

BUILDING EFFECTIVE, ACCOUNTABLE, AND INCLUSIVE INSTITUTIONS IN EUROPE AND CENTRAL ASIA

Lessons from the Region



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June 2020



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Abbreviations and Acronyms

CIT	Corporate income tax	KPI	Key performance indicator
CPIA	Country Policy and Institutional Assessment	M&E	Monitoring and evaluation
CSO	Civil society organization	NGO	Nongovernmental organization
DFID	United Kingdom Department for International Development	OECD	Organisation for Economic Co-operation and Development
EC	European Commission	PFM	Public financial management
ECA	Europe and Central Asia	PPP	Public-private partnership
EITI	Extractive Industries Transparency Initiative	SDG	Sustainable Development Goal
EU	European Union	SOE	State-owned enterprise
GDP	Gross domestic product	SIGMA	Support for Improvement in Governance and Management
GRB	Gender-responsive budgeting	UN	United Nations
IBP	International Budget Partnership	UNDP	United Nations Development Programme
ICT	Information and communication technology	VAT	Value-added tax
IDA	International Development Association	VfM	Value for money
IMF	International Monetary Fund	WB	World Bank
IT	Information technology		

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Foreword

Governments and citizens around the world recognize that “good governance” is essential for development. In fact, this conviction is reflected in the definition of the Sustainable Development Goals, which emphasize the need to promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels.

On the one hand, this is perhaps easier to do today than at any other point in history. The advances in technology that allow us to gather and process data instantaneously are changing relationships in societies, including those between public institutions and citizens. Real-time access to information can lead to better-informed citizens, and the role that governments once held as the central repository of information – and with this the privilege to act (or not) on that information – is eroding. The democratization of information is changing expectations and perceptions of public institutions, as well as the social contract upon which societies are built. More horizontal relationships are replacing the once very vertical relationships between governments and citizens, opening the space for new opportunities to better serve people and to demonstrate institutional effectiveness. Transparency and contestability are thus strengthened.



Cyril Muller

Vice President
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On the other hand, governments must respond to citizens’ higher expectations with limited public resources. And when these expectations are not met, governments face discontent and diminishing trust in institutions. How should societies organize themselves in the digital age to deliver goods and services in the most effective way,

while responding to the expectations of a growing middle class in many countries of the Region?

Although the World Bank doesn’t hold the secret ingredient to solve this equation, we’re aware that many of the building blocks of the equation are known. We know, for instance, that effective institutions are critical for economic growth. Where good governance prevails, economic growth is more likely. The *2017 World Development Report on Governance and the Law* shows a clear positive correlation between aggregate measures of governance and per capita income across countries. This is consistent with international evidence, which shows a clear and positive correlation between strong institutions and economic growth, and between strong institutions and investor confidence.

We also know that when citizens can exercise their right to participate and access public information, they can become part of the solution. In country after country we see the benefits of citizen engagement and social accountability. Rather than establishing antagonistic relationships, governments, citizens, and businesses can find ways for collaboration, making positive development outcomes more likely. Building more inclusive societies can accelerate economic and sustainable growth.

Accountable and transparent institutions can also foster innovation. According to the World Economic Forum, weak institutions continue to hamper competitiveness. In contrast, open societies provide greater chances for intellectual development and the emergence of new ideas, and they are positively correlated with the dissemination of knowledge spillovers and enhanced competition.

The quality of public administration in general and the capacity to deliver effective services also have a direct impact on citizens’ levels of satisfaction, and on the trust citizens have in their institutions. This finding is consistent across the whole

Region, regardless of income levels. A mother who wants to vaccinate her child needs to trust that the vaccine will be effective. An entrepreneur who decides to create a new company expects that property rights will be respected and that he will receive fair treatment under the law. For us in the World Bank, we see governance at the center of the development agenda because our mission is to end extreme poverty and foster shared prosperity. When institutions are not effective, all citizens suffer, but especially the poor, who depend most on the provision of public services. When institutions are not inclusive, large segments of societies are excluded – a situation that can create social discontent. When accountability is weak, the social contract – the “glue” that keeps societies together – suffers as commitments become less credible and trust in public institutions is eroded.

Over the last decade, countries in Europe and Central Asia have made major strides in strengthening governance. In *Albania*, through the implementation of a Citizen-centric Service Delivery Project, the country was able to improve the quality of public services against customer-care standards and reduce the scope for corruption. In *Moldova*, the Expert-Group – a civil society organization with the support of the Global Partnership for Social Accountability – organized parent and student engagement in planning and managing school resources in 80 schools, reaching over 50,000 students. More than 1,200 school administrators, teachers, parents, and mayors, organized in local coalitions, are holding school administrations accountable by participating in public hearings, monitoring school budget spending, and completing community scorecards. This approach is being scaled up to all schools in the country. In *Armenia*, through the implementation of an effective Tax Administration Reform Program, 96 percent of tax services and documents are

processed and filed electronically, significantly reducing the time for tax payments from 581 hours to 268 hours. As a result, the Tax Administration Agency increased tax collection from 16 percent to over 20 percent of GDP. In *Azerbaijan*, with the support of the World Bank, the country’s busiest court began piloting an automated system for reducing the time it took to process cases while also eliminating the possibility of human error. By partnering with several banks and a mobile phone operator, uncontested cases are now processed in one day or less by the automated system. Fast-tracking uncontested cases through the automated system freed up judges’ time to focus on litigating more complex and demanding cases.

The challenges facing countries today require new approaches for building institutions that can respond to the demands of informed citizens. Today, more than at any point in the past, governments are expected to be able to effectively provide services in a transparent and inclusive way and share data and results virtually instantaneously. Civil society is constantly exploring ways to use technology to better represent the voices of citizens and hold public sector institutions accountable. The private sector must respond to increasing pressure from clients, governments, and citizens to produce goods and services that are socially responsible and environmentally sustainable.

This major shift in accountability, in which the burden of proof is increasingly on the providers of services – whether public or private – means that achieving and sustaining good governance will require adaptive institutions.

Respectfully,

Cyril Muller





Introduction

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Practice Manager for Europe and Central Asia (West)
Governance Global Practice at the World Bank

Countries around the world are facing the need to build effective, accountable, and inclusive institutions. There has never been a more important moment to tackle this agenda, as countries grapple with increasing fragility and migration flows, more complex service delivery requirements, and greater demands for transparency and inclusion, all in a more resource-constrained environment. Moreover, the COVID-19 pandemic crisis has provided new evidence of the need for effective, accountable, and inclusive government responses. Governments' capacity to respond to these complex challenges is understandably stretched, but this has not limited the rise of citizens' expectations. Instead, it has often increased tensions and, in some cases, has affected the trust between governments and their citizens.

Effective institutions are critical for ensuring the coverage and quality of service delivery—a critical part of eliminating poverty and fostering shared prosperity. Institutions must also be *accountable*, to ensure that public expenditures are of good quality and opportunities for corruption are minimized. Thus accountability is fundamental for establishing well-functioning democracies and building the necessary trust in public institutions. Finally, *inclusive* institutions are essential for ensuring that everyone in society can benefit from economic growth and sustainable development.

The governments of Europe and Central Asia (ECA) countries are sophisticated reformers whose public sector officials have a notably strong technical capacity; however, it is also true that reform outcomes are often constrained by nontechnical factors. Aspiring or current European Union (EU) members face pressure to live up to EU norms of good governance.

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Other countries must overcome deep-seated governance weaknesses, such as those related to a long period of one-party rule; and some have undertaken radical institutional transformation, such as from parliamentary to presidential rule or toward federalism.

Overall, ECA has made remarkable progress toward good governance, but there have been failures that have added to perceptions of poor-quality services, corruption, and clientelism. Notably, many of ECA's middle- and higher-income countries should have been better equipped to respond to rising citizen demands. Instead, larger revenues were not used with the required efficiency and quality of spending to keep pace with higher demand for public services. Weak economic growth in the aftermath of the past decade's financial crises further constrains countries' fiscal capacity to improve infrastructure and public services. While private sector provision of essential services and innovation could help fill this gap, many countries lack the conducive investment climate or institutional arrangements necessary to foster effective partnerships.

The World Bank's Governance Global Practice has been supporting reforms across the region in collaboration with development partners, using three complementary and mutually reinforcing engagements to help bridge the accountability and implementation gaps and restore trust. It engages first through research and analytical work to understand the underlying factors that can influence policymaking and effective implementation; second, through policy dialogue with decision-makers in governments, members of civil society, and the private sector to open the channels of communication and ensure tailored solutions that meet the needs of diverse groups; and finally,

through funding and technical assistance for the design, implementation, and evaluation of public policies.

To understand the success factors that could shape the future of ECA's governance agenda, the World Bank joined forces with the region's governments and leading development partners—the United Kingdom Department for International Development (DFID), the European Commission, Support for Improvement in Governance and Management (SIGMA, a joint initiative of the Organisation for Economic Co-operation

and Development—OECD—and the EU), UN Women, and the Asian Development Bank — to organize ECA's first Regional Governance Conference, held June 11-12, 2019, in Ankara, Turkey. This book shares the critical lessons discussed at the conference by the more than 500 participants from government, international development partners, academia, the private sector, and civil society. But even more, it captures the shared commitment to expand governance reforms and outlines a regional agenda to achieve effective, accountable, and inclusive institutions.

Overview

This publication builds on the World Bank's vast engagement across ECA and on the 2019 Regional Governance Conference. It consists of six chapters, each corresponding to one of the governance areas around which governments across the world organize their institutional functions. Each chapter contains background and analysis by World Bank specialists, complemented by country case studies authored by regional experts and policymakers (and a few Results Briefs, constructed by World Bank staff from presentations made at the Regional Governance Conference).

Chapter 1, Strengthening Public Policy Processes, discusses how societies find ways to determine national priorities and engage in effective and inclusive policy formulation and coordination to address the needs of their people. A strong public policy process is characterized by certain success factors: it should be demand- and user-driven, and developed dynamically and collectively, and it should create sustained value-added for social and economic prosperity. Because the policy process is by nature public, it requires the systematic engagement of different levels and sectors of the public administration with citizens, the private sector, media, state agencies, and other relevant stakeholders. The process starts upstream with the informed and transparent identification and prioritization of public issues and the development of a participatory strategy that considers not only the end-users, but also the sectors and constituencies that could bring innovation and add value, as well as the need for continuity of ownership, support, and coordination among the political leadership. This collective action approach can enable more

creative and productive solutions to the provision of public goods, reframe the role of citizens, and improve the alignment of policies to outcomes such as the Sustainable Development Goals (SDGs). Fostering a culture of pride in public service delivery and investing in human capital are also essential for effectiveness, and for creating public trust and confidence.

This chapter explores how better coordination and cooperation, not only within the executive branch but also across stakeholder groups, can result in improved processes of formulating and implementing public policies. Four country case studies are featured:

- Lithuania: a three-step process for government planning focused on prioritization, leadership, and ownership.
- Azerbaijan: a productivity- and results-based model focused on smart performance indicators.
- Albania: using gender-responsive budgeting as a basis for policy formulation.
- Romania: a regulatory impact assessment centered around public policy planning, coordination, and design, and an improved regulation strategy.

Chapter 2 addresses the issue of Managing Public Resources Effectively. Effective public resource management depends on strengthening core government systems in four areas: revenue mobilization, public financial management, procurement, and public administration. Especially important is to manage public resources—both people and money—in a strategic, transparent, and accountable way.

Many ECA countries have made progress in domestic resource management to ensure predictable public financing for economic and social priorities and for attaining fiscal sustainability. Most have advanced various reforms, but while revenue collection is high compared to most developing regions, ECA countries still have a long way to go to bring their tax policy and administration to OECD levels of equity and efficiency. “Second generation” tax reforms are now required, addressing such issues as (a) VAT productivity, which is generally low because of fraud and evasion; (b) informality; and (c) inefficiencies in tax administration systems, which continue to hinder effective tax enforcement.

Public financial management (PFM) is concentrated on the laws, rules, systems, and processes used by governments (and subnational governments) to mobilize revenue, allocate public funds, undertake public spending, account for funds, and obtain audit results. As ECA countries seek to transform expenditure plans and budgets into final audited government accounts, the key reform areas they contemplate (or have already introduced) are medium-term expenditure frameworks, unified budgets, program and performance budgeting, integrated financial management information systems, and accrual accounting. Going forward they will need to consider such overarching PFM trends as automation, new management practices, and devolution of responsibilities to line ministries and agencies.

The principles of good procurement are economy and efficiency, fair competition, transparency, and growth in domestic markets, but they can also be leveraged to support other policy objectives, such as support for small and medium, environmentally friendly, and women-led enterprises. In ECA, while countries’ execution of procurement legislation is quite good, further effort is required to move beyond process to strengthen planning and contract management, use of electronic procurement and contract data, collaborative procurement arrangements, and the overall integrity of public procurement.

Public administration reforms have also advanced in ECA to boost public sector organizational and individual performance; however, performance measurement – targeting, selecting indicators, collecting data, and analyzing data – is still a matter of concern. Data are needed to measure and assess which parts of the public sector are performing well,

which require improvement, and whether reforms have an impact. Creating an organizational culture that is receptive to performance information and a workforce that is capable of creatively handling such data is a prerequisite for public administration innovations and reforms. The sustainability of these reforms and innovations should be a constant point of attention for policymakers.

The chapter reflects on the current public resource management situation in ECA as compared to other regions and income groups (such as OECD countries) and explores different reform options, such as simplified administration and performance-based incentives. The following country case studies are featured:

- Poland: tax administration reforms to improve legal and regulatory frameworks, accelerate systemic changes, and reverse revenue losses due to large-scale fraud.
- Bulgaria: implementation of a shared administrative services program to simplify and improve efficiency, cost-effectiveness, and timeliness in the delivery of public administrative services.

Chapter 3 tackles the Governance of Service Delivery. There is an increasing need to make service delivery more effective, reaching all segments of the population with high quality – a necessary condition for building trust. As ECA governments seek opportunities to improve their service delivery and citizen confidence, there is no single blueprint for reform. However, some elements have proven critical: accountable, capable, and inclusive institutions, supported by a strategic vision; sufficient political and financial capital; investment in digital technology; and monitoring and evaluation mechanisms to track progress and make course corrections. Experience shows that relatively small investments can bring large social, economic, and fiscal payoffs.

This chapter explores innovations in strengthening government delivery systems through procedural streamlining, digital technologies, improved public financial and human resource management, and enhanced citizen accountability and responsiveness. Three country case studies are featured:

- Albania: a shared services and digitization reform to the public service delivery apparatus to address inefficiencies, rent-seeking, and excessive procedures.

- Azerbaijan: an extensive justice reform process, from the adoption of a new constitution to establishment of an e-court infrastructure, while also developing unified standards.
- Italy: introduction of innovative framework agreements in centralized procurement.

Chapter 4, on Public-Private Collaboration and Economic Governance, presents alternative ways to ensure the productive relationship between government and the private sector that is needed for producing sustained growth and providing opportunities for all. Governments should consider the entire toolbox of the public-private interface to scale up the investment in critical public services and infrastructure. Private market operations, market participation by state-owned entities (SOEs), concessions, public-private partnerships (PPPs), and public investments are all instruments in a large toolbox for effective collaboration between the public and private sectors. The selection of tools should be based on clearly formulated policies, applying value-for-money principles, while also being affordable to users and the public purse in a sustainable manner, and subject to cost-benefit analysis.

A proper public-private interface allows the public and private sectors to work in tandem, addressing significant gaps in infrastructure, building effective mechanisms for service delivery. Building frameworks that allow for such an effective collaboration between the state and private sector requires proper legislation, capacity, and trust between the actors.

Effectiveness, transparency, and accountability must be central to the way the public-private interface operates. Any mechanism selected – including PPPs and investments via SOEs – should be properly managed, allowing the government to act as an active and professional owner of the country’s resources and to ensure affordability, value for money, and integrity. To be effective owners, governments must minimize the risk of failure by properly preparing and planning investment arrangements, assessing risks and benefits, and searching for optimal solutions.

Governments should limit their interventions to sectors where state presence is necessary, while establishing a level playing field for keen market competition in all other sectors. Government interventions should also be limited to the country’s strategic priorities or to addressing market failures.

Entities that remain in state ownership should be required to operate on market terms, adhere to established corporate governance practices, and apply appropriate accountability rules. SOEs should be expected to meet a high standard of transparency and accountability and should be allowed to operate as independently as possible on a commercial basis without political interference. Proper corporate governance practices require that SOEs have professional boards of directors that work to build strong companies with motivated management, better performance, proper risk management, sound internal control, and improved economic accountability.

Working to implement these principles requires significant political commitment, administrative capacity, and patience. While the costs of reform are often easily identified, the benefits usually take longer to appear, and the public beneficiaries may be less vocal than rent-seeking special interest groups. Experience shows that this is an area where substantial cross-fertilization from other countries is of benefit. While one size doesn’t fit all, lessons can surely be learned, and mistakes avoided. In this context, regional policy dialogues and peer learning become critical and should be encouraged.

This chapter reviews the role of governance and the public administration in attracting private sector investments in public goods and improving the quality of collaborations. These country case studies are featured:

- Turkey: PPPs to support efficiency in infrastructure investments.
- Lithuania: measures to address low returns on state-owned assets.
- Uzbekistan: reform and privatization of SOEs to boost the economy.
- Ireland: transformation of a PPP program.

Chapter 5 discusses Drivers and Enablers of Policy Effectiveness, starting with a discussion on how to make policies and services more effective and what main elements societies need to consider when planning and implementing reforms. The identification of societal problems, the formulation of policies to address these issues, the allocation of resources across competing demands, and the implementation of specific solutions do not happen in a vacuum. The ultimate acceptance and impact of these measures will be determined by a multitude of underlying political economy factors. Fostering competition in markets and in politics

is crucial, as are measures to ensure that financial systems are transparent and accountable. Yet even these well-accepted interventions designed to address state capture—one of ECA’s most pernicious challenges—and enhance transparency or competition are likely to fail if the context and political economy are not taken into consideration. Global evidence suggests that understanding and analyzing the political economy, supporting locally owned development strategies, and using “politically smart” approaches to reform can be more effective in the long run than “best practice” fixes to institutions, laws, and policies. Success requires a clear theory of change based on home-grown solutions and strategies to navigate the vested interests that stand to lose out as a result of transparency. Similarly, innovations in data and technology provide opportunities to change the nature of the debate and so advance transparency, but they also hold clear risks.

This chapter explores the political economy factors that underlie reform processes, including overcoming state capture and rent-seeking, building government accountability and capability, and delivering incentive-compatible reforms. Case studies featured:

- Azerbaijan: transparency in extractive industries to build stakeholder dialogue, increase trust in government, and improve the investment climate.
- Ukraine: stakeholder engagement and the introduction of punitive measures to address corruption.
- Western Balkans: public administration reform as witnessed by civil society organizations in the context of EU integration.
- Kosovo: a reform package of laws on public administration reform, government, and inspections to address clientelism and corruption.

Finally, *Chapter 6* focuses on the Promise of GovTech and how technology can support all public sector efforts, discussing both the advantages and risks associated with technology.

Governments face many disruptive technological challenges to their traditional governance systems and are realizing the importance of managing technology responsibly: with integrity, authenticity, and accountability. No aspects of governance will remain untouched by the unfolding impact of technological advancements. Artificial Intelligence can process copious amounts of information and assist human decision-making while reforming mundane and manual processes with decision automation. Quantum systems disrupt computation with unprecedented speed and scale, while distributed ledger technology enables alternative currency markets that act as a hedge against fiat in unstable economies and in parallel provide distributed accounting systems that are revolutionizing central banking, health care, procurement, agriculture, and logistics in both the private and public sectors.

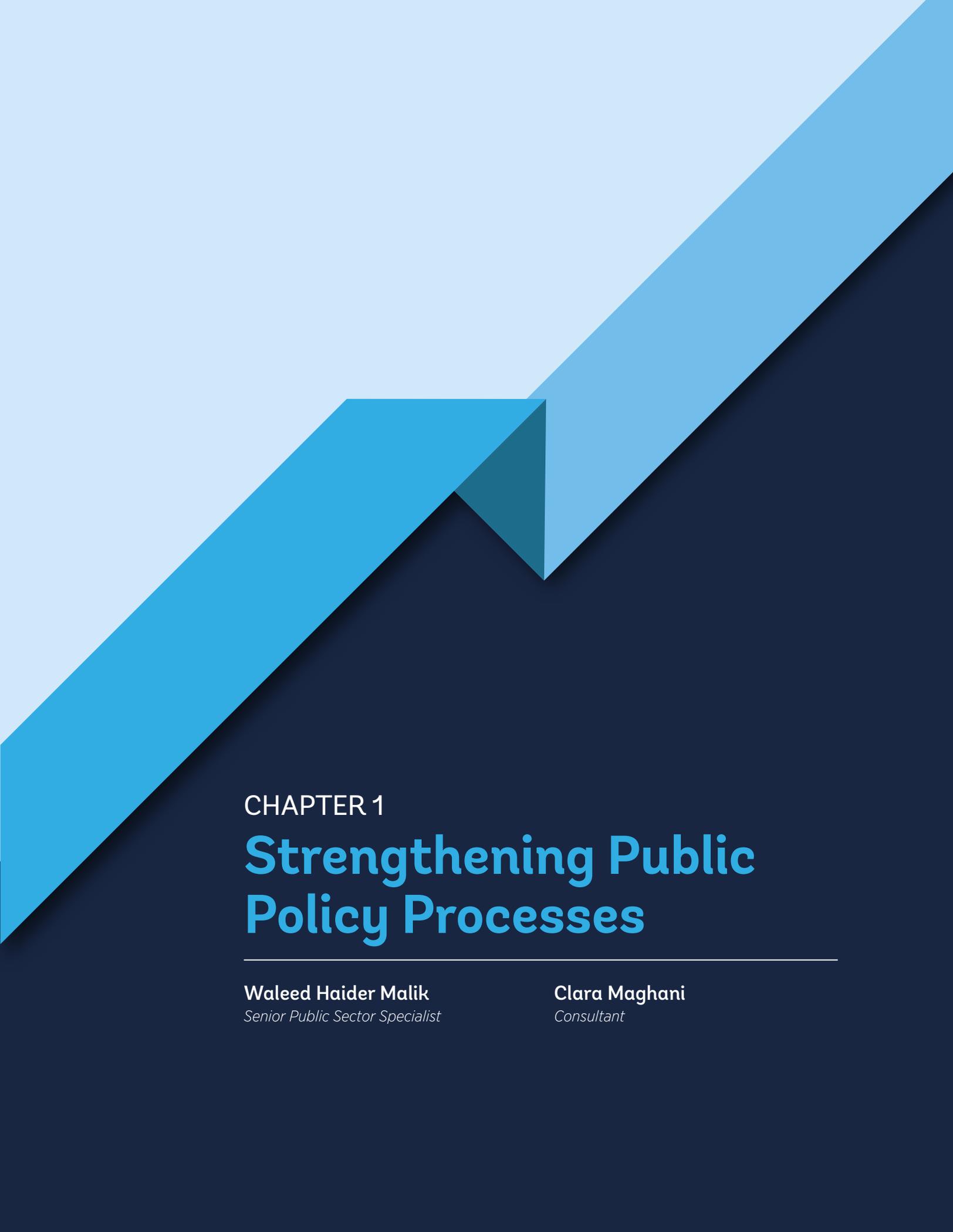
For governments to harness this technological acceleration in a practical way, policy reform and commitment must be at the forefront of the discussion. Long-term thinking and engagement with the private sector will be needed to bring about more holistic technology applications for the benefit of society.

