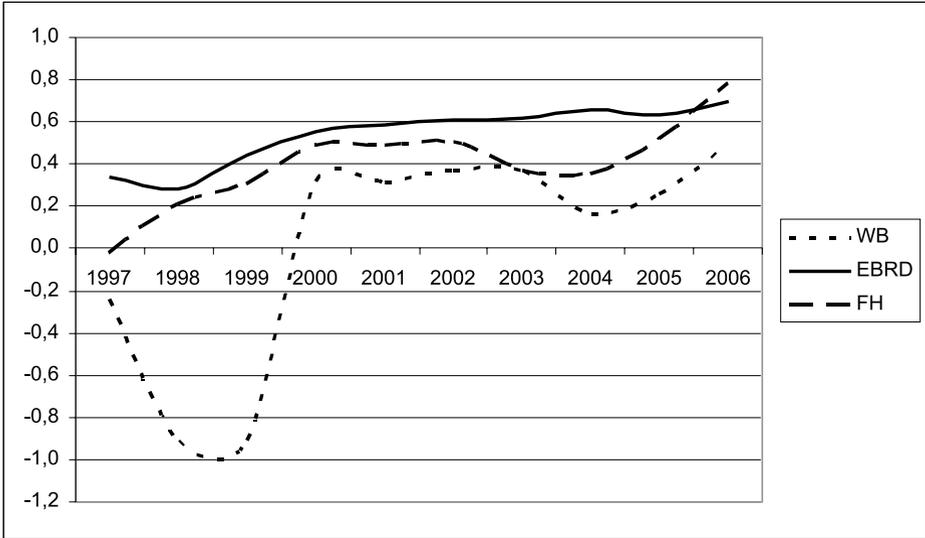
In the case of *Serbia*, all three ratings show a clear upward trend between 2000 and 2003, depicting the reforms launched after the fall of Milosevic in October 2000. In the case of the FH and EBRD ratings, the increase is particularly steep between 2000 and 2001, but slows down from 2002 to 2003. The FH report explains this with the unresolved power struggle between the late Serbian Prime Minister, Zoran Djindjic and the Federal President, Vojislav Kostunica. The EBRD assessment from 2001 reflects the liberalisation of prices and of foreign trade, and the following year's increase is mainly due to the progress in privatising and restructuring large enterprises.

For *Slovakia*, the EBRD ratings are fairly constant and at a high level, indicating the advanced stage of economic transformation in Slovakia, similar to Hungary. However, the fact that Slovakia and Hungary are approaching the top of the scale (4.3) also implies that the EBRD scale is becoming a less appropriate instrument to differentiate among these countries. For Slovakia and Hungary, the WB ratings appear to be largely in line with the other two ratings. The synthetic approach of the WB rating does not allow substantiating the year-to-year changes with verbal explications referring to the factual changes behind the alteration of the figures, a restriction that renders the WB indicator less useful for in-depth comparisons of small groups of countries. In the case of *Slovakia*, the improvement of the FH rating between 1999 and 2002 expresses the reforms launched by the government of Mikulas Dzurinda, including, inter alia, the preparation of legislation to decentralise public administration and to create regional self-government.