This chapter explores the transformative power of digital technologies in reform processes to facilitate data-driven policymaking, thus strengthening core government systems, increasing the efficiency of service delivery, and improving transparency and accountability. The following case studies are featured:

- Turkey: a reform of the public procurement system, from the establishment of the Public Procurement Authority to the passing of the Public Procurement Law and the Electronic Public Procurement Platform.
- UK: a digital transformation of the public sector.
- Moldova: replacement of antiquated public services with an e-Transformation strategy to improve access to modern online services with e-signatures.



Debate in the House of Commons of the United Kingdom, London, UK.
Photo: ©UK Parliament/Jessica Taylor



CHAPTER 1

Strengthening Public Policy Processes

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This chapter investigates the nature and complexity of the public policy process, drawing on experiences from the ECA region to identify opportunities for improvement in both the process and its outcomes. After proposing a definition of the public policy process, the chapter lays out various problems that need to be addressed from the early stage of issue

identification to policy formulation and discusses the gaps that may exist between intent and the results ultimately achieved. This chapter then proposes ways to strengthen the public policy process for a positive impact on economic and social development, shares international examples of attempts to improve public policy processes, and extracts lessons learned.

I: The Process of Public Policy

Public policy can be described as a cyclical process by which governments translate their political vision into programs and propositions to deliver outcomes.¹ It is typically reflected in a set of laws, regulations, and services that a state offers as a public good to its citizens² and that provide a solution to a policy problem, that is to say, a dissatisfaction regarding a certain need, demand, or opportunity for public intervention.³ Ultimately, public policy aims to boost economic performance, protect citizen rights, promote public service delivery, and achieve desired development outcomes and results through successful implementation.

While public policy is typically a domain of nations, it can also be developed at the international and regional levels to set global and regional goals. For example, the United Nations (UN) 2030 Agenda for Sustainable Development, which was adopted by all UN member states in 2015, provides a shared policy and strategy for peace and prosperity and calls on each member state to act accordingly at the national level. At the heart of the 2030 Agenda are the 17 Sustainable Development Goals (SDGs), which address 17 policy areas⁴ ranging from eradicating poverty to good health; education; decent work

and economic growth; responsible consumption and production; peace, justice, and strong institutions; climate action; and the preservation of oceans and forests. At the regional level, the European Union (EU)—the political and economic union of 27 member states—sets out regional policy agendas and strategies that member states approve and then implement at the national level.

What does public policy entail? If public policy is viewed as both an output and an outcome, translating a political vision into action is a complex and confusing process into which an infinite variety of ingredients are poured, generally without a definitive beginning or end.⁵ Those involved in the public policy process tend to follow a procedure that is generally broken down into six phases, starting with the identification of a public issue and proceeding to agenda setting, formulation, legitimization, implementation, and evaluation of the policy (see Figure 1-1).

Who are the key actors? In modern societies, the public policy process involves many actors, each with different interests, values, perceptions, and policy preferences.⁶ First, regardless of

1 United Nations Policy Brief, Issue 1, December 2012, available at: https://repositorio.cepal.org/bitstream/handle/11362/38380/1/PolicyBriefIssue1December2012_en.pdf

2 Public policy has several definitions: for example, Khan, Anisur Rahman, "Policy implementation: some aspects and issues," *Journal of Community of Positive Practices*, 2016, pp.3-12, defines it as a country's "broader framework to operationalize a philosophy, principle, vision or decision, mandate etc. which are translated into various programs, projects and actions"; Anderson, J.E., "Public policy making—an introduction," Boston: Houghton, 2010, calls it a "purposive course of action followed by an actor or set of actors in dealing with a problem"; and Stewart, Hedge, and Lester, "Public policy: an evolutionary approach," *Nelson Education*, 2008, view it as a "pattern of government activities or decisions that are designed to remedy some social problems."

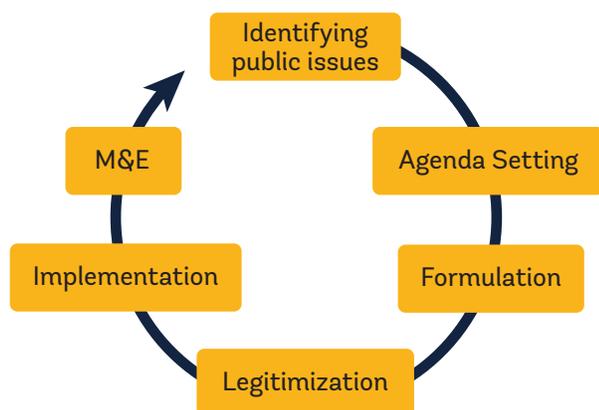
3 See Dente, Bruno, "Understanding Policy Decisions," *Springer Briefs in Applied Sciences and Technology*, Springer International Publishing, 2013, pp. 1-27.

4 The 17 policy areas are no poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation, and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals. For more information, see <https://sustainabledevelopment.un.org/?menu=1300>

5 S. J. Buck, "The Public Policy Process," in *Understanding Environmental Administration and Law*, 3rd ed., Island Press, 2013.

6 P. A. Sabatier, "Theories of the Policy Process," pp. 1-2, Boulder, CO: Westview, 1999.

FIGURE 1-1.
Common steps in the public policy process



the policy domain, all three branches of government (legislative, executive, and judicial) generally take part in the process. The executive branch proposes and formulates policies, the legislative branch decides upon them, and the judiciary interprets and controls their implementation based on the rule of law. Today, however, the state is no longer the only party to the public policy process. Citizens and other stakeholders—from the private sector to organizations, think tanks, the media, academia, and so on—are not only involved in policymaking but have also become a source of agenda setting. According to one scholar:

Public policy has undergone some rather fundamental changes over the past couple of decades in terms of policy design, selection of policy instruments and the role of the State in society more broadly. [...] It appears as though the main sources of policy change are either economic or related to voters' demands. [...] The so-called shift from government to governance [...] refers to a tendency [...] to produce and deliver public service in concert with the market and civil society. [...] Thus the governance perspective highlights concerted action, shared resources and negotiation as an alternative to the state-centric model.⁷

Impactful public policies and their implementation on the ground are central to social and economic welfare. However, international experience shows that there is no perfect policy, and gaps may appear between policy intent and outcomes. It is therefore necessary to understand the success and failures of public policies by elaborating on the factors that affect the process and its complexity.

⁷ B. G. Peters and J. Pierre, *Handbook of Public Policy*, SAGE, 2006.

IDENTIFICATION AND AGENDA SETTING: INTER-INSTITUTIONAL COORDINATION AND STAKEHOLDER ENGAGEMENT

As noted above, each of the actors that form part of the public policy process expresses different demands and policy issues that it actively promotes to keep them on the policy agenda and in the public debate. However, policymakers cannot possibly respond to each and all of these demands. How, then, do policymakers prioritize policy issues?

In Romania, the General Secretariat of the Government was established to promote greater inter-institutional coordination among all stakeholders involved in the public policy process. To facilitate the process, the Government put in place a web portal on which all ministries publish their annual initiatives, which in turn are consolidated into an Annual Working Plan. The consolidation of the ministries' priorities helped make an early impact assessment and, importantly, allowed the formulation of priorities on a Government-wide level. The prioritization process conforms to a filtering mechanism that revolves around the policy priorities that the Government has set out—in Romania, policies that have a social, budgeting, or environmental impact.

In Lithuania, the Government introduced a change management process aimed at addressing insufficient inter-institutional coordination, while emphasizing each ministry's leadership in and ownership of the agenda-setting process. A three-step process allowed the Government to (a) pick priorities (800 policy issues were narrowed down to 30); (b) establish a project management office to ensure ownership and avoid outsourcing; and (c) form a monthly steering committee at the highest political level to increase project ownership. The Government encouraged line ministries to prioritize by increasing their budget allocations according to their ability to propose priority projects.

This approach was used in the United Kingdom in the late 1990s as the British Government established a modernization agenda centered around an evidence-based policy process. The Government adopted a new approach to policymaking that was predicated on finding out “what works.” Among the tools used, a Performance and Innovation Unit was created to “improve the capacity of Government to address strategic,

cross-cutting issues and promote innovation in the development of policy,” with the goal to be “forward looking [...] to deliver outcomes that matter, not simply reacting to short term pressures.”⁸

POLICY FORMULATION AND IMPLEMENTATION: NARROWING THE GAP

Once priorities are agreed on and the public policy agenda is set, solutions to problems are shaped and elaborated during the policy formulation phase. As one scholar cautions about formulating public policy:

There is a need to think carefully about the interactions of policies and means of coordinating policies to create more effective, if more complex, responses to policy problems. For example, if government wants to improve the quality of health for its population, the obvious area for investment is in hospitals and other aspects of the “healthcare industry.” On the other hand, however, improving nutrition or enhancing opportunities for exercise may actually produce greater health benefits.⁹

For instance, if during the public issue identification phase, gender gaps were identified as a public policy priority and set on the public policy agenda, the policy formulation phase would attempt to answer the question, Which solutions can be used to effectively reduce gender inequality in society?

To answer this question, various ministries of finance have used high-impact fiscal policy to achieve gender equality. Following the lead of the Council of Europe and the UN, countries such as North Macedonia, Bosnia and Herzegovina, and Albania adapted their public financial management strategies to gender-responsive budgeting (GRB). This involved ensuring that women and men received an equal share of public resources through programs designed to consistently take their respective needs into account. Through gender-responsive fiscal policies, an institutional environment was created that incorporated gender-related strategic objectives into policies and programs. In the process, gender analysis was used as the main policy formulation tool, involving government officials, civil society, gender advocates, academia, and local communities. Countries that adopted GRB mainstreamed these policies to inform and educate officials and

to encourage men and women to participate in the decision-making process. For example, Albania’s Ministry of Finance actively sensitized Government officials and disseminated gender-disaggregated data to push for gender equality.

Policy formulation therefore requires stakeholders’ concerted action, consultation, and assessment of solutions. Without these elements, a policy is almost doomed to fail for lack of agreement on its intended impact and possibly on its usefulness. For instance, a few years ago, to inform the policymaking process, Norway put in place StatRes, a program aimed at providing statistical information about the use of resources and the results achieved by various ministries and state agencies. Consolidated data were to be collected from the various ministries’ existing data banks and published every year. However, the program was shut down only three years later: the data collected by StatRes were already available within each ministry, so the consolidated data bank was irrelevant. Although a need might have existed, the lack of concerted action on a government-wide level and the failure to engage users in the conception and formulation of the policy resulted in an obsolete product.

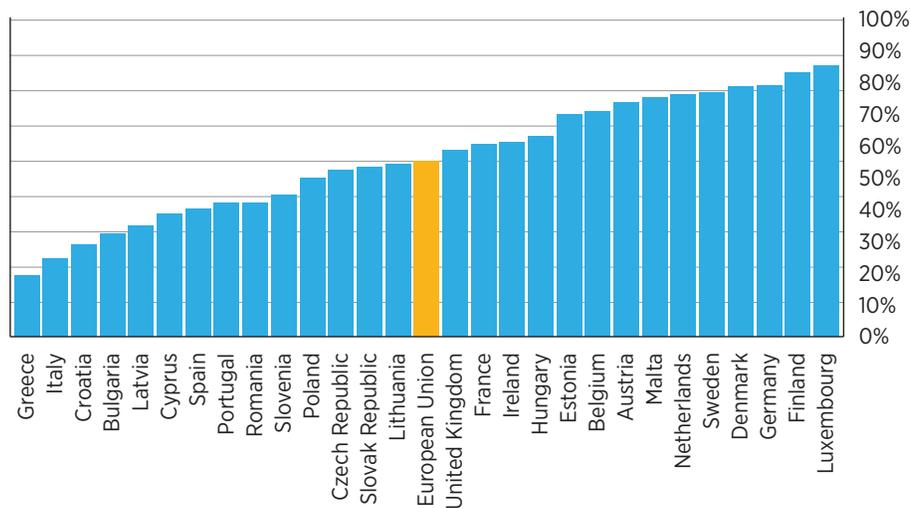
The question, therefore, is, how can policymakers decrease the risks of failure between the formulation of a policy and its implementation on the ground? Implementation, the most practical stage of policymaking, is reflected in concrete measures that are put into practice by all stakeholders involved, from public entities to private partners and service recipients. Resources are allocated, responsibilities are assigned, and subregulations are enacted to guide the procedural and practical process of policymaking.

Competent staff and civil servants are key to delivering quality public services and the intended results; indeed, having them in place is a precondition for implementation. Evidence shows that low levels of trust limit the government’s ability to attract and retain good civil servants, in turn hindering the implementation of public sector reforms. According to the Eurobarometer (2018), about 59 percent of Europeans trust the public administration in the EU. However, many European countries fall below the EU average, including Greece (18%), Italy (22%), Croatia (22%), and Spain (38%) (see Figure 1-2). About 54 percent of

⁸ Cabinet Office: The Government’s Expenditure Plans 1999-00 to 2001-02, available at <https://www.gov.uk/government/publications/cabinet-office-the-governments-expenditure-plans-1999-00-to-2001-02>.

⁹ B. G. Peters and J. Pierre, *op. cit.*

FIGURE 1-2.
Trust in public administration among EU countries



the EU population view public service delivery as either very or rather bad—but the proportion is much higher in Greece (89%), Italy (80%), and Croatia (79%). These indices point to the need to promote human resource development, including adjustments to working conditions, a better performance management system, and organizational streamlining efforts that bring public services closer to citizens and businesses, all while establishing a culture of service delivery in the public function.

Together with competent and dedicated staff, and political leadership and ownership, (as we will see in the Albania and Lithuania case studies), political will is also key to timely and effective implementation of public sector reforms. True commitment from stakeholders and decision-makers, especially for cross-cutting issues, is essential. Thus citizen engagement and the involvement of civil society organizations are again necessary to reflect the voices of all segments of society and ensure coordination, collaboration, and commitment.

On the practical side, perhaps one of the most critical features of good policy implementation is the formulation of outcome-oriented and evidence-based policies, whose implementation will necessarily focus on results. In Azerbaijan, fiscal policy moved from a productivity-based to a results-based model built around smart-performance indicators. Azerbaijan used

artificial intelligence to shape policies based on monitoring and evaluation results, to bridge the knowledge gap between government bodies, including state-owned enterprises, and businesses. Albania, in the framework of its GRB policy, introduced performance-based indicators in medium-term budget programs and focused on objectives, outputs, and outcomes. To ensure effective implementation, support is consistently provided at both the local and ministerial levels.

It is also essential to have a detailed planning process in which important factors are identified: barriers to implementation, such as resistance to change and dilatory tactics,¹⁰ lessons from successes and failures, and incentives systems that govern relationships among actors and players engaged in the implementation process. In Poland, change management was undertaken in the framework of a tax administration reform aimed at sealing tax gaps and increasing tax collection and VAT compliance. Poland's National Revenue Administration (NRA) was created in 2017, the result of a detailed planning process that endeavored to incorporate variables in the implementation of the reform, including a timeframe for modernizing IT and infrastructure and for building staff skills. The NRA functioned as an implementation body in charge of collecting budget revenues, while providing efficient service delivery and support to citizens through competent staff, streamlined procedures, and

¹⁰ Some examples of administrative red tape that cause delays: (a) forms, processes, and procedures that are needlessly complex—for example, the tax system with its large number of exemptions, exceptions, and other complexities; (b) processes that are slow and expensive; and (c) political use of administrative procedures as a means of political control—for example, an organization in which competing executives can impede each other by not approving things or not processing requests in a timely manner.

overall oversight of tax and customs services. The reform was successful and resulted in not only the intended VAT revenue increase, but also positive spillovers on the market.

Narrowing the gap between policy formulation and implementation requires careful analysis of issues and the development of appropriate strategies to turn the process toward the outputs and outcomes of public policy. But it also requires constant communication with all stakeholders involved, including staff, on the objective, purpose, and intended outcome of the policy. As Norway's example above indicates, policy implementation must not only be user-driven, develop dynamically, and ensure constant dialogue between concerned stakeholders, it must also create value-added. Top-down, bottom-up, evidence-based, or other approaches need to be considered and deployed separately or in combination during different stages of the policy implementation process.¹¹ In addition, new public management approaches and techniques inspired by the private sector, such as outsourcing of functions and introduction of competition, regulation, and autonomy may be also considered. It may also be useful to consider recent innovations, such as a "whole-of-government" approach to reducing the administrative burden, and tools for administrative simplification, such as one-stop shops and process re-engineering.¹²

POLICY EVALUATION

Once implementation has begun, continuous monitoring and evaluation are required to ensure that it is on track and will produce the intended outcomes. Policy evaluation is key to holding governments accountable, and it entails involving independent stakeholders including the media. For instance, the Central Planning Bureau in the Netherlands, an independent think-tank that is part of the Ministry of Economic Affairs, provides publicly available recommendations, based on its political and economic analysis of public policies, that are subsequently adopted in the law or translated into amendments. The technical quality of the bureau's recommendations, in addition to their effective implementation, earns them strong public credibility. Using indicators and international good practices as evidence of the effectiveness of measures is also essential. However, ensuring accountability and transparency while also making governments follow recommendations also implies engaging with technically sound media, including independent media. Media provide substantial scrutiny of public affairs, but also facilitate open and fair debates on public issues to help educate both citizens and government officials on successes and failures.

II: Strengthening Public Policy Processes - Lessons Learned

Part I highlighted six guiding principles for a strong public policy process:

- Public trust is a both the purpose and the result of a good public policy process.
- Public policy is a demand- and user-driven process that responds to prioritized needs based on transparent criteria.
- Because public policy is a dynamic process that is the result of concerted action, shared resources, and negotiations, the active engagement of stakeholders through the full process is key to successful and trustworthy public policy.
- Fostering a culture of public service delivery and investing in human capacity are essential to narrowing the gap between policy formulation and implementation, and to creating an enabling environment of public trust and confidence.
- Detailed planning processes are essential to identify and tackle barriers to implementation early on, such

¹¹ For details on (a) the bottom-up model, see Pulzi & Treib, "Implementing Public Policy", *Handbook of Public Policy Analysis: Theory, Politics and Methods*, 2007, pp.89-107, which describes an everyday problem-solving approach; and (b) the top-down model, see Meter and Horn, "The policy implementation process a conceptual framework", *Administration and Society*, 1975, pp.445-488, which describes the six variables that link policy and performance: (i) policy standards and objectives; (ii) resources; (iii) intergovernmental communication and enforcement activities; (iv) characteristics of implementing agencies; (v) economic, social, and political conditions; and (vi) disposition of the implementers.

¹² See, for example, <http://www.oecd.org/site/govfg/39609018.pdf>

as resistance to change and dilatory tactics adopted by stakeholders, and to achieve successful institutional transformation.

- Political will, leadership, and ownership are essential to getting things done.

Three lessons learned emerge from the preceding section that can help to guide the public policy process.

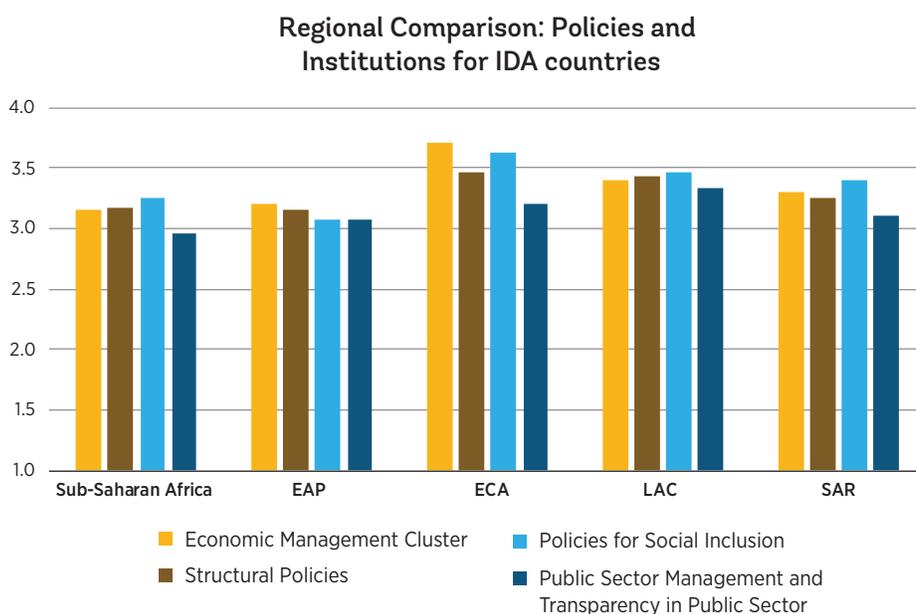
Lesson 1. Transparency and accountability are pivotal to raising public trust and confidence and to strengthening public policy processes.

For instance, the ECA Region displays policy gaps with respect to the quality of public sector governance. According to the World Bank's 2018 Country Policy and Institutional Assessment (CPIA), on the "public sector transparency and governance" indicator the ECA region (3.2) compares fairly well with the East Asia and Pacific Region (EAP, 3.1), the South Asia Region (SAR, 3.1), the Sub-Saharan Africa Region (SSA, 2.9), and the Latin America Region (LAC, 3.3). On "transparency, accountability and corruption in the public sector," however, ECA scores

2.6, compared to 3.4 in LAC, 3.0 in EAP, 2.8 in SAR, and 2.7 in SSA (see Figure 1-3). In IDA countries in ECA, a regional comparison of policies and institutions indicates a mixed record on public sector management and transparency. In particular, ECA obtained a score of 3.2 compared to 3.3 in LAC, 3.1 in SAR and EAP, and 3.0 in SSA (see Figure 1-4). How can governments build on transparency, accountability, and efficiency to create an inclusive public policy process that raises public trust?

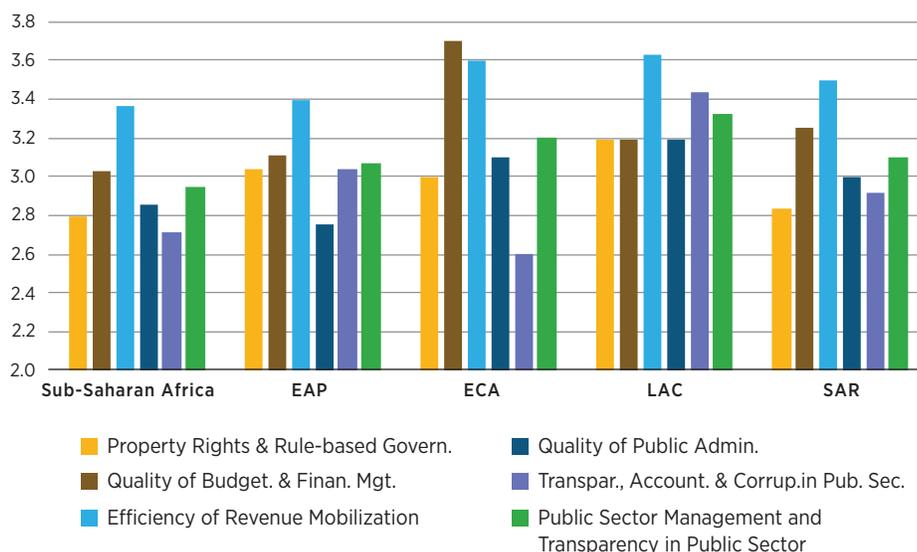
Issue identification and agenda-setting should be based on users' demands but prioritized on the basis of transparent criteria so that all parties to the process understand the choices made. IT infrastructure and GovTech¹³ play a major role in reducing red tape and allowing businesses and citizens to assess the processes. For instance, biometric registration, verification, and payment systems in India's National Rural Employment Guarantee Scheme reduced leakages of funds by 35 percent. In Indonesia, electronic tendering of contracts increased procurement competitiveness and the quality of roads. And in São Paulo, Brazil, one-stop computerized service centers enabled citizens to receive birth and death certificates with much shorter

FIGURE 1-3.
Regional comparison of policies and institutions for IDA countries



¹³ GovTech is a whole-of-government approach to digitization that promotes simple, accessible, and efficient government. It promotes the use of technology to transform the public sector, improve service delivery to citizens and businesses, and increase efficiency, transparency, and accountability. GovTech is a pillar of the Digital Economy Framework, providing necessary technology to foster economic growth, reduce poverty, and boost shared prosperity.

FIGURE 1-4.
Regional comparison of public sector transparency and governance



service times than typical government offices could offer. These new technologies offer opportunities for policy-makers to deploy new solutions to address development policy problems and potentially achieve transformational impacts.

Public policy information, including objectives and outcomes, should be accessible and user-friendly. To that end, governments increasingly create *scorecards* and *dashboards* that capture the information most relevant to the readers, such as expected results. Citizen engagement tools must be used through the entire process to increase public trust. This includes feedback and complaints mechanisms (e.g., in Portugal, complaints books are available at public and private service providers) and regular public hearings.

Lesson 2. Citizen-centric reforms imply creating value-added for citizens and recipients of public services.

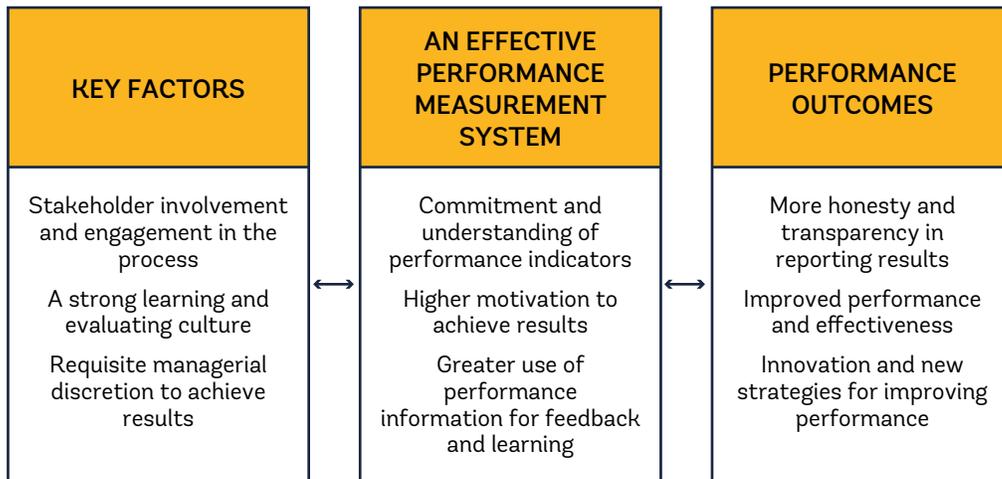
Such reforms involve creating a strong public service delivery culture in the public function.¹⁴ If success is to be achieved and the implementation gap reduced, genuine empowerment and professional development of public officials are essential. A strong human capacity that focuses on delivering quality public goods and results on time will boost public trust and the government’s ability to attract and retain good civil servants.

Lesson 3. Inter-institutional coordination and stakeholder and citizen engagement are necessary throughout the entire process, from the issue identification stage to the agenda setting, implementation, and evaluation stages.

Whether it is a law reform initiative involving the parliament, or an effort by construction industry representatives to simplify construction procedures and boost job creation, all policy interventions require concerted efforts to engage, listen to, and involve stakeholders. The government must then institute measures and guidelines to perform these functions effectively. It is good practice to map out stakeholders and see how policy

¹⁴ A *service culture* is built on elements of leadership principles, norms, work habits, vision, mission, and values. *Culture* is the set of overriding principles according to which management controls, maintains, and develops the social process that manifests itself as delivery of service and gives value to citizens and businesses (customers). Inculcating these values and shifts in mindset requires knowledge, skills training in such areas as public speaking and customer relations, and appropriate incentives to motivate public officials. <https://www.servicefutures.com/four-key-elements-service-delivery-system>.

FIGURE 1-5.
Key factors, measurement systems, and performance outcomes



Source: Swee C. Goh (2012), "Making performance measurement systems; more effective in public sector organizations."

changes may affect them, positively (beneficiaries) or negatively (e.g., vested interests that may block changes).¹⁵

III: The Way Forward

There is no one magic formula for strengthening a country's public policy process. It is a process that is unique to each nation, with its specific strengths and needs. Nevertheless, a common thread stands out: a strong public policy process should be demand- and user-driven, develop dynamically and collectively, and create sustained value-added for social and economic prosperity. It begins with the informed and transparent identification and prioritization of public issues, to which a coordinated policy formulation and implementation process supported by political leadership and ownership ought to bring high-impact solutions. Considering that the process is by nature public, it implies the systematic and constant engagement of citizens, the private sector, the media, state agencies,

and other key stakeholders. Consequently, effectively engaging stakeholders at different levels and sectors of the public administration, citizens, and others can help in identifying and prioritizing public needs, and can narrow the gap between policy formulation and implementation. Fostering a culture of public service delivery in the public function and investing in human capital are essential to narrowing the gap, as is creating an enabling environment of public trust and confidence. This collective action approach opens the way to the elaboration of more creative and productive solutions to public goods provision, helps reframe the role of citizens beyond being simply sources of user demand, and can enable public sector leadership and ownership to achieve the SDGs.

¹⁵ Stakeholder analysis in the public sector typically involves six steps and, when implemented, appropriately secures the buy-in that is needed for strengthening policy processes. First, assemble a cross-functional group of public officials with a range of perspectives on the service being provided by the agency. Two, give context and define the purpose and scope of the stakeholder analysis and explain how the results will be used. Three, present data and information that underpins the policy reform that is being contemplated—for example, results of a SWOT analysis, PESTLE analysis, or relevant rules and regulations. Four, define criteria for the prioritization of the different stakeholders in terms of their interest in and influence on the policy change that is being planned. Five, carry out a similar exercise with citizen groups and industry experts. Six, based on these internal and external perspectives prepare a stakeholder matrix (with influence on the vertical axis and interest on the horizontal axis) and develop engagement and communication plans.

CASE STUDY 1.1

Lithuania: Change Management and the Project Management Office

LUKAS SAVICKAS, FIRST DEPUTY CHANCELLOR AT THE OFFICE OF THE GOVERNMENT OF LITHUANIA

CONTEXT

Following accession to the European Union in 2004, Lithuania recorded an unprecedented growth in GDP. This growth, however, was significantly disturbed by the financial crisis which occurred not long afterwards. Apart from the recession period, the historical record of Lithuania's year-on-year GDP growth showed that in general it was far greater than the EU average. These conditions created an environment in which, compared to the EU average, the national income per capita gap continually decreased. For instance, in a decade Lithuania went from barely 55 percent to 75 percent of the EU average GDP per capita (Figure 1.1-1). Living standards increased dramatically.

However, in recent years, Lithuania's GDP per capita stopped accelerating. It seemed that the organic growth of the largest Baltic State lost its momentum. Between 2014 and 2016, Lithuania's GDP per capita remained flat at 75 percent of the EU average (Figure 1.1-1)—something the country had not

experienced before. It soon became apparent that significant measures would be needed to reinvigorate growth. In particular, the newly elected Government realized that during the years of unprecedented growth in national income, the citizens of the country had formed high expectations and projections for the future. In 2016, the new Government of Lithuania came to understand that structural reforms must be taken and must be reflected in the new Government plan for the years leading up to 2020.

Initially, the Government drafted a plan of nearly 800 all-embracing measures. It soon became clear that while this plan was extremely ambitious, it would benefit from a stronger focus on key steps needed to address the challenge. Therefore, the Government decided to initiate a package of six structural reforms.

The European Commission (EC), the International Monetary Fund (IMF), and the Organisation for Economic Co-operation and Development (OECD) have always given Lithuania a hand, making valuable recommendations about measures to address various problems. Nevertheless, it was up to Lithuania itself to decide on the course of action. Before drafting the exact shape of structural reforms and the ways they would be implemented, the following challenges were identified:

- Lack of active leadership in planning and implementing reforms. The responsibilities were seen to be institutional, not personal.
- The preparation for systemic changes would take extended periods of time and risk losing political momentum.
- Public servants were not equipped with the necessary skills and competences to implement large-scale and complicated projects. The same competences and skills needed to ensure daily functions would be used for project implementation.

FIGURE 1.1-1.
GDP per capita, % of EU average

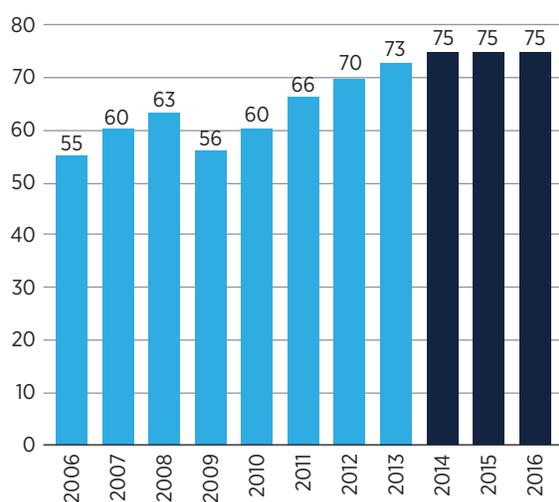


FIGURE 1.1-2.
Change management best practices in the EU



- Lack of effective inter-institutional cooperation.
- Insufficient coordination of strategic changes at the Government level.

The Government came to realize that it would need to address both the reforms themselves and their effective management in the public sector, and it came to the strategic decision to implement broad change management in the public sector. To save time and resources, the Government researched other countries' best practices for dealing with significant changes—primarily those of the UK, Finland, and Denmark (see Figure 1.1-2). Similar findings in all of these cases reassured the Government that the direction of change management chosen for Lithuania was on the right track.

IMPLEMENTED ACTIONS

The implementation process started with understanding and identifying Lithuania's key priorities for the near future. From the 795 actions listed in the Government Program Implementation Plan, 33 were considered to be of the greatest importance and were prioritized. These 33 priorities were converted into 44 projects, which together formed the Strategic Project Portfolio owned by the Prime Minister himself.

It became clear that the desired changes would have to be linked to project owners, project managers, and project

teams; in general, the leadership would no longer be institutional but personal. At the same time, the implementation of changes would no longer be ad hoc but would follow a very clear and strict order prescribed in the project plans. A steering committee was set up, consisting of the Prime Minister, the Chancellor of the Government, ministers, and the advisor to the Prime Minister. The function of this committee was to control risks, approve necessary funding, and evaluate the created value of the projects.

A completely new unit, the Project Management Office, was established in the Office of the Government. Its role was to adopt and apply project management standards to all future changes in Lithuania's public sector, provide all the necessary training to and consultations with public servants, and act as the competence center for best project management practices. In this step, great emphasis was put on the Project Management Standard, which would take the best globally acknowledged practices from the private sector and apply them to the needs of the public sector. Not only did the Standard describe the way the project management methodology should be applied, but it also provided ready-made templates and forms to be used for creating project plans, monthly status reports, and project change requests. The main information about each of the projects—project owner, deadline, key milestones, expected benefits—was published online, creating the environment of transparency

and implied responsibility for the delivery of the promises made to society.

As the main components of the change management system in Lithuania were all in place, it was time to make the system operational, and to oversee its implementation through monthly steering committee meetings, where the status of the strategic portfolio was evaluated on the basis of the timeline, budget, scope, and risks of the strategic projects that composed the portfolio. (Figure 1.1-3 summarizes the steps in this process.)

Even though the system was primarily created to address and effectively manage strategic projects from the portfolio of the Prime Minister, it became a very effective and handy tool to implement all changes in the public sector, whether related to IT, infrastructure, or any other area. Thus, the system was

clearly distinguishable from daily operational management and cyclical or functional activity. In theory, the new model could be applied by dividing all actions of any institution into two parts: *daily operation* and *projects* (or programs), whereby projects were understood as actions/events that have a beginning and an end, and a unique result at the conclusion of the work (see Figure 1.1-4).

RESULTS

The task of dealing with all the changes in the public sector was, in fact, not an easy one, since Lithuania's public sector had very limited project management capacity at that time. The biggest challenge for the newly formed Project Management Office was not the administration of the projects, but rather the need to continuously persuade public servants as well as providing them training and consultations in the ministries.

FIGURE 1.1-3.
Steps in implementing change management in Lithuania

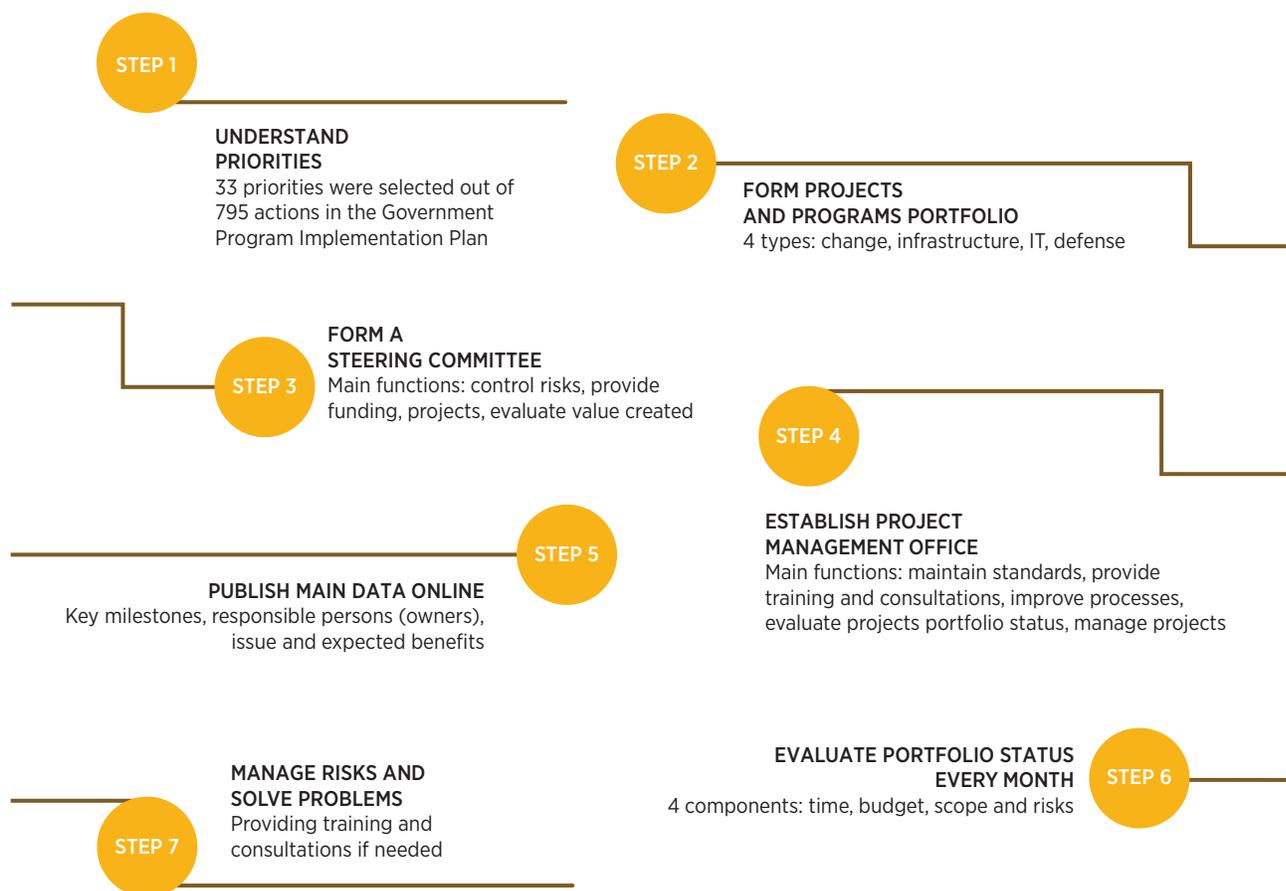
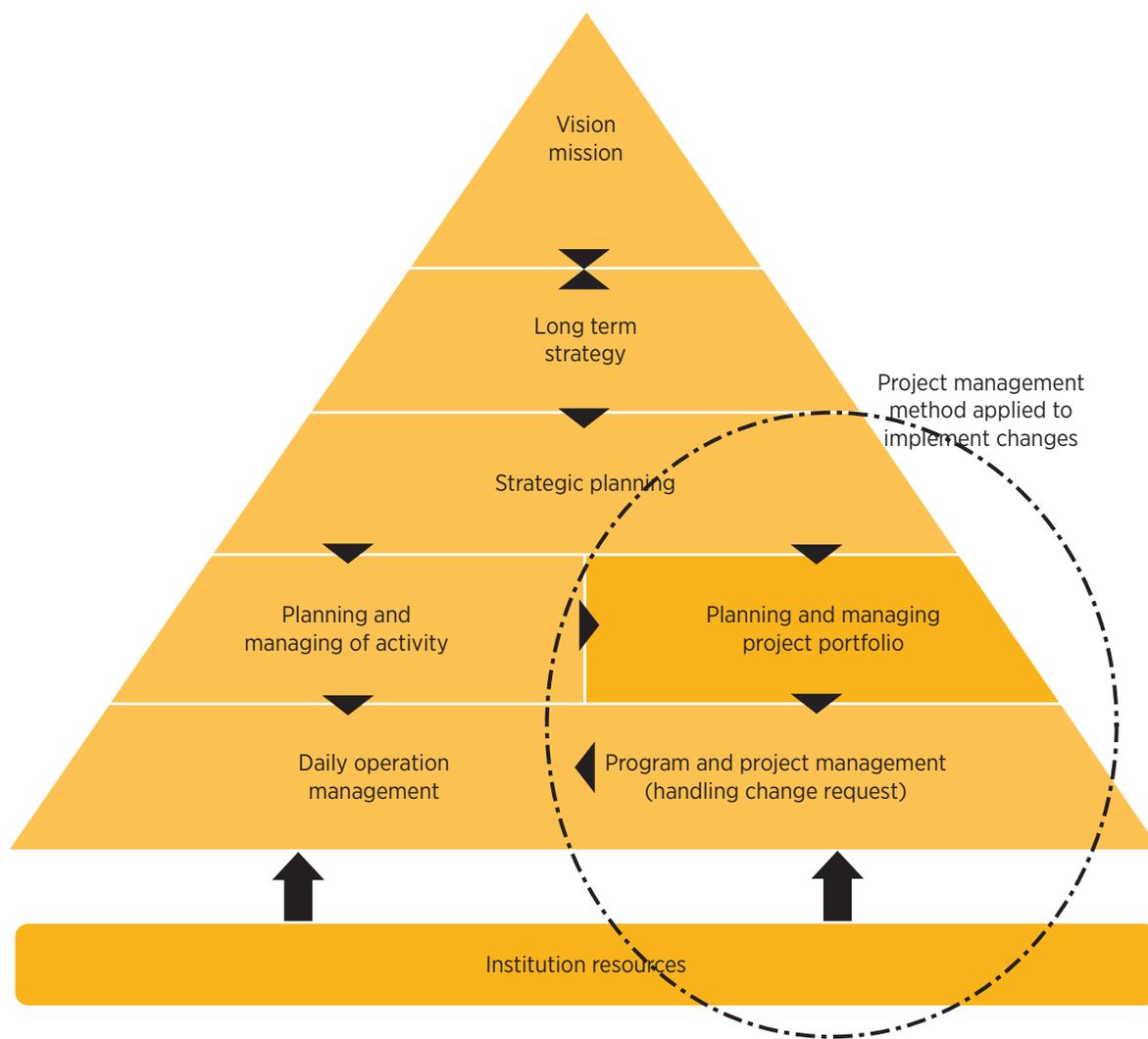


FIGURE 1.1-4.
Project management method applied to implement changes



It was also important to see the new change management system as a component.