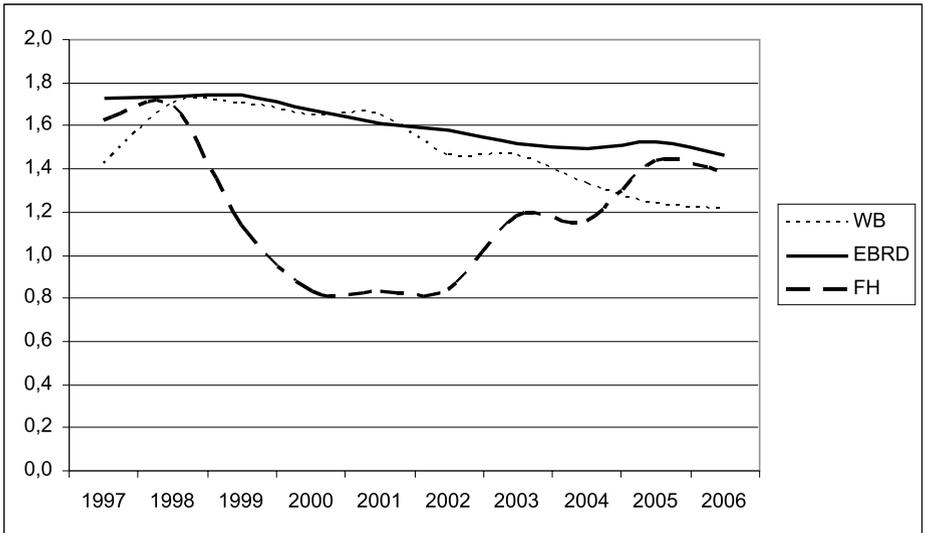
Figures 1 – 4

Trajectories of governance in selected CEE countries, standardised scores

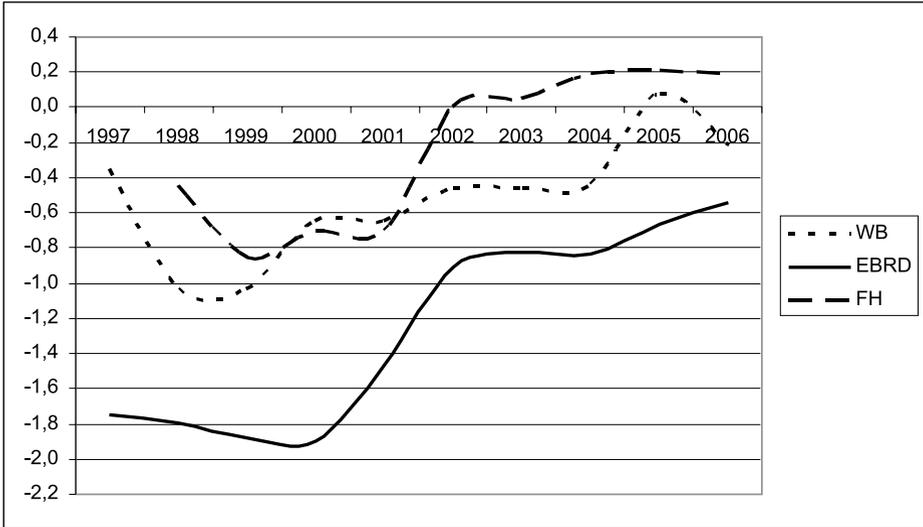
Bulgaria



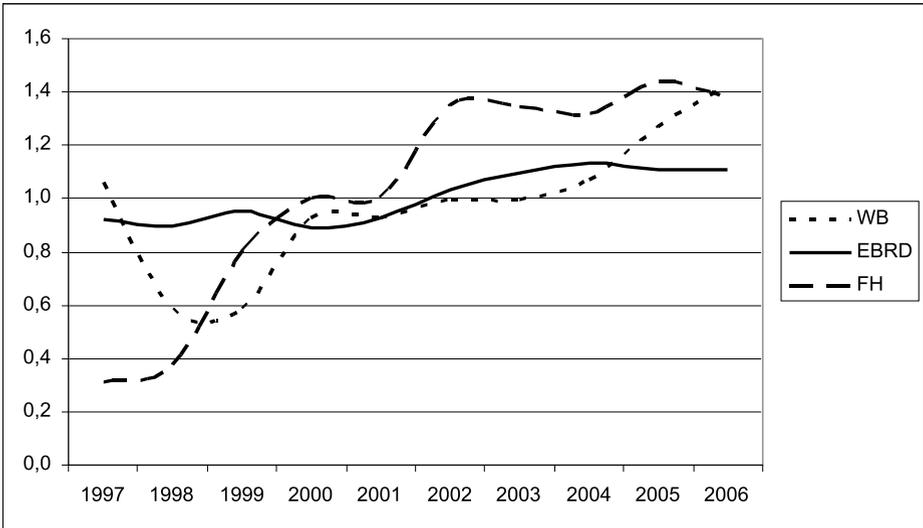
Hungary



Serbia



Slovakia



**Conclusion**

The present comparison of the four different governance ratings has shown that they represent different underlying concepts, which is most obvious in the case of the EBRD's focus on economic reforms. But also, the other three ratings exhibit conceptual differences, ranging from WBI's concern with effectiveness over the BF's focus on political elites to the merging of input and output aspects in

the FH study. If the approaches to measurement and aggregation are compared, further marked differences emerge, although all four ratings are ultimately based on expert assessments.

Given this variety, it is somewhat surprising that the ratings produce scores that are highly correlated with each other and can be reduced to one component. This suggests that the four ratings measure aspects of a single empirical phenomenon. The country-by-country comparison of the standardised scores confirms this finding insofar as 16 of 27 CEEC were ranked equally, and 14 CEEC were rated roughly equally by at least two studies. These empirical similarities and associations imply that each of the ratings can be used as a tool to measure governance with a fairly high degree of validity. This impression is underpinned by the in-depth analysis of the ratings for the four selected CEEC that has found the ratings able to adequately capture major changes of government.

But this case-based validation has also noted divergences among the scores for some countries and at some points of time, while it was difficult or impossible to find a convincing explanation for this divergence in the conceptualisation, operationalisation or empirical data selection of the studies. These observations and the high aggregate correlations also indicate that the ratings are not differentiated and specific enough to recognise those particular features of governance that one would expect the respective theoretical concepts to capture. Critics may thus conclude that “the huge cultural diversity in ways of organising a government leaves us with just broad subjective evaluations and many service-specific objective performance indicators to do the job.” (Van de Walle 2005, 30).

Such a critical verdict is, however, not fully justified by the validation tests in this chapter. The disaggregated comparison of standardised scores has revealed that the EBRD ratings provide more distinct, profiled evaluations, due to their focus on economic reforms. The World Bank Institute’s Governance Indicators turn out to be the most mainstream assessment in terms of their aggregate correlation and the number of rankings coinciding with other studies. This feature may be an advantage for analysts who intend to closely align their assessment with the mainstream of other assessments. But the drawback of the WB indicators is that given indicator values cannot be traced back to an underlying rationale or line of reasoning. Aggregating different source indicators, whose composition varies over time and across countries, leads to conceptual imprecision, uncertainty and inconsistency (Knack 2006, 18 – 19). Analysts who prefer to understand the reasons why a particular country was rated better or worse should thus rely on BF or FH with their underpinning verbal country reports. While FH entails longer time series, BF conceives “management” as a composite indicator and thus enables analysts to use disaggregate indicators to adapt and reconstruct their own governance indicators.

Future research will not only aim at refining empirical indicators or improving measurement methods, but will also require conceptual improvements. Compared to the field of democracy measurement with its increasingly elaborate concepts

and operationalisations, the limited precision and sensitivity of the governance ratings studied in this paper seems largely due to the vagueness of governance as a theoretical concept. Although some conceptualising efforts have been made by the governance ratings studied here, mainly by the WB and BF studies, the components of the concepts still reflect predominantly inductive approaches and lack conceptual integration. More research is needed to clarify the relationship between executive configurations, their associated patterns of governance and the operational indicators facilitating a comparative assessment of these patterns. Yet this is a challenge not only for raters, but also for scholars of comparative politics.

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**Annex: Source indicators and standardized scores used for the WB “Government Effectiveness” indicator**