Despite all the challenges, the following significant accomplishments were achieved:

- For the first time, responsible project owners and project managers—rather than just an institution—were appointed to facilitate and drive forward each of the 44 strategic projects.
- The Government established the Project Management Office to ensure a uniform Project Management Standard across the public sector and to accumulate expertise and project management know-how.

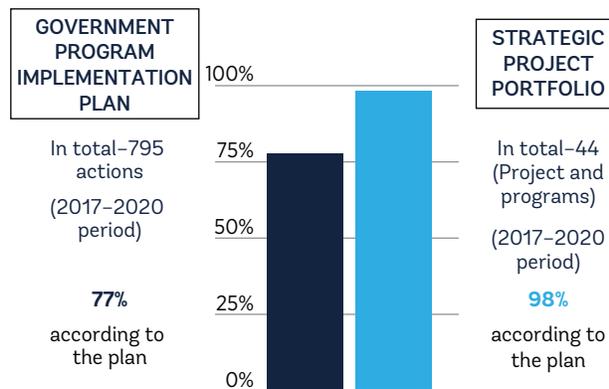
- The newly established Steering Committee met each month and supervised the implementation of strategic projects regarding their planned schedule, budget and scope, and associated risks.
- As the result of the successful implementation of change and portfolio management processes, six structural policy reform programs were added to the strategic project portfolio.

The most tangible accomplishment of the change management system was the fact that, at the end of 2018, 77 percent of the actions prescribed in the Government Implementation Plan, and 98 percent of the projects in the

Strategic Project Portfolio, had been implemented without any delay (see Figure 1.1-5).

Looking not at the form of the change management system but at its results, the following outcomes have

FIGURE 1.1-5.
Value created due to change management



been projected to materialize as a result of the structural reforms:

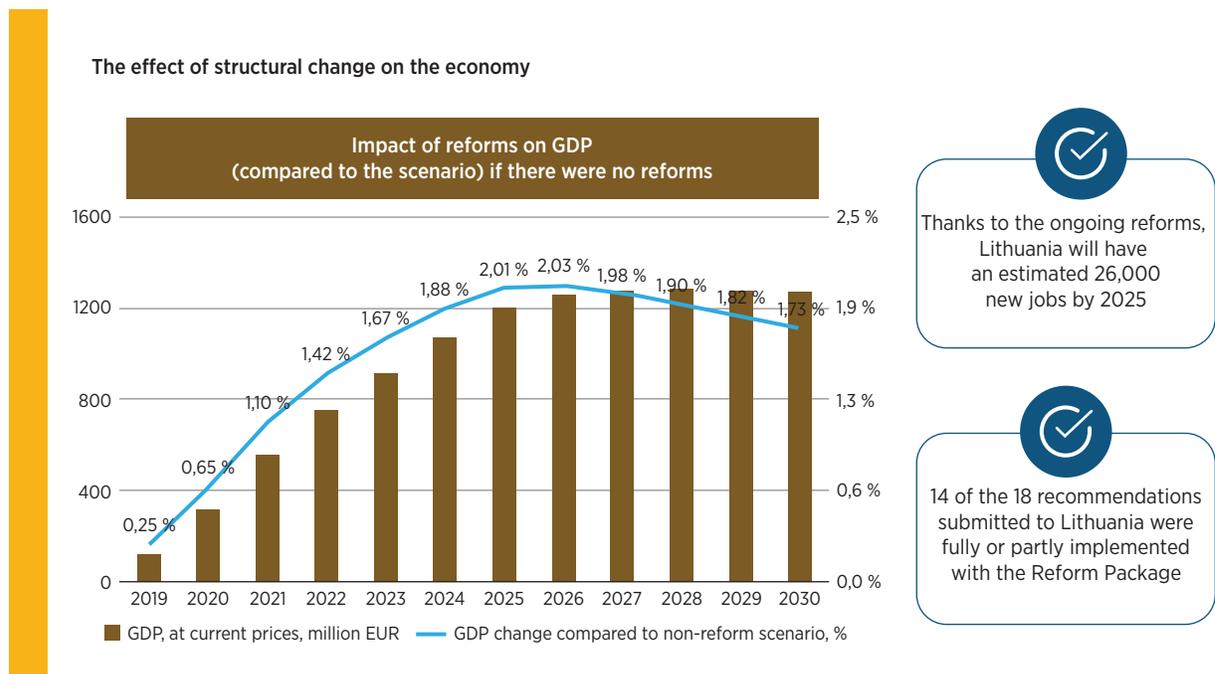
- By 2025, almost 26,000 jobs will have been created and secured.
- 14 of the 18 recommendations submitted to Lithuania were implemented or at least partly implemented with the Reform Package.
- Between 2025 and 2027, the reforms will increase the GDP by around 2% or €1.2 billion (see Figure 1.1-6.)

LESSONS LEARNED

Throughout this process of institutionalizing project management and change management methodologies, it became apparent that ensuring personal responsibility is crucial. It is also important to set frequent and publicly accessible milestones that can not only be monitored by the steering committee, but also closely followed by civil society.

One of the lessons learned is that in the initial stage of setting up a change management system in the public sector, strong political support is needed. Moreover, it is important

FIGURE 1.1-6.
The effect of structural change on the economy



to continuously develop in-house competence to ensure that the implementation of the reforms is as flawless as possible. Internal communication is vital to minimize resistance to the newly established system, while external communication is important to curb resistance to the reforms being implemented. And finally, to reach a sustainable result, it is important to address the risk of political cycles and ongoing institutional resistance, and to manage resources efficiently.

In the future, the change management system will continue to evolve to embrace the entire public sector. A project

management tool is being designed and developed to curb the number of digital forms that need to be filled in and to ensure that all necessary information is entered, controlled, and stored online. In addition, official project management legislation is being drafted to ensure that all the operations and procedures associated with the change management system have the legal backing of the Government. Finally, the Government of Lithuania is ready to share its competences, know-how, and network with academia to make sure that the universities incorporate this project management case and knowledge in the curricula of their study programs.



Lietuva (Lithuania)
Photo: © Vlada /Adobe Stock

CASE STUDY 1.2

Azerbaijan: Monitoring and Evaluating the Public Policy Process

VUSAL GASIMLI, EXECUTIVE DIRECTOR, CENTER FOR ANALYSIS OF ECONOMIC REFORMS AND COMMUNICATION, AZERBAIJAN

CONTEXT

Reforms: Starting Point

Azerbaijan has historically been important thanks to its central location at the crossroads of Europe, its political stability, its rich hydrocarbon resources, and its investment-enabling environment. A country that gained independence immediately after the dissolution of the Soviet Union, Azerbaijan has successfully fostered the recovery of all sectors of the economy and has implemented its development strategy. The fundamental elements of that strategy are to ensure macroeconomic stability, complete the transition to a market economy, and create resources, such as an effective oil program, to enable medium- and long-term development. Consequently, over the past two decades, Azerbaijan has combated poverty, achieved dynamic socioeconomic development, promoted human capital development, and increased the GDP by more than 10 times.¹⁶ It was also one of the country's primary policy objectives to achieve inclusive economic growth and sustainable economic development, moving from being a resource economy (which is a major obstacle for oil- and gas-producing countries) to being a knowledge economy.

In recent years an abrupt fall in oil prices in the global commodity exchanges has created serious challenges for the Azerbaijani economy. The devaluation of national currencies in all major trading partners increased pressure on the Azerbaijani manat and on the stability of the economy. In response, Azerbaijan has made it a top reform priority to develop a business-enabling environment and improve the diversification options of the national economy, launching measures to ensure the sustainable development of the non-oil sector and to reduce the economy's reliance on the oil sector ahead of schedule. The ongoing reforms and the

new strategic course allowed the country to “transform the challenges into opportunity” without prejudice to the social well-being of the people, while implementing all social programs planned by the Government.

On December 6, 2016, the President adopted strategic roadmaps for the development of 12 sectors of the economy (finance, agriculture, tourism, transport, logistics, etc.), laying the foundation for new economic reforms. This created linkages between the current, medium, and long-term socioeconomic development plans, which aim to reduce the effects of the global economic crisis on the country. As a key priority of these reforms, the country has identified a new model of economic development. The proposed reforms have also laid the grounds for improving the business-enabling environment and set off drivers of economic development by creating higher-quality, more efficient, and more inclusive institutions. The new model relies on competitive exports and on sustainable and inclusive economic growth.

However, for historical and political reasons, the implementation of the country's reform agenda was not easy and without challenges. With the leadership and determination of the President of Azerbaijan, the country overcame such destabilizing obstacles and successfully implemented a new program of reforms over the past three years.

The challenges that the reform agenda needed to address included the insufficient integration of data among agencies, the length of time implementation of the initiatives would take, the need for technical and legislative solutions to build a single database of information systems, and the need for transparency and inclusive services related to the ongoing reforms.

¹⁶ <https://data.worldbank.org/country/azerbaijan?view=chart>

IMPLEMENTED ACTIONS

Implementation and Monitoring Mechanisms for Reform Programs

In developing new mechanisms to implement the reform programs, the Government involved various segments of the society—businesses, public associations, nongovernmental organizations, academic centers, and others—in the development process. These mechanisms were designed to improve the exchange of information between Government agencies and to build a transparent, effective, and credible environment in monitoring and evaluation (M&E). For this purpose, on April 20, 2016, the President established the Center for Analysis of Economic Reforms and Communications (the Center). The Center's primary role is to monitor, evaluate, and communicate the activities undertaken in the reform programs, carry out macro and microeconomic analysis and research to ensure sustainable economic development, develop projections for mid-range and longer periods, and provide unified communication of the reforms to various segments of society. As an M&E institution, the Center aimed to develop a framework and methodology of evaluation and ensure that M&E activities were implemented transparently so that all stakeholders, particularly implementing agencies, could work with confidence. Working groups were established to make interagency coordination and communication more effective, and the Center hosted regular meetings of the working groups – attended by senior executives from Government agencies – to review and analyze implementation progress and challenges.

Having successfully monitored the strategic roadmaps, the Center has taken over the evaluation of other state programs as part of its mandate: self-employment programs, special state programs on development of digital payments, long-term employment strategies, food safety programs, and other Government programs.

The Center is committed to introducing digital platforms for M&E reform activities in Azerbaijan and is continuing its efforts to leverage the potential of “big data.” That effort will ensure that countrywide reforms are implemented on the digital platform and that adequate and flexible interagency coordination in the implementation and monitoring of the strategic roadmaps is maintained through the electronic portal.

Main Aspects of Monitoring and Evaluation

The Center carries out annual M&E of the strategic roadmaps, as well as midterm and periodic analyses of them, providing the highest level of accountability by submitting the annual reports to the President. It also makes the reports available to the public and posts them on its website.

Another innovation that is worth highlighting is the introduction of results-based assessment. Until 2017 the M&E of the strategic roadmaps used performance-based criteria, but the country moved to a result-based assessment following the President's August 2018 decision on approval of the guidelines for the medium-term expenditure framework. Given that results-based evaluation is a complex process and was introduced as a new approach in the country, it was first implemented in pilot projects while the associated evaluation philosophy was being promoted across the agencies. While the evaluation of strategic roadmaps at this stage relies on performance-based mechanisms, the roadmaps have identified specific targets, target indicators, initial deliverables, average deliverables, and impact indicators to be accomplished by 2020. In this regard, strategic roadmaps have played a very important role in Azerbaijan's transition to the result-based governance concept.

Another role the Center played in the implementation of the country's reform agenda was to ensure effective communication of the reforms. It was important to make reforms inclusive, explore public perceptions, and introduce proper promotion activities. In the past reforming countries have sometimes failed to bring the reform process to completion because of such factors as failure to measure the actual results of their reforms, to recognize that steps taken at an early stage had some possible side effects, and that some reforms produce results only after a longer period of time. It is therefore of vital importance to communicate to the public on ongoing reforms, provide it with full and complete information about the expected results, and receive and analyze reform proposals from various segments of society.

Key elements of this communication strategy include government agencies, the wider public (businesses, diplomatic missions, consulting firms, etc.), academic centers, and the media. The communication process uses several tools—reports, press conferences, TV speeches, social media

broadcasts, live meetings in the capital and regions, and so on. The Center involved respected institutions such as the United Nations and the World Bank in the development of the strategic roadmap methodology and reduced the asymmetry of information on reforms by organizing numerous discussions and visits in the regions.

RESULTS

Under the guidance of the President, Azerbaijan achieved stabilization in 2017, revival in 2018, and a high growth rate in 2019, thanks to the flexible reaction to economic processes and the selection of a proper economic course. Having experienced a 3.1 percent decrease in GDP in 2016, however, in the first eight months of 2019 Azerbaijan realized a GDP growth rate of 2.4 percent. Moreover, inflation fell from 12.9 percent in 2017 to 2.6 percent in the first eight months of 2019.¹⁷

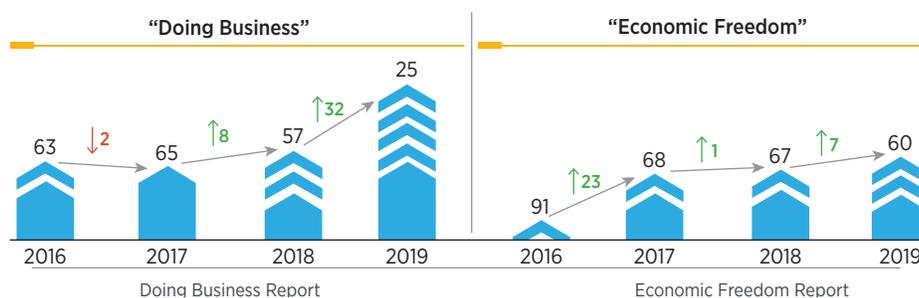
The reforms included such activities as the introduction of budget guidelines, a medium-term expenditure framework, a Government indebtedness strategy, monetary programs, tax and customs reforms, the privatization agenda, an employment strategy, an unemployment insurance system, and pilot health insurance—successful reforms in eight key sectors of the economy. With all these business reforms, the World Bank’s Doing Business report ranked Azerbaijan in the world’s top 10 reforming countries, moving it from 80th place in 2015 to the world’s 25th most favorable economy for enabling business in 2019.¹⁸ According to the Economic Freedom report of

the Heritage Foundation, Azerbaijan progressed from 91st to 60th place since initiating the reforms (see Figure 1.2-1).¹⁹

The country’s business reforms kept the focus on inclusive development in areas such as procurement, e-court, getting electricity, construction permits, property registration, real estate encumbrance, electronic invoices, Green Corridor,²⁰ and online export application. The country has introduced a number of mechanisms (Azexport.az and Digital Trade Hub Platforms, trade missions, export missions, trading houses, export subsidies, etc.) to expand the scope of e-commerce and address challenges faced by export businesses. The reforms also included activities such as e-visa; country branding, logo, and slogan; a tourism marketing strategy; participation of tour operators in tourism exhibitions; and the establishment of tourism representative offices of Azerbaijan abroad. At the same time, the country implemented such activities as development of higher education in the agriculture sector, establishment of dual degree programs, development of shipping services, and export missions to target countries to promote the “Made in Azerbaijan” brand at a global level.

Over the years, Azerbaijan has continued its efforts to improve the country’s transportation and logistics capabilities, establish an effective transport and transit network with other countries in the region, strengthen the transport and rail network connecting Europe and Asia, and launch the Baku-Tbilisi-Kars railway, the Astara- Astara Railway, and the Absheron Logistics Center. Azerbaijan has also simplified the

FIGURE 1.2-1.
Dynamics of the improvement of Azerbaijan’s position in international rankings



¹⁷ <https://www.stat.gov.az/news/macroeconomy.php?page=1>

¹⁸ https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

¹⁹ <https://www.heritage.org/index/country/azerbaijan>

²⁰ <https://customs.gov.az/en/sahibkarlar-ucun/green-corridor/>

process of providing electricity to construction sites, launching the “one-stop-shop” principle for issuing construction and operation permits electronically via the online portal. Thanks to these reforms, Azerbaijan evolved from an energy importing country to an energy *exporting* country.

Considering small and medium-sized businesses as one of the driving forces of economic development and improved access to financial resources, Azerbaijan has established a new institution – the Small and Medium Business Development Agency—to support them. It has also established the State Agency for Antimonopoly and Consumer Market Supervision and a special online portal for obtaining licenses and permits. For the first time in its history, Azerbaijan established a private credit bureau, a real estate encumbrance registry, and a mortgage and credit guarantee mechanism.

With the Presidential decree “On Additional Measures to Address Non-Performing Loans Extended to Physical Persons in the Republic of Azerbaijan,” Azerbaijan made reforms to reduce the numbers of nonperforming loan portfolios in the country, achieving a 4 percent decrease in the volume of nonperforming loans in just two years.²¹ As a result, Azerbaijan has developed an effective mechanism for addressing troubled loans, which was a burden for the banking sector and the country.

LESSONS LEARNED

Azerbaijan’s reforms and new institutions gave the country new opportunities and knowledge. To start, it was essential to properly understand the political and institutional context of

M&E processes. Because there is no common approach and method to set up these systems, each country needs to determine its own development and evaluation focus. Azerbaijan institutionalized the M&E of the reform agenda, marrying the best international practices and local conditions.

It is important to introduce incentives and stimulatory policies in M&E processes, and the system needs to be both simple and clear. Effective performance of these systems depends on developing human capital and sustainable leadership, which are critical in addressing the difficulties encountered in data exchange (data collection, validation, and analysis) and maintaining objective, impartial evaluation systems. The role of the political leadership is another important element that influenced the reform process. The introduction of top-down and bottom-up reform cycles and continuous support of the reforms by the country leadership have positively affected the success. As a case in point, on the last working day of 2018, the President signed 45 regulatory documents, of which 20 were laws and 25 were decrees and executive orders.

In conclusion, the country’s improved economic performance in the aftermath of crises in the world oil prices, and international institutions’ positive evaluation of Azerbaijan’s economic achievements, attest to the fact that Azerbaijan has been able to establish strong enough institutional mechanisms to pursue countrywide reforms. Adoption of international practices and increased transparency and inclusiveness in the introduction of new public services are among the key factors that guaranteed the sustainability of Azerbaijan’s reforms model and institutions.



Photo: © Simone D. McCourtie / World Bank

²¹ <https://uploads.cbar.az/assets/504e06f81edcc01efe6c50357.pdf>

Albania: Gender-Responsive Budgeting as a Tool for Better Policy Formulation

GENTIAN OPRE, DIRECTOR OF BUDGET ANALYSIS AND PROGRAMMING DEPARTMENT, MINISTRY OF FINANCE AND ECONOMY, ALBANIA

CONTEXT

In the late 2000s, Albania embarked on a new era of designing more effective and inclusive policies. In recent years, many countries have learned the benefits of this long-overdue idea. First, it made sense to embed the idea in the proper legal framework. In one section, the pamphlet talks about offering services for women—for example, free check-ups for 475,000 citizens, half of whom were female. There was also a strong increase in the number of health consultations for mothers and their children.

Starting with the Right Legislation

First it made sense to embed the idea in the proper legal framework. As early as 2008, Albania introduced a new organic law that made program budgeting mandatory and added performance-based indicators in medium-term budget programs that focused on goals, objectives, and outputs. As a result, gender-responsive budgeting (GRB) found a footing.

The involvement of civil society was essential. This involvement has been mainly in the form of training and the provision of tools such as monitoring and evaluation (M&E) practices that increased government engagement, fostered a proactive attitude, and created openness to alternatives not tried or perhaps not even thought of before. Civil society organizations (CSOs) regularly held public hearings to improve the institutionalization process and actively engage all levels of government with the budget.

Particular attention was given to educating and instructing ministries to include and disseminate gender-disaggregated data as part of the effort to advocate for gender equality.

Health Care for All

In one concrete example of the new way of thinking, Albania featured something everybody needs and wants—better health care. And not only better care, but more of it, and especially more care targeted to women’s (and families’) needs. Figure 1.3-1 depicts the “health care area” of the Citizen’s Budget. In one section the pamphlet talks about offering services for women—for example, free check-ups for 475,000 citizens, half of whom were female. There was also a strong increase in the number of health consultations for mothers and their children.

The top left of the pamphlet reads:

“We support the possibilities of a better life. The 2019 budget is investing to secure access to better public services for all citizens.”

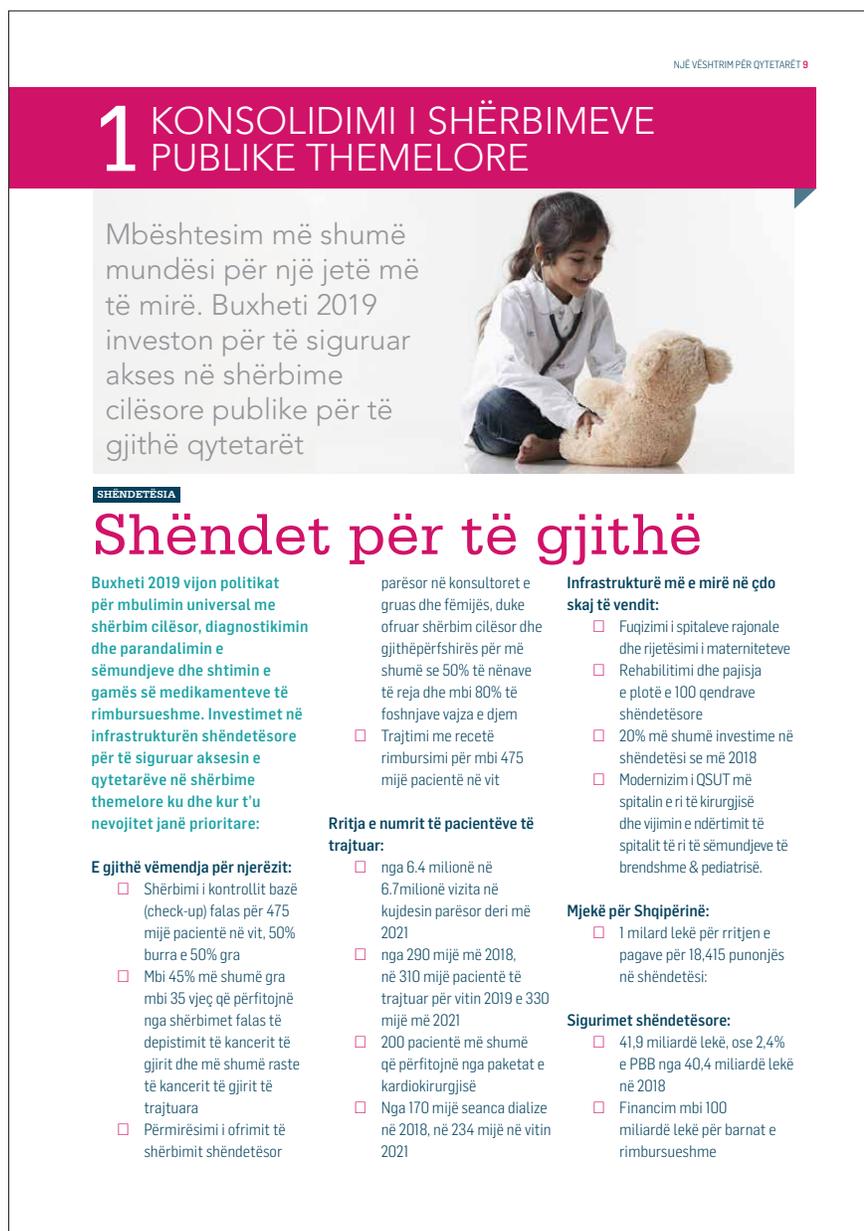
For the first time, GRB has been included as a tool to explain the different social impacts in the lives of men and women in the budget planning for 2019 in the Citizens’ Budget.

The system, which was mainstreamed in 2019, is mandatory and performance-based. Support is currently offered to local governments and ministries to ensure awareness and effective implementation with the support of UNWOMEN, the World Bank, and the EU. The objective is to expand the program into all Government programs using tools such as a management system with key performance indicators at the outcome level, and tools that associate outputs and costs with one another in an integrated manner.

RESULTS

Progress has been steady and impressive, according to the rankings of international organizations. The number of programs that include GRB increased from 9 to 33 between 2015

FIGURE 1.3-1.
Health care in the Citizens' Budget



and 2020. In addition, GRB budget outputs have increased to 6.3 percent of total budget expenditure.

An important message is that higher levels of participation and contribution by CSOs and communities in the budget processes are very important. Publication and understanding of the Citizens' Budget goes a long way toward engaging citizens and ensuring success.

LESSONS LEARNED

Achieving the full awareness of all civil servants at all levels about gender-related issues is still a work in progress. More awareness and, of course, greater understanding would support further progress.

RESULTS BRIEF 1.2

Romania: Good Practice in Public Policy-Setting

DRAGOȘ NEGOIȚĂ, DIRECTOR, GENERAL SECRETARIAT OF THE GOVERNMENT OF ROMANIA

CONTEXT

An Important Role in Government

Romania's General Secretariat of the Government (GSG) has come to take a leading role in strengthening public policy processes. This case focuses on GSG's management of one of the important policy processes, regulatory impact assessments (RIAs).

The main function of the GSG is to prepare the weekly Government meeting, ensure interministerial coordination and the coordination of several regulatory agencies and authorities, and design and implement the Better Regulation Strategy (see Figure 1.4-1).

The GSG assists ministries and the central Government with RIAs—providing training, monitoring compliance with regulations, putting in place quality control mechanisms, and preparing regular intra-Government meetings. To promote better knowledge exchange, an RIA Community of Practice was created in which all ministries can share their experience through online meetings and other tools. The Community of Practice has adopted values that guide the interactions and communication of its members (see Figure 1.4-2). The six core values

are meant to foster and environment and set a tone in which the practice will flourish.

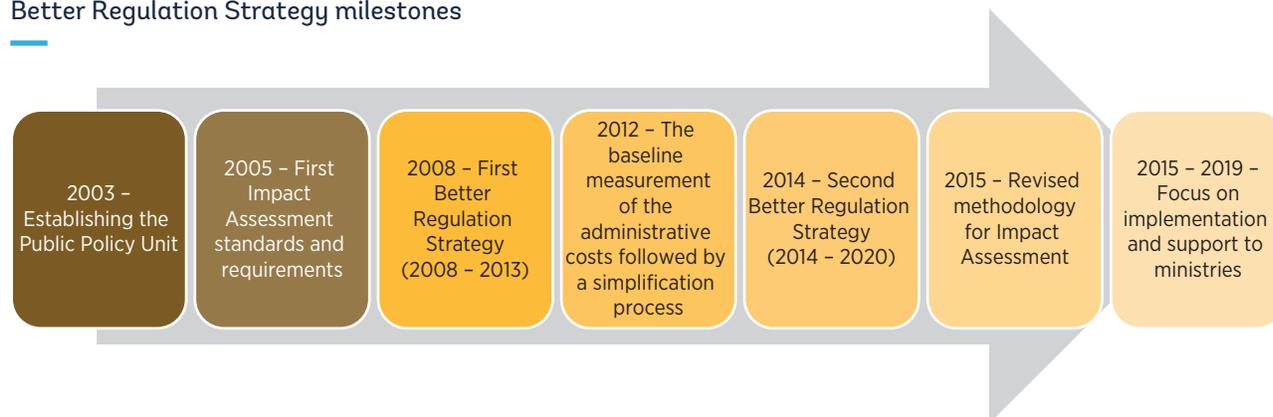
The GSG emphasizes the coordination of all stakeholders. Among the tools it uses to strengthen the public policy process, the Annual Working Plan is developed using a web portal on which all ministries must publish their annual initiatives. Consolidating the initiatives in advance helps create an early impact assessment and coordinates strategies on a Government-wide level, moving away from the previous ad hoc decision-making process.

Digitization and Involvement of GovTech

The GSG's success in fostering and managing the Annual Working Plan and other efforts did not rely solely on people and their management skills or on the values embraced in the Community of Practice. IT infrastructure and GovTech played a major role in reducing red tape and enabling businesses and citizens to assess all processes.

Before beginning the digitization process, Romania involved both the private and public sectors in an effort to simplify some aspects of the bureaucracy. In the two-pronged initial

FIGURE 1.4-1.
Better Regulation Strategy milestones



approach, discussions were first held with all relevant ministries to identify, quantify, and reduce red tape for businesses; and second, businesses were involved to assess cost. This approach resulted in reducing red tape by 70 percent.

Simplification started with the analysis of the processes and of the impact of the processes on citizens and businesses. Standardization and simplification needed to happen before

FIGURE 1.4-2.
Community of Practice values

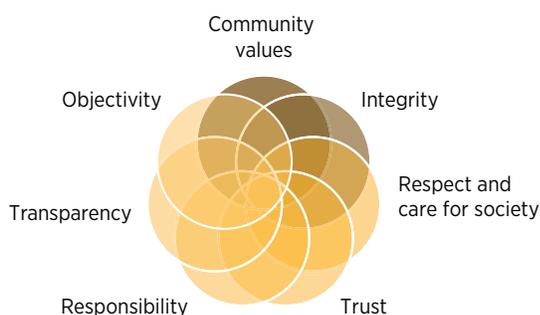
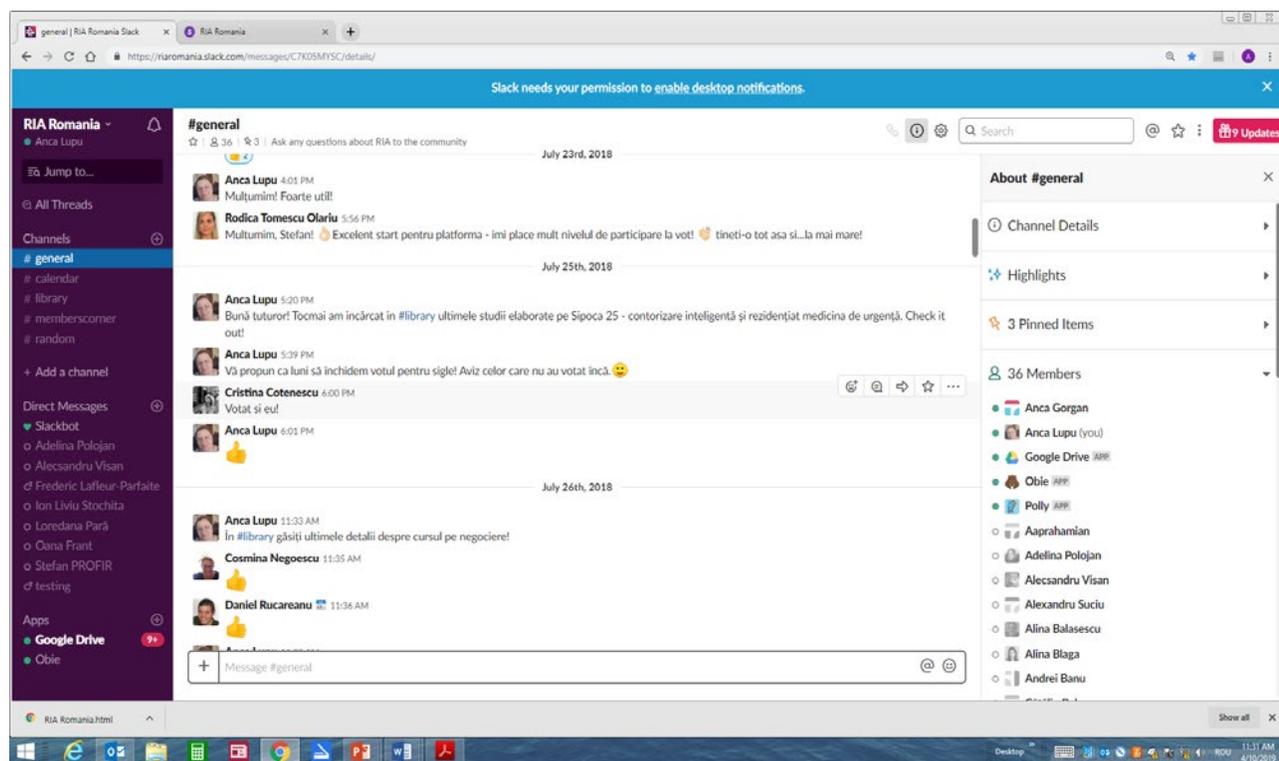


FIGURE 1.4-3.
GovTech and the RIA Romania Community of Practice



digitization; otherwise, the same things would still be performed in several different ways, but just digitally instead of the old way.

Observations on Romania's Success

This experience is an excellent example of the combining of two Governance Conference themes, *Strengthening Public Policy Processes* and *GovTech*. GovTech is, of course, a cross-cutting theme. In today's environment, it can hardly be imagined that large-scale government change initiatives would be successful without it.

IT infrastructure and GovTech can play a major role in reform implementation. IT can help reduce red tape, level the playing field for stakeholder collaboration, and allow businesses and citizens to assess the processes (see Figure 1.4-3 for an example of the RIA Community of Practice).

The GSG combined good management practices, judicious use of web portals and other IT systems, a community of practice, and the involvement of the private and public sectors to achieve its success.



CHAPTER 2

Managing Public Resources

PART I

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Scarcity of resources is an endemic constraint for governments in ECA countries and across the globe. Policy goals, objectives, and ideas for new initiatives are rarely short of ambition – whether for improved education, better health care, a more competitive economy, or a more sustainable environment – but governments often lack the financial and human resources to carry them out. In some cases, the capacity to raise sufficient domestic revenues is lacking, but governments are also bound by constraints on spending to keep government deficits and debt at sustainable levels. Faced with such resource constraints, governments typically follow two complementary courses of action: they focus on mobilizing further resources through new taxes, higher tax rates, and more efficient revenue collection; and they attempt to get the most out of the resources they have through better financial and human resource management, capacity building, and organizational development.

This chapter focuses on how governments manage their resources, what the main issues are in ECA countries, and how the World Bank is providing assistance to improve the efficiency and effectiveness of resource management. The chapter is divided in two parts. Part I focuses on public financial management (PFM), including domestic resource mobilization (DRM), public expenditure management (PEM), and procurement. Part II discusses public administration reforms to boost public sector performance at both the organizational and individual levels, including performance measurement, innovative practices to improve performance, and the impact of administrative simplification. Finally, it looks at the issue of performance-related pay as an example of a reform at the individual level.

I: Public Financial Management

PFM refers to the set of laws, rules, systems, and processes used by governments (and subnational governments) to mobilize revenue, allocate public funds, undertake public spending, account for funds, and obtain audit results (Lawson, 2015).

Good PFM systems and institutions can play a critical role in the design and implementation of national policies. If done well, PFM connects available resources, delivery of services, and achievement of government policy objectives and ensures that revenue is collected efficiently and used appropriately and sustainably (PEFA Secretariat, 2016). PFM has been equated with the “plumbing” of the public sector and the political system. While many decision-makers do not know the details of how the PFM system operates, they recognize that when PFM systems are broken or inadequate, problems will inevitably surface, and the political system will demand to have them fixed.

The overall objectives of PFM can be explained as follows:

- *Fiscal sustainability*: aggregate levels of tax collection and public spending are consistent with fiscal targets, and do not generate unsustainable levels of public debt.

- *Efficiency*: budgets are allocated in accordance with government priorities (allocative efficiency), and the amount and quality of services delivered are maximized within the resources available (technical efficiency).
- *Transparency*: the budget and other financial documentation is publicly accessible, and public participation in key PFM processes is both enabled and encouraged.

Over the past decades, PFM has undergone considerable development as a practice field. Expenditure pressures have led to increasing demands on efficiency and resulted in such innovations as technological development and new organization and management practices. The following are some key trends in PFM:

- *Automation*. As is explained in the chapter on GovTech, “big data” and new technologies mean that government IT systems are increasingly integrated, and the scope, quality, and security of data are greatly enhanced. These new technological possibilities have transformed PFM by automating financial controls

that were previously done manually and enabling advanced risk management and monitoring systems.

- *Devolution.* Transactional functions are increasingly being devolved from ministries of finance and other central finance agencies to line ministries and agencies. Some specialized functions – such as core treasury, tax administration, and customs functions – are increasingly moved out from the central finance agency departments to separate agencies. This change makes a split between policy and administration and provides these agencies with the necessary autonomy to carry out their operations independently and efficiently.
- *New management practices.* Modern public sector practices that are inspired by “New Public Management” theory has also affected PFM. New budget practices have focused on providing responsible managers more flexibility in executing their budgets while strengthening their accountability for achieving results.

The combined effect of these trends is a gradual transformation of the roles of some of the key actors. Notably, ministries of finance or other central finance agencies gradually spend less time on detailed checking of compliance with budget administrative rules and more time on defining overall parameters and monitoring against them. At the same time, the central finance agencies are gradually assuming a more important role in setting agendas and shaping policy across the government, including building knowledge and skills to analyze cross-cutting policy issues relating to all sectors of the economy.

DOMESTIC RESOURCE MOBILIZATION

The fundamental goal of domestic resource mobilization is to “achieve revenue sufficiency for sustained economic and social development” (World Bank, 2017a). Governments’ ability to finance public expenditures depends on their ability to mobilize domestic revenue. Therefore, in low- and middle-income countries mobilization and effective use of domestic resources are central for achieving sustainable development, ending extreme poverty, and boosting shared prosperity. Other common financing options for governments in these countries are borrowing and official development assistance. Excessive public borrowing, especially in international currencies, often leads to the growth of public debt, which undermines fiscal sustainability. And as official development assistance

flows are finite and fluctuate over time, they are insufficient to close the financing gap in low- and middle-income countries. DRM is thus key for ensuring predictable public financing for economic and social priorities and for attaining fiscal sustainability.

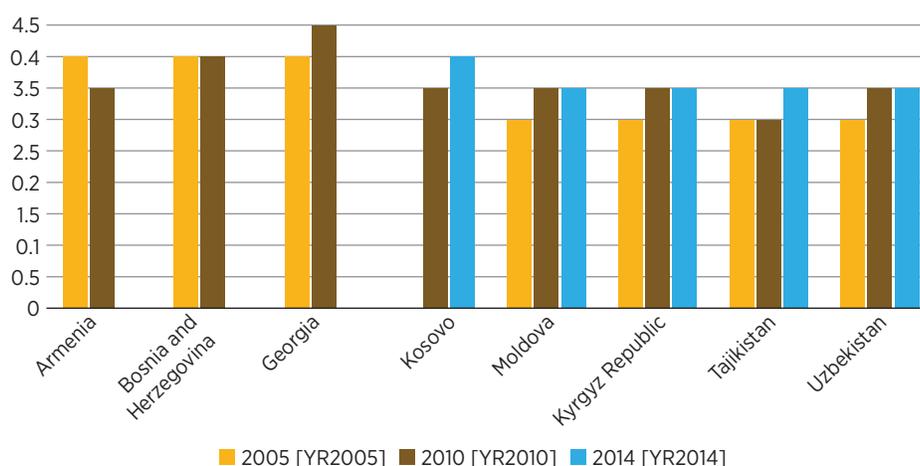
Taxation is a primary revenue source for governments and thus the main focus of DRM. Taxation includes both tax policy and administration. Tax policy is about shaping a statutory tax system. It entails establishing a legal framework that defines the mix of taxes, tax rates and tax bases, and rules for assessing tax liability and exemptions. Key points of attention in evaluating tax policies include whether a country is overly reliant on particular taxes, what may be the distortionary effects of the taxes used, and whether the tax system is transparent and fair. Tax administration plays a crucial role in determining the real (effective) tax system, as it concerns the effectiveness, efficiency, and transparency of tax collection within the statutory framework.

DRM does not pertain only to the central level of government. Over the past few decades, following increasing fiscal decentralization, there has been an increase in expenditure and revenue collection at the regional, municipal, and even city levels in many low- and middle-income countries (UNECA, 2018; World Bank, 2017a). It is therefore pertinent to include all levels of government in designing the policies and procedures for DRM.

Improving the tax administration may have spillover effects on other policy areas and policy issues. As an example, the introduction of unique taxpayer identification numbers has facilitated interoperability and data sharing with other public registries and has strengthened municipal governments and commercial banks (World Bank, 2017a). A well-functioning tax administration can be of great help to the judicial branch in investigating and reducing financial crimes. Its databases can also assist in economic policymaking through bankruptcy analysis and sectoral tax income analysis. Reforming and improving the tax system can therefore affect the public sector more broadly, and lead to good returns on investment.

Most of the countries in the ECA region are fairly advanced, and the tax reforms they need to engage in for the coming years can be characterized as “second-generation.” *Improvements in the World Bank’s Country Policy and*

FIGURE 2-1.
CPIA “efficiency of revenue mobilization” rating (1=low to 6=high)



Source: World Bank CPIA database and staff calculations.

*Institutional Assessment (CPIA) are indicative of a positive trend in the overall efficiency of revenue mobilization in the region.*¹ Between 2005 and 2014, most ECA countries remained stable or saw an increase in their CPIA “efficiency of revenue mobilization” rating, which assesses both tax policy and tax administration aspects. Armenia was the only exception during this period (see Figure 2-1).