| Source   | Albania | Armenia | Azerbaijan | Belarus | Bosnia and Herz. | Bulgaria | Croatia | Czech Republic | Estonia | Georgia | Hungary | Kazakhstan | Kyrgyzstan | Latvia | Lithuania | Macedonia | Moldova | Poland | Romania | Russia | Serbia and Mont. | Slovakia | Slovenia | Tajikistan | Turkmenistan | Ukraine | Uzbekistan |
|--|---------|---------|------------|---------|------------------|----------|---------|----------------|---------|---------|---------|------------|------------|--------|-----------|-----------|---------|--------|---------|--------|------------------|----------|----------|------------|--------------|---------|------------|
| No. of sources   | 8       | 9       | 10         | 8       | 8                | 9        | 10      | 11             | 11      | 8       | 12      | 10         | 9          | 10     | 10        | 10        | 12      | 12     | 12      | 10     | 10               | 11       | 10       | 9          | 6            | 11      | 9          |
| World Bank: Business Enterprise Environment Survey                   | 0.63    | 0.76    | 0.86       | 0.92    | 0.77             | 0.88     | 0.91    | 0.70           | 0.90    | 0.67    | 0.89    | 0.89       | 0.88       | 0.86   | 0.88      | 0.76      | 0.84    | 0.84   | 0.68    | 0.87   | 0.80             | 0.90     | 0.93     | 0.78       | x            | 0.88    | 0.84       |
| Bertelsmann Foundation: Bertelsmann Transformation Index             | 0.49    | 0.49    | 0.25       | 0.23    | 0.45             | 0.71     | 0.78    | 0.60           | 0.83    | 0.58    | 0.79    | 0.38       | 0.33       | 0.75   | 0.80      | 0.54      | 0.27    | 0.72   | 0.68    | 0.37   | 0.51             | 0.86     | 0.91     | 0.32       | 0.08         | 0.44    | 0.12       |
| Global Insight: Global Risk Service                                  | 0.64    | 0.66    | 0.50       | 0.52    | 0.48             | 0.79     | 0.85    | 0.81           | 0.92    | 0.71    | 0.90    | 0.74       | 0.35       | 0.88   | 0.91      | 0.62      | 0.45    | 0.88   | 0.81    | 0.83   | 0.54             | 0.85     | 0.92     | 0.43       | 0.47         | 0.72    | 0.34       |
| Brown University's Center for Public Policy: Global E-Governance     | 0.28    | 0.24    | 0.24       | 0.24    | 0.29             | 0.24     | 0.24    | 0.81           | 0.32    | 0.21    | 0.24    | 0.23       | 0.23       | 0.27   | 0.26      | 0.32      | 0.28    | 0.26   | 0.26    | 0.24   | 0.28             | 0.28     | 0.29     | 0.20       | 0.20         | 0.26    | 0.24       |
| Freedom House: Nations in Transition                                 | 0.46    | 0.33    | 0.17       | 0.04    | 0.38             | 0.58     | 0.58    | 0.29           | 0.79    | 0.25    | 0.83    | 0.08       | 0.17       | 0.79   | 0.75      | 0.50      | 0.21    | 0.75   | 0.58    | 0.21   | 0.46             | 0.83     | 0.83     | 0.17       | 0.00         | 0.33    | 0.08       |
| World Economic Forum: Global Competitiveness Report                  | 0.36    | 0.45    | 0.46       | x       | 0.39             | 0.44     | 0.53    | 0.75           | 0.63    | 0.37    | 0.59    | 0.51       | 0.36       | 0.55   | 0.57      | 0.46      | 0.39    | 0.50   | 0.51    | 0.45   | 0.39             | 0.54     | 0.60     | 0.38       | x            | 0.44    | x          |
| World Bank: Country Pol. and Inst. Assessments                       | 0.50    | 0.65    | 0.50       | 0.48    | x                | x        | 0.64    | 0.64           | x       | 0.53    | x       | 0.40       | x          | x      | x         | 0.43      | 0.43    | x      | x       | 0.50   | 0.50             | x        | 0.38     | x          | x            | x       | 0.35       |
| Political Risk Services: International Country Risk Guide            | 0.50    | 0.25    | 0.25       | 0.25    | x                | 0.50     | 0.75    | 0.75           | 0.63    | x       | 0.75    | 0.50       | x          | 0.63   | 0.63      | x         | 0.25    | 0.75   | 0.25    | 0.25   | 0.50             | 0.75     | x        | x          | x            | 0.50    | x          |
| Global Insight: Business Conditions and Risk Indicators              | 0.38    | 0.63    | x          | 0.31    | 0.44             | x        | 0.69    | 0.81           | 0.81    | 0.50    | 0.75    | 0.38       | 0.38       | 0.69   | 0.81      | 0.44      | 0.50    | 0.75   | 0.56    | 0.50   | 0.50             | 0.81     | 0.81     | 0.25       | 0.19         | 0.44    | 0.31       |
| Merchant International Group: Grey Area Dynamics                     | x       | 0.25    | 0.25       | 0.10    | 0.20             | 0.30     | 0.35    | 0.40           | 0.55    | 0.20    | 0.35    | 0.15       | 0.30       | 0.40   | 0.40      | 0.20      | 0.25    | 0.35   | 0.30    | 0.20   | 0.25             | 0.40     | 0.50     | 0.20       | 0.20         | 0.45    | 0.20       |
| Asian Development Bank: Country Pol. and Inst. Assessments           | x       | x       | 0.47       | x       | x                | x        | x       | x              | x       | x       | x       | 0.40       | x          | x      | x         | x         | x       | x      | x       | x      | x                | x        | 0.43     | x          | x            | x       | 0.40       |
| Economist Intelligence Unit: Country Risk Service                    | x       | x       | 0.00       | x       | x                | 0.25     | 0.38    | 0.50           | 0.50    | x       | 0.50    | 0.00       | x          | 0.50   | 0.50      | 0.25      | 0.00    | 0.50   | 0.13    | 0.13   | 0.25             | 0.50     | 0.50     | x          | x            | 0.00    | 0.00       |
| Institute for Management Development: World Competitiveness Yearbook | x       | x       | x          | x       | x                | x        | x       | 0.38           | 0.53    | x       | 0.43    | x          | x          | x      | x         | x         | x       | 0.23   | 0.29    | 0.30   | x                | 0.55     | 0.34     | x          | x            | x       | x          |
| Business Environment Risk Intelligence: Business Risk Service        | x       | x       | x          | x       | x                | x        | x       | x              | x       | x       | 0.43    | x          | x          | x      | x         | x         | x       | 0.40   | 0.35    | 0.40   | x                | x        | x        | x          | 0.33         | x       |            |

*x = missing value.*



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