Between 2011 and 2020, all ECA countries also experienced a significant improvement in the ease of paying taxes. The regional average improved by 35 percent. This change shows that the tax administrations of all ECA economies have been performing better since 2006 and have become more business-friendly over this time by successfully reducing the administrative burdens of tax compliance (Figure 2-2).

However, many different issues continue to limit governments’ capacity, efficiency, and effectiveness in mobilizing further domestic resources. As Figure 2-3 shows, there is a significant gap between ECA countries and OECD countries in tax revenue mobilization—a gap in the range of 12-20 percentage points of GDP (Figure 2-4).

There are several obstacles to exploiting the full potential of DRM.

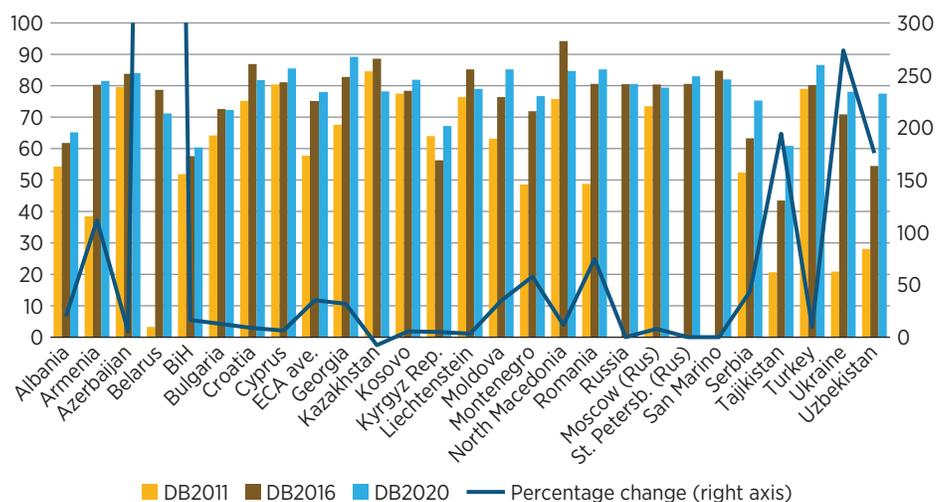
Poor VAT productivity. The value-added tax (VAT) is among the key sources of tax revenue in ECA countries, but VAT productivity² is generally low because of problems of fraud and evasion. In some countries in the ECA region, VAT noncompliance and high rates of VAT fraud and evasion lead to derogation of revenues, not just in VAT but also down the chain. Typically, VAT productivity across the low- and middle-income countries in the region is low, on average 48 percent (46% when the two small “outliers” of Montenegro and Bosnia and Herzegovina are excluded).³ VAT productivity in Russia, Azerbaijan, and Kazakhstan is among the lowest in ECA, perhaps because these countries’ large revenues from the petroleum sector may have reduced the incentive to improve the productivity of VAT. In the ECA region, countries with lower per capita GDP tend to have higher VAT productivity. This implies that there may be significant tax loopholes in resource-rich countries. Improving the administration of the VAT should be of great importance for resource-rich countries, especially now, with oil prices expected to remain low for the foreseeable future. A broadening of the tax base, better compliance, and better VAT administrative

1 The latest data sample of ECA countries available on the database is very small, covering only Armenia, Bosnia and Herzegovina, Georgia, Kosovo, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan.

2 VAT productivity is defined as VAT collected as a percentage of GDP, divided by the standard VAT rate.

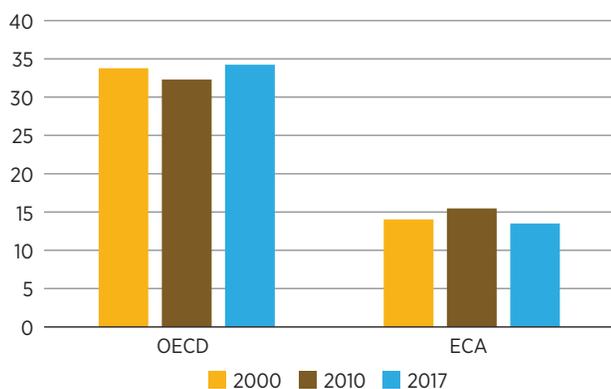
3 USAID Collecting Taxes Database 2012/2013.

FIGURE 2-2.
Doing Business ranking on the ease of paying taxes 2006-16



Source: Doing Business database and staff calculations.
Note: The percentage change in the Doing Business score for Belarus 2011-20 is 2,058%.

FIGURE 2-3.
Tax revenue as a percentage of GDP: averages for ECA and OECD

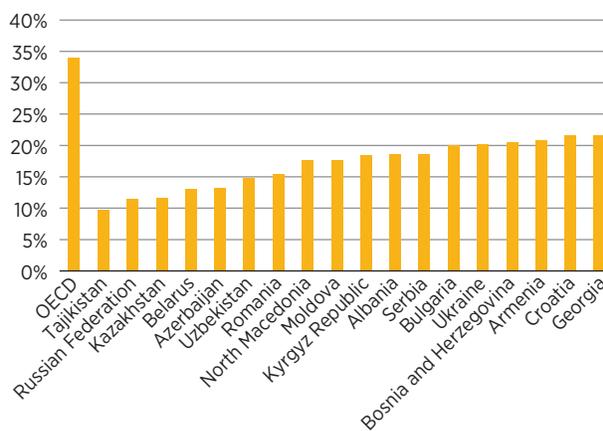


Source: World Development Indicators Database – World Bank Group, and OECD Global Revenue Statistics Database.

performance are areas on which countries with low VAT productivity need to focus.

Economic informality. Most of the economies in the ECA region have high rates of economic informality (or shadow economy) as a percentage of GDP. According to the Schneider et al. (2010), the average size of the shadow economy as a percentage of “official” GDP is larger in the ECA region than the

FIGURE 2-4.
Tax revenue as a percentage of GDP for ECA countries



global average (36% on average between 1999 and 2007 in ECA countries, compared with the global average of 33%). The problem is especially acute in some countries: for example, in Azerbaijan and Georgia the size of the shadow economy is estimated at 48.6 percent and 51.5 percent, respectively, in 2017 (Medina and Schneider, 2019). Any sustainable improvement in tax-GDP ratios will be possible only with a concerted effort to reduce the rate of informality.

In the past two decades, many countries in ECA (Armenia, Bulgaria, Kyrgyz Republic, Poland, Ukraine, and others) adopted simplified tax regimes for small and medium-sized enterprises and sole proprietors to lower their compliance burden and encourage them to move their informal activities into the formal economy. Some ECA countries (Armenia, Croatia, Russian Federation, Serbia, Tajikistan, and others) introduced fiscal cash registers, and some have implemented or started implementation of e-invoicing (Armenia, Croatia, Kazakhstan, Poland, Russian Federation) to tackle the shadow economy. Although the levels of economic informality in ECA countries have decreased in recent years—the average size of the shadow economy in ECA declined from 31.8 percent in 2007 to 29.6 percent in 2017—the large shadow economy remains a challenge for many countries in the region.⁴

Tackling the shadow economy calls for a multipronged strategy:

- Sharpen tax administrations' tools to detect and punish tax evaders (electronic cash register systems, e-invoicing and invoice matching, sectorial approach, "big data"-based risk profiling and audits, legal framework providing for information collection and prosecution); and
- Create conditions that encourage businesses to stay out of the shadows (incentives to move toward a cashless economy, measures to reduce the complexity of the tax regime).

While many ECA countries have made major strides in tax administration reforms, inefficiencies in the tax administration systems continue to hinder effective tax enforcement. Recent assessments of the performance of the tax administration systems in several ECA countries pinpoint areas where significant improvements have been achieved and where weaknesses persist. These assessments use a Tax Administration Diagnostics Assessment Tool (TADAT), which benchmarks a country's tax administration system to international best practices in nine performance areas: integrity of the registered taxpayer base; effective risk management; supporting voluntary compliance; on-time filing of declarations; on-time

payment of taxes; accurate reporting in declarations; effective tax dispute resolution; efficient revenue management; and accountability and transparency (TADAT, 2015 and 2019). ECA countries for which the completed TADAT Performance Assessment Reports are publicly available include Armenia, Belarus, Georgia, Kyrgyz Republic, Tajikistan, and Ukraine.

Results of the available TADAT assessments in ECA (Figure 2-5) indicate that tax administration systems in these countries generally perform well in the following areas:⁵

Supporting voluntary compliance. To facilitate voluntary compliance, the tax administrations regularly provide a range of taxpayer information materials tailored to different taxpayer segments, including through the website, publications, seminars, dedicated taxpayer service staff in local tax offices, and other communication channels. They also have taken proactive measures to reduce taxpayer compliance costs and seek feedback from taxpayers on services provided.

Timely filing of tax declarations. Filing of taxes is the performance area in which some ECA countries show good results in the TADAT assessments, and others not so good results. Armenia, Belarus, and Ukraine have attained significant improvements, with high on-time and e-filing rates for VAT, corporate income tax and pay-as-you-earn amounts withheld by employers and modest on-time and e-filing rates for personal income tax. Georgia has reached high e-filing rates for these core taxes, yet on-time filing of tax returns is low. The Kyrgyz Republic still needs to make significant progress in both on-time filing and e-filing rates.

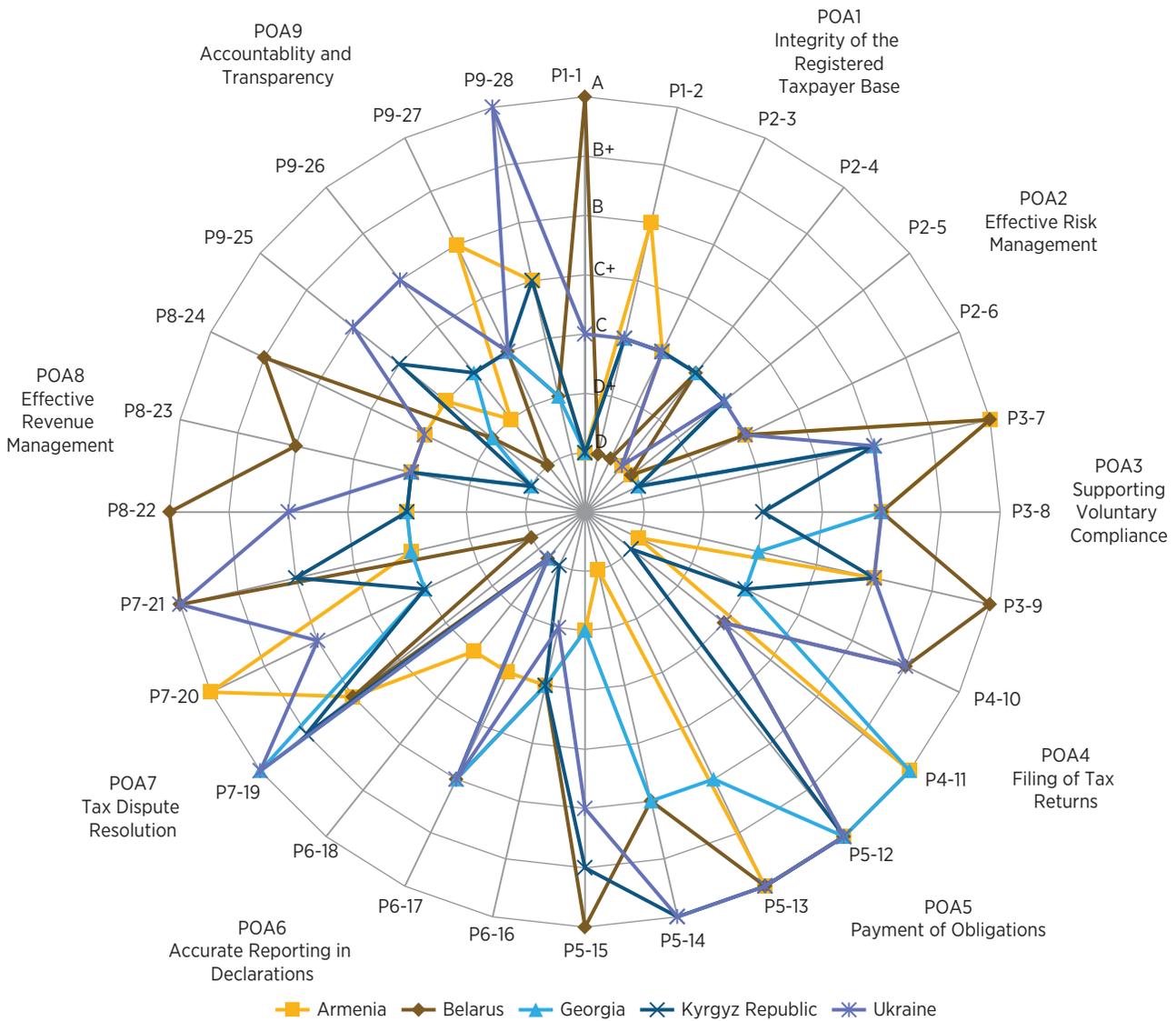
Timely payment of taxes. Following international best practice, the tax administrations in these ECA countries rely on the use of electronic payment methods, withholding at source, and advance payment systems. However, countries such as Georgia and Ukraine continue to have significant uncollectible tax arrears, most more than one year old.

Effective tax dispute resolution. The tax administrations in ECA countries generally have a well-established

⁴ Ibid.

⁵ The spider chart with TADAT assessment results in ECA does not include Tajikistan since the TADAT assessment in Tajikistan was based on the 2019 TADAT methodology, which includes a few revisions of the 2015 TADAT methodology. The review of the results of the TADAT assessments in ECA refers to the performance of the tax administration system in Tajikistan where relevant.

FIGURE 2-5.
TADAT assessment results in ECA countries (2015-2019)



administrative review process for dispute resolution, which is independent of the audit function, graduated, and used by taxpayers. The tax administrations publish information on the dispute resolution process on their websites. However, as the available TADAT reports for ECA report, administrative reviews tend to be completed within statutory timelines that are longer than the international best practice benchmark of 30 calendar days.

At the same time, the available TADAT assessment results in ECA show important systemic weaknesses in tax administration:

Poor integrity of the registered taxpayer base. This is a fundamental problem that many ECA countries have struggled to resolve. Most ECA countries have put in place tax IT systems that rely on the centralized taxpayer registration database and enable the assignment of a national taxpayer identification number to each registered taxpayer and the validation of these identification numbers. However, the tax administrations in ECA often lack processes to ensure the accuracy of the registration database, which therefore has a large number of inactive but registered taxpayers. As the available TADAT assessments have reported, Belarus stands out as the only country that has established procedures for verifying the accuracy of the information held in the taxpayer registration

database and uses large-scale automatic cross-checking with other Government databases for identifying active and inactive taxpayers. The tax administration practices in Armenia and Tajikistan involve regular initiatives and reporting of outcomes to detect business and individuals who are required to register but have failed to do so, but the other ECA countries have implemented such initiatives only to a limited degree.

Inadequate risk management. Risk management in tax administration in ECA countries is mainly limited to tax audits; most often it does not cover all tax administration core functions and all taxpayer obligations, such as registration, filing, payment, and reporting of taxes. The results of the available TADAT assessments in ECA show that most countries lack a systematic approach to identifying and gathering compliance risks, and their risk assessment process is not well structured. Some tax administrations in ECA countries (Belarus, Georgia, Tajikistan) prepare plans to improve compliance, but these plans do not identify all taxpayer segments, compliance obligations, or main tax types and do not include clear mitigation activities around the identified taxpayer segments and set out how the effectiveness of such mitigation activities will be evaluated. In Georgia and Ukraine, the tax administrations have created risk units, but the development of a compliance management program is still in its early stages.

Limited verification and monitoring of inaccurate reporting in tax declarations. Most tax administrations in ECA have comprehensive tax audit programs, but the impact of the audits on taxpayer compliance has not been evaluated. Belarus, Georgia, and Tajikistan have implemented centralized large-scale automated cross-checking of data to verify the accuracy of reporting in tax declarations, with some limitations in access to data from third parties. The tax administrations in Belarus, Georgia, and Ukraine have used public and private rulings to encourage accurate reporting in tax declarations, yet no cooperative compliance approaches have been developed in ECA countries. In addition, the tax administrations in ECA do not monitor the extent of revenue losses from inaccurate reporting.

Lack of efficient revenue management. In most ECA countries inputs from the tax administrations to the government budget process relate only to tax revenue forecasting. The tax administrations in some countries—Belarus, Tajikistan, and Ukraine, for example—also monitor and provide inputs on

VAT refunds, tax expenditures, and tax losses carried forward. Most ECA countries have well-developed revenue accounting systems, which interface with the Treasury IT systems or the integrated financial management information system (IFMIS). However, the revenue accounting systems are generally subject to limited external and internal audits. Except in Belarus, VAT refund processing in ECA countries for which the TADAT assessment results are available is inadequate, because of the lack of risk-based verification of VAT refunds and fast-track procedures, or the significant time taken to pay (or offset) VAT refunds, or both.

Underdeveloped accountability and transparency. The tax administrations in ECA have initiated reforms to improve accountability and transparency, but robust pillars of good governance in this area are still lacking in many countries in the region. Among ECA countries for which TADAT assessment results are available, Ukraine stands out as the country that has put in place a comprehensive accountability system in the tax administration, including internal assurance mechanisms to support integrity and internal control, external oversight, and transparency in reporting on financial and operational performance, strategic plans, and action plans. An emerging trend among the tax administrations in ECA is to rely on independent perception surveys to monitor public confidence in the tax administration, but greater transparency is needed in reporting the results of such surveys.

To increase the effectiveness and efficiency of the tax administration systems in ECA countries, further reforms will be needed in the following areas:

Improving the use of ICT for data collection and taxpayer risk profiling and strengthening capabilities in the use of risk management methods for auditing. One of the benefits of advances in ICT technology in recent years has been the ability to use it to collect data on taxpayers' financial transactions and to use data mining methods to create risk profiles of taxpayers. Upgrading ICT systems and bringing in cutting-edge technologies could help achieve more effective tax enforcement. New and better software and risk engines have been developed that can sharply increase the capacity of tax administrations to spot risks and more effectively prevent tax avoidance and evasion.

International tax capacity building in transfer pricing and other international tax avoidance methods. Lawyers and tax professionals are constantly developing new and innovative tax avoidance methods, and it is always a challenge for tax administrations to keep up. The ECA region lacks the highly skilled tax auditors who can foil the attempts of large multinational companies and international enterprises at exploiting tax loopholes to avoid tax, and sometimes hiding incomes in offshore tax shelters. ECA countries are increasingly interested in international taxation topics; since June 2014, the World Bank team has organized three events in this area.

PUBLIC EXPENDITURE MANAGEMENT

PEM involves the use of expenditure plans and budgets to achieve public policy outcomes – including aggregate fiscal discipline, allocative efficiency, operational efficiency,⁶ transparency, and accountability. The institutions, systems, and work processes involved can be broadly grouped into four areas: (a) budget formulation, including all processes from budget planning up to the legislature’s approval of the budget proposal; (b) budget execution, which consists of a set of

standards and processes to ensure that the budget is implemented as intended, including cash planning and forecasting, budgetary controls, internal control and audit, and treasury operations; (c) accounting and reporting, ensuring that appropriate accounting records are maintained and reported in support of decision-making; and (d) audit and legislative oversight to ensure that expenditures are independently reviewed and any recommendations for improvement are followed up.

Using the Public Expenditure and Financial Accountability (PEFA) assessment, which is the most widely used and accepted framework for measuring PFM performance internationally, the PFM system in ECA countries can be assessed against seven dimensions (Table 2-1).

As Figure 2-7 shows, overall, ECA countries perform relatively well compared to countries in other regions, with higher average scores on all dimensions. This outcome is likely to some extent correlated with the higher share of middle- and high-income countries in ECA than in other regions. Within ECA, slight progress has also been recorded on most dimensions when comparing the latest to the previous assessments

BOX 2-1.

The Role of the World Bank and Other Donors

There are four ways in which the World Bank and other donor agencies can contribute in the area of revenue mobilization in ECA:

- Carry out tax diagnostics to take stock of performance and identify the need for technical assistance.
- Organize international conferences that bring together international experts and participants from client countries on specific topics of interest to the region’s ministries of finance and tax administrations. The regional network, TAXGIP,^a is the best vehicle for this.
- Provide specific, targeted technical assistance to client countries on their problems relating to tax policy and administration.
- Provide financing for tax administration reform projects.

On VAT administration, the World Bank has already been working with various countries in the region, exploring options

a. Tax Practitioners Network to Exchange Global Innovative Practices.

for improving tax design and administration. The World Bank can also help tax administrations develop strategies to tackle the shadow economy. The Bank organized an international conference (TAXGIP 2015) on international tax issues and is also providing targeted technical assistance to several countries in the region. Similarly, in the area of risk management, the Bank has published a manual and is providing technical assistance to countries in the region. To help improve the effectiveness and efficiency of tax administration using technology, the Bank has been financing lending operations in Armenia, Kazakhstan, Moldova, Montenegro, Serbia, and Tajikistan that support the modernization of ICT systems and technologies. Countries in the ECA region (as Figure 2.3 showed) still have a long way to go to reach the average OECD level of revenue mobilization. Progress is being made, however, in part because the World Bank and other development partners continue to support multiple reform efforts across the region.

6 See Asian Development Bank: <http://www1.worldbank.org/publicsector/LearningProgram/anticorrupt/GovernanceBrief-Issue.pdf>

TABLE 2-1.

Key dimensions and aspects of PEM performance (PEFA Secretariat 2016)

DIMENSION	GOOD PRACTICE BENCHMARK
Budget credibility	The budget is realistic and implemented as intended.
Transparency of public finances	Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation.
Management of assets and liabilities	Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.
Policy-based fiscal strategy and budgeting	The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.
Predictability and control in budget execution	The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.
Accounting and reporting	Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.
External scrutiny and audit	Public finances are independently reviewed, and there is external follow-up on the implementation of recommendations for improvement by the executive.

(Figure 2-6). While the differences in average scores are modest, ECA countries do well in the comprehensiveness and transparency of the budget and in accounting and reporting, and less well in policy-based budgeting. The average scores for individual countries are highest in Georgia and Moldova, both scoring an average of 3.5 out of a maximum 4, while Tajikistan, Uzbekistan, Ukraine, Serbia, Belarus, and North Macedonia all have average scores of 2.5.

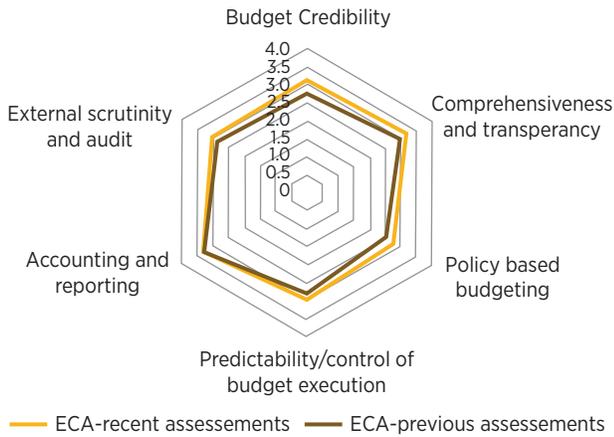
PEM reform is an ongoing theme to equip ECA countries to improve their performance while taking into account the megatrends described above. The following are some of the key reform areas that ECA countries are considering or have introduced.

Medium-term expenditure frameworks (MTEFs). Many countries have supplemented the annual budget with a three- to four-year budget outlook to improve expenditure planning. The rationale for such MTEFs is that several transactions are multiyear in nature, and there is a need for more predictability in planning. Many ECA countries have embraced this idea, and

several have introduced MTEFs: Armenia, Bulgaria, Georgia, Romania, Serbia, and others. However, MTEFs are in many cases in the early stages of development, with little integration to the annual budget process and poor quality of out-year estimates.

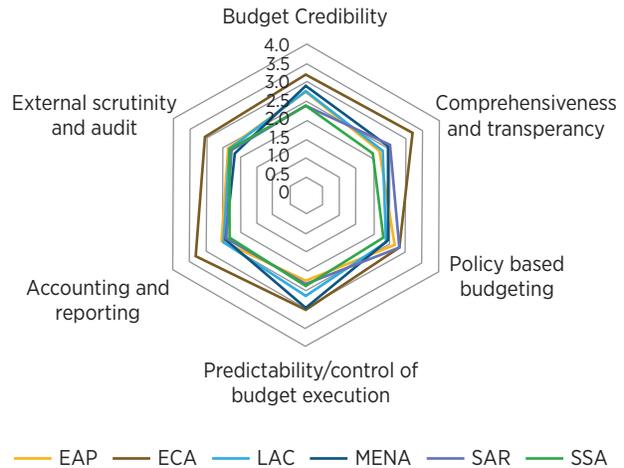
Unified budgets. Unifying capital and current budget elements in one harmonized budget process, resulting in one set of budget documentation coordinated by one budget authority, has long been recommended by the World Bank, IMF, and other international donors. The rationale is to avoid unhealthy institutional rivalries between central planning and finance agencies, make sure recurrent cost implications are taken into account in investment decisions, and enable governments to make the necessary trade-offs among all types of expenditures when deciding on the use of fiscal space. The experience of ECA countries is quite mixed in this respect. Some countries – Belarus, Kyrgyz Republic, Russia – maintain a dual budget system with a capital budget coordinated by a Ministry of Economy or Planning and a recurrent budget led by a Ministry of Finance. Some other countries, like Turkey,

FIGURE 2-6.
Most recent average PEFA scores for ECA compared to previous assessments



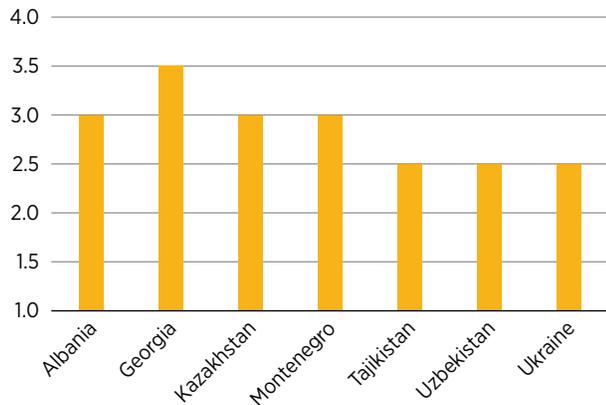
Note: PEFA scores are converted to numbers with the maximum score of A=4 and the minimum score of D=1.

FIGURE 2-7.
Average PEFA scores by region



Note: PEFA scores are converted to numbers with the maximum score of A=4 and the minimum score of D=1.

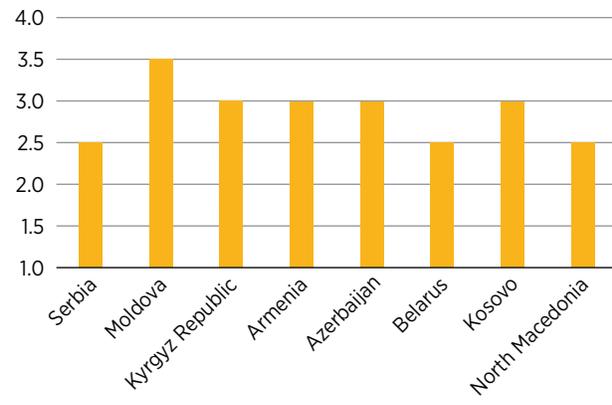
FIGURE 2-8.
Average PEFA scores for individual ECA countries (2016-framework)



Note: PEFA scores are converted to numbers with the maximum score of A=4 and the minimum score of D=1.

have taken steps to place the institutional responsibilities for the capital and current budgets under one roof, although the procedures and documentation are still not unified. In other cases, such as Bulgaria, Romania, Serbia, and several of the Balkan countries, the budgets are unified. However, unification is not always a recipe for success if the Ministry of Finance is not fully capable of taking on the responsibilities transferred from central planning agencies; therefore, it

FIGURE 2-9.
Average PEFA scores for individual ECA countries (2011-framework)



Note: PEFA scores are converted to numbers with the maximum score of A=4 and the minimum score of D=1.

should be combined with reforms to improve organizational capacity.

Program and performance budgeting. Responding to the need for a more policy-based budget and for central finance agencies to exercise a stronger role in setting agendas and shaping policy across the government, countries have become increasingly interested in program and

performance budgeting. For example, the 2018 OECD Survey on Performance Budgeting found that 30 countries out of 35 surveyed practiced some form of performance budgeting, up from 24 countries in 2011. While budgets in most countries have historically been detailed line-item budgets under economic and administrative classifications, the more policy-relevant program budget classifies the budget by programs and activities. In the documentation, program allocations are often combined with nonfinancial information such as indicators and targets to inform decision-makers about the desired results of the programs and create a baseline for monitoring and ex post evaluation of performance. A distinction is often made between performance-*informed* budgets, which make performance information available to facilitate a dialogue about performance, and the much rarer performance-*based* budgets, which attempt to create a direct link between the performance and the size of current and future allocations. Several ECA countries have introduced some form of performance budgeting, although the tool is still under development. Experience shows that achieving a positive impact with program budgeting depends to a large extent on the ability to implement the performance orientation beyond the budget documentation itself by initiating corresponding changes in all stages of the budget process, including spending reviews and ex post monitoring and audit practices, and in corresponding management rules and processes.

Integrated financial management information systems (IFMIS). The early generations of information systems supporting PFM were often fragmented, with individual systems designed for each PFM function or stage of the PFM lifecycle—for example, individual systems for planning, budget formulation, treasury, accounting, audit, and so on. Technological development has allowed such systems to be integrated or interfaced, enabling a much more efficient processing of financial transactions. At its core, an IFMIS allows for the processing of budget execution-related financial transactions and a set of controls that ensure budget compliance. A well-functioning IFMIS makes it easier to attain the planned fiscal deficit targets that are necessary for ensuring macroeconomic stability, ensure compliance with the International Public Sector Accounting Standards, and lay the foundations for enhancing the efficiency and effectiveness of service delivery (World Bank 2020). While the core elements of an IFMIS relate to budget execution and treasury operations, the integration of the core with non-core modules like planning and budget formulation,

payroll, e-procurement, project accounting, and fixed assets further enhances the controls, accuracy, and reliability of information for resource management.

The implementation of an IFMIS affects the entire PFM system and is therefore an important opportunity to ensure that all PFM functions live up to good international practice. A key lesson from IFMIS reforms in recent decades is thus the need to base the new system on reformed legal and regulatory frameworks and reformed business processes. Some ECA countries, such as Armenia, Moldova, Russia, and Belarus have already invested – or are planning to invest – in modernizing the technological infrastructure for PFM reforms through integrated systems. Other countries appear to maintain a more fragmented information system landscape.

Accrual accounting. Public sector accounting has in most countries traditionally been cash-based, designed to record payments and measure the cash position of various levels of government. An expenditure would be recorded at the time when a bill was paid and a revenue when funds were received. While monitoring and control of cash remains fundamental, it has increasingly been recognized that a modern accounting system should also reflect costs and incomes at the time they *accrue*—that is, at the time of changes in the values of assets and liabilities, irrespective of when the cash transaction takes place. This is inspired by the principles of private and nonprofit sector accounting. As an example, significant costs accrue in relation to the depreciation of public assets such as buildings, roads, structures, or equipment, which are not recorded in a cash-based system but show up in the income statement of an accrual system. At the macro level, an accrual system arguably gives a more comprehensive picture of the state of public finances based on a full set of financial statements – income statement, cash statement, and balance sheet. At the micro level, it can provide for transparency and more information about the financial consequences of various transactions. Some countries have also found that it facilitates operational efficiency and performance orientation in PFM through the ability to better match the timing of costs, activities, and results.

Accrual accounting has been introduced in several OECD countries in line with accrual-based international accounting standards but is still primarily an aspiration in most ECA countries. One of the obstacles has been the scale and scope of the

transformation in terms of systems modernization, training, and capacity building.⁷

Budget comprehensiveness and transparency. Several international initiatives have been launched in recent years to improve comprehensiveness and transparency, such as the Global Initiative for Fiscal Transparency and the International Budget Partnership. Key frameworks have been developed to measure the transparency of fiscal information, notably the Open Budget Index (OBI) prepared by the International Budget Partnership and the Fiscal Transparency Assessment prepared by the IMF. Transparency reforms include a variety of initiatives, such as improving the comprehensiveness of documentation and making it more accessible for CSOs and the public at large through such measures as publishing citizen budgets, establishing open public finance data portals, facilitating budget dialogues through pre-budget statements, and improving the conditions for legislative oversight.

Transparency reforms have had some tailwind in ECA in recent years. The 2017 OBI scores are thus above the global average but still below the average for OECD countries (IBP, 2018). Some countries—Albania, Georgia, and Turkey—have demonstrated significant progress from 2015 to 2017, but there are also countries where progress has halted (Bulgaria, Hungary, Russia, Serbia) or the situation has even regressed (Azerbaijan, Bosnia).

While the reform agenda described above is technically demanding, it would be a misconception to regard PEM reforms as merely a technical reform discipline. Mastering the technical reform aspects is a necessary but not sufficient condition to succeed with PFM reforms. Equally important are reform enablers such as organizational and individual staff capacity, intra-institutional coordination, and information systems, which have been highlighted in Bank-led functional reviews of central finance agencies or public finance functions in line ministries and agencies.

The management of the reform process itself is also critical. The approach to reform is a first critical consideration. Different approaches have their pros and cons – for example,

whether to go for a “big bang” or a more drawn-out incremental reform process – and must be considered thoroughly in light of the absorptive capacity of key officials. Then comes the consideration of the sequencing of reforms to make sure reform elements are implemented in the right order, in light of their interdependencies as well as the need for appropriate governance and change management arrangements to ensure leadership, buy-in, and communication.

PUBLIC PROCUREMENT

In 2015, the share of public procurement in GDP was 13.4 percent on average for EU-countries (EC, 2018). Because of the size of public procurement, reforms in this area have a significant impact on a country’s fiscal position and other aspects of the economy.

The core principles in procurement refer to economy and efficiency, competition (equal opportunity for all bidders), and transparency, as well as encouragement of the development of domestic markets. Reflecting the international trend of using public procurement as a strategic function to contribute to sustainable development outcomes, economic growth, and job creation, in 2016 the World Bank introduced a new Procurement Framework that, in addition to these principles, highlights value for money. The overall vision of the Framework is “to support Borrowers to achieve value for money with integrity in delivering sustainable development” (World Bank, 2016).

Besides fiscal aspects, public procurement can be used to attain a variety of policy objectives. For example, it can aid in fostering innovation, encouraging and rewarding responsible business conduct, supporting small and medium businesses, encouraging environment-friendly businesses and business practices, supporting women-led businesses, and supporting inclusive growth (OECD, 2017).

Consider the encouragement of environment-friendly business practices. It might be difficult to compel businesses to stop investing in fossil fuels through direct legislation. However, it can be made a prerequisite for competing for government contracts that a company must document

⁷ The Bank-managed PULSAR program, supported by the Government of Austria and the Government of Switzerland, is supporting several ECA countries with knowledge-sharing and technical activities related to public sector accounting. See pulsarprogram.org.

that at least 50 percent of its electricity comes from renewable sources. Given the size of public procurement, this can be a strong incentive for companies to make their business practices more environmentally sustainable.

In public procurement, what is going well in ECA, and what could be done better? In 2017 a World Bank international benchmark on public procurement practices scored countries on the quality of regulation in six procurement areas: needs assessment, call for tender, and bid preparation; bid submission; bid opening, evaluation, and award; content and management of procurement contract; performance guarantee; and payment of suppliers (see Figure 2-10).

Figure 2-10 shows that a lot is going well in ECA; some countries even score better on this benchmark than the OECD average. Nonetheless, there is still room for improvement. Besides, the benchmark is an assessment of regulations; for a complete picture, it should be supplemented with an assessment of how the regulations work in practice. Having a separate entity to oversee decisions to withhold performance guarantees, for example, does not tell us anything about how this entity is functioning.

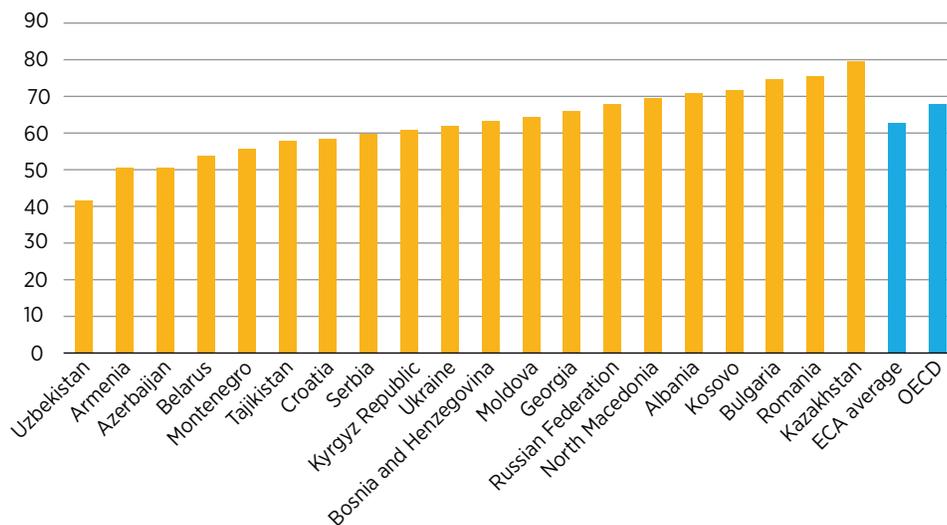
To better measure the functioning of public procurement systems, the EC mandates the use of e-procurement in the EU

member states and encourages them to analyze the available electronic procurement and contract data as a basis for informed decision- and policymaking. The horizontal enabling conditions for the EU funding period 2021-27 highlight the importance of this approach by including “effective monitoring mechanisms of the public procurement market” (EC, 2018b).

Following the guidance of the EC, EU countries increasingly use the available electronic procurement and contract data for spending and performance analytics at the national and agency levels. The World Bank has provided advisory services in this area in a number of countries, including Bulgaria, Croatia, and Romania. Non-EU countries also follow the directions set by the EC in the area of public procurement. For example, a great deal of progress has been made in the area of e-procurement, with successful implementations in Georgia and Ukraine and in most countries in Central Asia and the Western Balkans.

In addition to the use of modern technology and data analytics, collaborative procurement arrangements can yield better outcomes. Most ECA countries use centralized purchasing to aggregate the demand for standard supplies, works, and services into framework agreements, from which contracting agencies can purchase the required amount, typically through an electronic catalogue. Prominent examples include the centralized purchasing agencies BBG in Austria

FIGURE 2-10.
Average public procurement benchmark (World Bank, 2017b)



(<https://www.bbg.gv.at/en/>), CONSIP in Italy (<https://www.consip.it/>), and SOCPP in Croatia (<https://sredisnjanabava.gov.hr/>).

Joint procurement across countries is another form of collaborative procurement. A good example is the Joint Procurement Agreement (JPA) among 26 European member states to procure medical countermeasures. “The JPA determines the practical arrangements governing the mechanism; defines the decision-making process with regard to the choice of the procedures; and organizes the assessment of the tenders and the award of the contract” (EC, 2020).

One issue that all ECA countries have on their agenda is the professionalization of procurement as a strategic function that delivers better services and sustainable outcomes. This includes focusing more on procurement planning and contract management than on just the procurement process itself. For example, the EC provides guidance in this area, and all member states dedicate a considerable share of their efforts to the development of procurement as a profession. The EC guidance points out that an effective professionalization policy should be based on an overall strategic approach to reach three complementary objectives:

- Developing the appropriate policy architecture for professionalization.
- Improving the training and career management of procurement practitioners—those involved in the procurement of goods, services, and works, as well as auditors and officials who are responsible for reviewing public procurement.
- Providing tools and methodologies to deliver smart procurement, such as e-procurement tools, guidelines, manuals, templates, and cooperation tools, with corresponding training, support and expertise, aggregation of knowledge and exchange of good practice (EC, 2017).

Integrity in public procurement is defined as “the use of funds, resources, assets and authority, according to the intended official purposes and in a manner that is well informed, aligned with the public interest, and aligned with broader principles of good governance” (OECD, undated, p. 6). The integrity of public procurement is critical for all ECA countries. Given the amount of funds and market power associated with government procurement, corruption and fraud can have a significant impact on the government’s fiscal balance and the functioning of the economy as a whole. The OECD has set out a number of principles to improve integrity (OECD, 2009, pp. 18-19):

- Providing an adequate degree of transparency in the entire procurement cycle to promote fair and equitable treatment for potential suppliers.
- Maximizing transparency in competitive tendering and taking precautionary measures to enhance integrity, in particular for exceptions to competitive tendering.
- Ensuring that public funds are used in procurement according to the purposes intended and that procurement officials meet high professional standards of knowledge, skills, and integrity.
- Putting in place mechanisms to prevent risks to integrity in public procurement, including encouraging close cooperation between the government and the private sector to maintain high standards of integrity.
- Monitoring public procurement to detect misconduct and apply sanctions accordingly.
- Establishing a clear chain of responsibility together with effective control mechanisms, handling complaints from potential suppliers in a fair and timely manner, and empowering civil society organizations, media, and the wider public to scrutinize public procurement.

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II: Public Administration Reform

Reforms to the public administration can come in many different forms and have many different goals. Changes to administrative procedures and practices, improvements in personnel management, and new and increased use of information technology are all types of public administration reform. All of these can have a profound impact on a government's performance, efficiency, and effectiveness. Given ECA countries' large wage bill, improving the government's performance can have a large effect on the government's fiscal position as well.

ECA countries have undergone extensive administrative reforms in the past three decades. During the 1990s these reforms focused on democratization, and the creation of regions and municipalities with significant degrees of autonomy formed an important leg of these efforts. ECA as a region is thus very familiar with decentralization as a specific flavor of public administration reform. The early 2000s, at least for Eastern ECA countries, brought forth many reforms in the capacity-building efforts connected to the EU membership process. This included establishing a formal civil service (codifying recruitment procedures and the promotions, duties, rights, and responsibilities of public servants), introducing financial management and control, and creating regional self-government. Finally, in the later years of the 2000s and 2010s, the focus was on New Public Management (NPM) reforms, diminishing direct state control, and implementing market- and network-based instruments. In the areas of digitization and technology the region has made important steps forward, as well (Nemec, 2008).

In this section we discuss reforms to boost public sector performance on both the organizational and the individual levels. First and foremost, public administration reforms should be underpinned by good data, so we focus on the issue of measurement: How can we find out which parts of the public sector are performing well, which parts need a boost, and whether reforms have impact? Second, once underperforming departments or units have been identified, we discuss how governments innovate and reform departments and practices, to improve performance. We then discuss how administrative simplification can affect government performance on

an organizational level, and we examine the issue of performance-related pay as an example of a reform at the individual level. Finally, the chapter concludes with case studies from the Ankara conference.

ADMINISTRATIVE REFORM TO BOOST PERFORMANCE

Measurement: Data-informed Policymaking and Implementation

Public administration reform should be underpinned with high-quality data and high-quality analysis. On the basis of such data, governments can choose what to reform and how to reform it. From the 1980s through the 2000s, the NPM movement has made data the center of policymaking and public management, and as a result, the measurement of performance has been integrated into the foundation of the public sector's functioning. In other words, measuring performance has become a core task of governments (Van Dooren et al., 2011). Although ECA countries have not followed a single model for administrative reform since the early 1990s, there has been an overall increase in the introduction of performance measurement schemes throughout all levels of government in most countries (Nemec, 2008). Given the big leaps that have been made in budgetary methods, financial control, and quality management over the past three decades, there is a lot of potential in this region with regard to increasing state capacity through performance measurement. Therefore, the introduction of performance measurement *instruments* is not the main issue for ECA countries; the real issue is the *use of the data* they produce. Before we dive into the topic of performance data use, however, we briefly set out the fundamentals of how to measure performance.

Van Dooren et al. (2011) distinguish four elements of performance measurement:

1. *Targeting*. There must be agreement on *what* to measure in the first place. Agreement can be reached in various ways—for example, by using a management model (such as the Balanced Scorecard or Common Assessment Framework) or by specifying a program

logic (meticulously describing the theory of change behind a policy).

2. *Selecting indicators.* Knowing exactly *how* to measure the selected topic is an art form. The indicators must be precisely defined, understandable for users, well documented, relevant, timely, and feasible. It is impossible to measure everything, so the measurement designers must be ready and prepared to make compromises. Finally, as a warning notice: the availability of high-quality data is often assumed, but rarely accomplished in practice (Bouckaert & Peters, 2002).
3. *Collecting data.* The necessary data can be found through many sources—for example, existing or new registries, surveys, self-assessments, external observers, and so on. The World Bank Bureaucracy Lab combines both surveys and administrative data to analyze performance on a micro-level. This could be data on, for example, productivity (e.g., how many passports does an embassy produce, and how fast?), comparing personnel turnover and sick leave between departments (Indicating better and worse managers, working environments, workloads, etc.), or highly accurate and differentiated data on the public wage bill.
4. *Analyzing data.* The analysis of performance data should go beyond descriptive analysis and include statistical tests to investigate causal relationships—that is, the strength of correlations and differences. The outcomes of these analyses should be either held up against a previously established norm or broken down into relevant subcategories (gender, regions, educational level, etc.) to make comparing the data easier.

For successful performance measurement, these four elements together should lead to data that are technically sound (well measured), functional (measuring things helpful to policymakers and public servants), and legitimate (everyone is on board with the measurement, there is trust between stakeholders, and the outcomes will be accepted) (Bouckaert & Halligan, 2008).

5. Having well-measured performance data is a necessary but insufficient condition for reforming public administrations. Having the measurement instruments is one thing, using the data is another. The World Bank (2006) showed that Lithuania had established a planned, implemented, and reviewed performance

management system, but later analysis showed that this (no doubt expensive) system was used only sporadically (Nakrošis, 2007). This shows an important difference between a *measurement* culture, and a *performance* culture. The former is focused on measuring, but not on the ultimate goal: increasing the government's capacity to deal with societal issues. Data might not be used at all, or they might be misused, or even abused, in this context. A performance culture, on the other hand, indicates a shared focus on increasing the public sector's performance through the use of data (Radnor, 2008). Research has shown that it is the culture of performance that bears the lion's share in establishing performance-oriented behavior, not just the instruments and top-down orders. This is true, for example, in the Kyrgyz Republic and Armenia (World Bank, 2003; Gabrielyan & Selimyan, 2008). In the next section we will look at What constitutes a performance culture, leading to capacity building, innovation, and reform.

HOW TO INNOVATE AND IMPROVE GOVERNMENT PERFORMANCE

To base reforms and innovations on data, we first must make sure that the data are actually used. Secondly, given that the data are used, we will look at how innovation can be spurred.

Performance data have been shown to help break through routine thinking and to create opportunities to learn and alter the status quo (Moynihan, 2008a, 2008b). Consequently, the single most important link between performance data on the one hand, and administrative reform and innovation on the other, is performance data use (Moynihan et al., 2012). To create this link, we need a culture of learning and innovation that is based on the gathering and analysis of performance data (Folz et al., 2009; Van Acker, 2017). An important risk to the work culture posed by using performance data must be mentioned: greater reliance on performance data calls into question previously held trust: once trusted, now performance must be proven. Without proper dialogue and explanation of what the performance measurement will be used for, this could lead to distrust between the central and local levels, between ministries and agencies, between politicians and the administration, and so on (Bouckaert, 2008). Surely, trust is a

necessary component of efficient and effective management. After all, autonomy to let managers manage is a cornerstone of NPM reforms. An equilibrium between trust and performance management control is possible, but it must be a focus from the initial stages of introducing performance management in earnest (Bouckaert & Halligan, 2008).

Performance data can be used to spur innovation in administration reform and boost government performance in three ways: through management practices (innovative climate), through hiring (innovative work behavior), and through looking outside one's window (collaborative innovation). An innovative climate has been defined as "employees' perception of the degree to which an organization supports and encourages its staff to take the initiative to explore creative ideas that foster innovation within the organization" (Chan, Liu, & Fellows, 2014, p. 2).

Such a climate is essential to an organization's ability to innovate and improve its productivity and performance, whether in the private or the public sector (Arundel et al., 2015). An organization's innovation climate is, to a great extent, dependent on management practices: it is based on whether the organization's strategy explicitly includes innovation as a goal, whether its structure is flexible and provides degrees of freedom to its staff, whether there is an innovation support mechanism (think of slack money or slack time), whether there is open communication, and finally, whether innovative work behavior (risk-taking, continuous learning, idea generating, etc.) is encouraged and rewarded (Martins & Terblanche, 2003). Furthermore, research through the World Management Survey has shown that the quality of management practices is the main force behind innovation and productivity (Bloom and Van Reenen 2007). Such management practices include performance tracking and review, the quality of targets, linking consequences to both poor and good performance, and attracting, retaining, and dealing with human capital. All these issues are thus highly dependent on the (top) leadership of the organization and the (middle) management of the different units. It is thus the leadership's responsibility to create the environment in which innovative work behavior can flourish. How innovative specific employees are, can differ significantly from person to person.

As we all know, different people show different levels of creativity. More creative people show higher levels of divergent

thinking, suspending judgment, risk-taking, confidence, openness to new experience, perseverance, communication, empathy, and emotional intelligence (Krueger & Van Gungten, 2017). These personal attributes could (a) be measured in the recruitment procedure of new public servants, and (b) lead to innovative work behavior once new employees are hired. The recruitment process should thus be integral to an organization's effort to become more innovative and to improve its performance.

Innovative work behavior is commonly defined as "all individual actions directed at the generation, processing and application/implementation of new ideas regarding ways of doing things, including new product ideas, technologies, procedures or work processes with the goal of increasing the organizational effectiveness and success" (Bos-Nehles et al., 2017, p. 382). The personal antecedents of creativity are important in the initial phase of innovative work behavior: the creation or generation of novel ideas. However, hiring creative people is useless unless they have the room to experiment and implement these ideas. Hence, the innovation climate is essential for the two final steps of innovative work behavior: idea championing, and idea implementation. Both (hiring) creative employees and creating an innovative climate are necessary but insufficient in and of themselves to create the innovation needed to boost government performance.

Looking inside the organization to innovate is a start, but looking outside might be even more effective. Collaborative innovation involves both the government and its private sector and civil society counterparts in designing new ways of doing things. For many government organizations, collaborating with their colleagues from other departments might be just as much a challenge as collaborating with actors outside of the government. Exchanging experiences, insights, and ideas with other actors can create an environment in which the usual ways of thinking are broken down, and room is created for novel ideas (Sørensen & Torfin, 2017). Involving citizens (customers), civil organizations, and businesses in the idea-generation, decision, and implementation process can lead to radically new ways of doing things and have the additional benefit of creating a much larger basis of support and ownership. The case study of Poland's tax reform, discussed later in this chapter, is a good example of a reform in which dialogue with partners plays an important role.

To recap: performance measurement is a moot exercise if the data it produces aren't used. Using these data is strongly linked to the culture in a given organization: if it has a culture of learning and innovation, the data can be the basis for innovations and reforms to boost the organization's performance. Such a culture rests on the innovative climate that is necessary for ideas to be given the room to be tested, and that attracts creative personnel. Finally, working with actors outside of the government can enhance the innovative potential of the government. Next we will discuss some (hurdles to) organizational and individual performance reforms.

ADMINISTRATIVE SIMPLIFICATION: SHARED SERVICES AND RED TAPE

Simplifying governmental work is one option in improving government performance, as it can streamline administrative processes and leave public servants to focus on their core activities. Two topics related to administrative simplification are the introduction of shared services and the reduction of red tape. Both are discussed briefly below.

Shared services have been a long-standing concept in the private sector and have been incorporated in the public sector since the early 2000s. An example could be the creation of a single unit responsible for payroll processing or IT support for all, or at least a significant number, of government agencies, departments, and organizations. Although there is no consensus on what *exactly* constitutes a shared service, or shared service center (SSC), there are several agreed common denominators (Schulz & Brenner, 2010):

- The consolidation of back-office processes and services among a group of organizations.
- Cost-cutting as a major driver behind shared services implementation initiatives.
- A focus on internal "customers" (units, departments, and employees).
- Aligning processes, where possible, with needs of external customers (citizens, NGOs, etc.).

Reducing costs, increasing innovative capacity, and allowing the public and civil servants to focus on core operations are mentioned as several of the benefits for the public sector in introducing shared services and SSCs (Janssen & Joha, 2006). All three of these can be directly related to increasing government performance and service delivery, and are linked to

many of the issues mentioned above (such as decreasing the wage bill and increasing innovative capacity). Finally, studies have shown several factors to be influential in successfully implementing shared services (Borman, 2010)

- The appropriate focus of the SSC should be on high-volume, routine activities with little requirement for employee decision-making.
- High performance of the SSC relies on the obligatory use of its services by all counterparts.
- Leadership is the most-cited direction-related factor for success.
- A solid IT system underpinning the SSC is important for success.

Red tape, or "a rule that remains in force and entails a compliance burden, but serves no objective valued by a given stakeholder group" (Bozeman, 2000, p. 83) produces effects that are the opposite to those mentioned above for shared services and SSCs. It throws up barriers to innovation and flexibility, increases (compliance) costs, and diverts the attention of public sector employees away from their core tasks. Even though the concept of red tape is well known, and sometimes even synonymous with the public sector, there are surprising few high-quality, empirical studies illustrating its effects on organizational and individual effectiveness. The studies that have been done show several effects. One is an overall decrease in organizational effectiveness (Brewer & Walker, 2010; Pandey et al., 2007). Pandey and colleagues also find that the effect of red tape is strongly dependent on the culture within an organization: an organization characterized by a *developmental culture* "emphasize[s] flexibility (as opposed to control), readiness, and adaptability in the face of change and put[s] high value on organizational growth" (p. 404). Red tape has a significantly lower effect on organizational performance in such organizations. A related finding is that a high perception of red tape is a strong impediment to change leadership and change efforts (Van der Voet, 2016). This finding implies that for reform to be successfully implemented, it could be well worth the time to carry out a red tape analysis first and then see where burdensome rules and procedures could be streamlined and diminished.

INDIVIDUAL PERFORMANCE REFORM: PERFORMANCE-RELATED PAY

Performance-related pay (PRP) is simultaneously one of the most popular and most notorious performance-related

reforms in the academic literature. A 2012 literature review on PRP brought together the results of 110 studies on the effects of PRP (Hasnain et al., 2012). Most of the evidence points towards a positive effect of PRP for so-called public sector “craft jobs”: “jobs where the outputs are more readily observable, such as teaching and health care jobs” (p. 28) The effect of PRP for public sector “coping jobs” (jobs where the outputs are *not* readily observable, such as policy advice and general public administration) is decidedly less strong. In general, one can say that the better output measurement and performance assessment are, the better performance pay works. A World Bank study showed that PRP might especially have an impact on the management level of public sector organizations (World Bank, 2014).

Wilson (1989) provides a good typology of organizations based on the observability of their outcomes and outputs, and in effect a typology of public sector organizations where PRP might work (Table 2-2).

Following this typology, PRP would be appropriate in production organizations, and perhaps, if designed and adjusted correctly, also in procedural and craft organizations. Coping organizations, however, provide a rather unsuitable environment for this type of performance instrument. Van Dooren and colleagues (2011) warn readers about using this sort of typology as a ready-made blueprint:

In practice, most people find their own organization and policy sector hard to measure. An outsider may judge the work of a fire patrol to be easy to measure – i.e. extinguishing fires as quickly as possible. Firemen however will see the complexity of a big conflagration, the risk of flashovers and

back-draft, and the importance of choosing the right extinguisher. Therefore, they will often oppose counting fires as if they are all alike” (p. 30).

Even in suitable organizations, however, PRP comes with some downsides and risks. It might be easy and attractive for public servants to “game the system.” Teachers, for example, might be tempted to give each of their students a passing grade, if it will get them a performance bonus. Furthermore, when one part of the employees receives a bonus but others don’t, this might cause resentment among staff and crowd out intrinsic motivation. Finally, when the performance measurement is seen as not legitimate or ill-designed, it might lead to perverse consequences (e.g., undeserving people receiving a bonus, and deserving people being left out) (World Bank, 2014).

In summary, much work has already been done on public administration reform in ECA countries, and there still more to be done in the future. Performance has had ECA’s attention over the past several decades, but the use of performance data is still a matter of concern. Creating a culture that is receptive to performance information, and a workforce that is able to creatively handle these data, is a prerequisite for innovations and reforms (such as well-designed PRP, for example) in the public administration. Moreover, the sustainability of these reforms and innovations should be a constant point of attention for policymakers. The remaining part of this chapter consists of two case studies: a tax administration reform in Poland and the introduction of shared services in the Bulgarian public administration. These cases show the potential of public administration reform in ECA, as well as some of the obstacles and pitfalls of reform processes.

TABLE 2-2.
Wilson’s (1989) typology of organizations (adapted from Van Dooren et al., 2011)

		OUTCOMES OBSERVABLE	
		YES	NO
Outputs observable	Yes	Production organizations Examples: mail services, tax collection, sanitation, vehicle registration, revenue collection.	Procedural organizations Examples: mental health, counseling, military (peacetime), youth penitentiary.
	No	Craft organizations Examples: field inspections, military (wartime), doctors, forest rangers.	Coping organizations Examples: diplomacy, intelligence, research.

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CASE STUDY 2.1

Poland: Sealing Tax Gaps

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GRZEGORZ PONIATOWSKI, VICE PRESIDENT, CENTRE FOR SOCIAL AND ECONOMIC RESEARCH (CASE)

CONTEXT

The economic crisis in 2008 posed a serious challenge to the public finances of most EU member states. Despite the recession in all other EU economies, the Polish economy performed well during the crisis. And in contrast to most of the EU member states, the tax base in Poland increased every year during that period.

This positive news did not prevent Poland from experiencing fiscal problems, however. An early symptom of the problems arose when tax collections, specifically VAT receipts, became highly volatile. Four times between 2008 and 2015, Poland experienced year-over-year declines in annual VAT revenue. As the economy was expanding and statutory tax rates had not been reduced, the decline in revenue was an indicator of a growing issue of VAT noncompliance.

According to the European Commission, Poland's VAT gap—the difference between the liability under full compliance and revenue—became one of the highest in the EU. Each year

between 2010 and 2015, approximately PLN 40 billion, or 25 percent of the revenue, was lost because of VAT noncompliance (see Figure 2.1-1). Tax revenues were lost to large-scale fraud, more specifically missing trader and carousel fraud, and also to forms of evasion (e.g., underreporting, non-filing), tax avoidance (e.g., misalignment of rates), errors, omissions, and bankruptcies.

The problem of VAT fraud was particularly pronounced, affecting not only public finance but also companies and market competition in various sectors. As the Government's interim solutions (such as reverse charge) had limited effectiveness, it became clear that the fight against fraud required fit-for-purpose means – solutions that would eliminate large-scale fraud to avoid negative impacts on business.

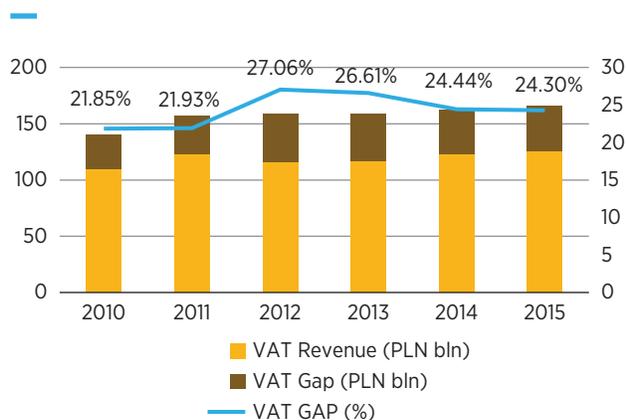
IMPLEMENTED ACTIONS

A reform of existing tax services was the starting point for larger reforms aimed at collecting tax revenues for the budget.

To improve effectiveness and create synergies, Poland merged the customs and tax administrations into one body, the National Revenue Administration (NRA), which became operational in March 2017. The establishment of the NRA had the following specific objectives:

- Establish a consistent special Government administration that would be in charge of collecting budget revenues.
- Provide more efficient service and support for tax-compliant persons, including business operators, that are properly performing their tax- and customs-related obligations.
- Strongly improve the efficiency and success rate in quickly discovering and counteracting tax fraud and recovering outstanding tax and customs duties.
- Enhance the efficiency and accuracy of inspections.

FIGURE 2.1-1.
VAT Gap in Poland (2010-2015)



Source: European Commission (2018).

- e. Achieve higher professional status of personnel, guaranteeing better performance.
- f. Streamline handling of tax matters.
- g. Improve the system for ensuring the financial safety of the state and the proper organization of customs protection of Poland's eastern border (which is at the same time the eastern border of the European Union).

Reorganization was the starting point. At the same time, in 2017, several pieces of legislation—introducing changes to VAT and excise legislation—were initiated to strengthen the position of fiscal services against fraudsters' aggressive tax planning. Reforms continued in 2018: the implementation of a voluntary split payment for VAT, a law to prevent the use of the financial sector for tax fraud, a register of public receivables, an on-line cash register, and a package focusing on the tobacco product trade. As a result, in 2018:

- a. 288 million illegal cigarettes were seized, for a total value of PLN 202 million.
- b. 226 tons of tobacco and dried tobacco were seized, for a total value of PLN 107 million.
- c. Illegal activities decreased from 19 percent of the total production volume in 2015 to 12.3 percent in 2018.

In 2018 the scope of the Standard Audit File was extended to micro-companies (some 1.5 million taxpayers), and an amendment of the framework tax law is now being prepared. A number of changes were made in corporate income tax to increase tax revenue. The social security premiums payment system was simplified, a measure that also contributed to higher revenue. While the implementation of some new requirements faced organizational and technical issues, the measures appear to be functioning as intended overall. For instance, the share of entities failing to send standard audit files regularly declined during 2018 from over 5 percent in January to 2.4 percent in November.

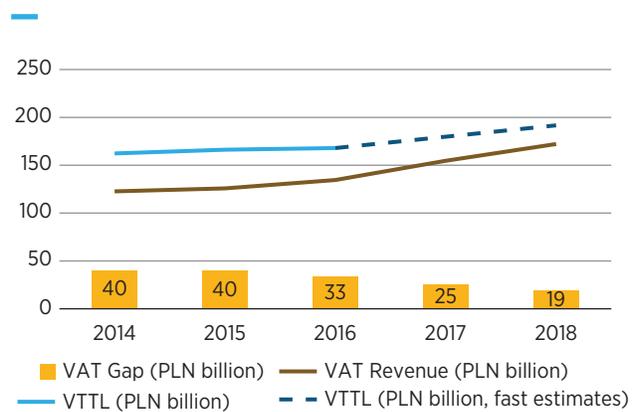
Regarding standard audit files, in 2018 the NRA analyzed more than 1.5 billion purchase transactions and 5.5 billion sale transactions. During the first quarter of 2019 the NRA analyzed 423.4 million purchase transactions and 1.4 billion sale transactions.

In 2018, the highest growth rate in tax revenues—16.2 percent, well above the nominal economic growth rate—was achieved from corporate income tax (CIT) (the state budget, including shares of local government units), yielding an increase in receipts of PLN 6.2 billion. In total, from 2016-18, CIT receipts increased by PLN 11.4 billion—that is, by 34.8 percent—and significantly exceeded the effects expected from the introduction of the General Anti-Avoidance Rule.

RESULTS

As of 2016, VAT revenue started increasing strongly. By 2018 the downward trend had been reversed, and VAT collections had increased by 36.9 percent over the 2015 level.⁸ The increase in tax revenue significantly outran the country's economic growth – the second source of increasing VAT collections. In Figure 2.1-2, the lines of VAT liability and revenue have converged, showing a gradual reduction in forgone revenue. Increased compliance led to a decline in the nominal value of the gap from PLN 40 billion in 2015 to PLN 21 billion in 2018, providing substantial fiscal leeway to the budget. Various indicators—for example, the decline in trade statistics anomalies—showed increasing compliance that was largely due to the diminishing scale of fraud.

FIGURE 2.1-2.
VAT revenue, VAT gap, and VTTL in Poland (2014-2018)



Source: Authors, based on EC (2018).

⁸ Source: Eurostat.

The increase in VAT compliance has had positive effects on more than tax revenues. Positive impacts in the form of fair market competition have eased the pain of those economic operators who were afraid of measures introduced by the Government. Moreover, better availability of information has had a positive impact on the compliance costs borne by companies and has allowed audits to become less stringent. Overall the number of audits has dropped by one third, from 29,560 in 2015 to 18,492 in 2017. At the same time, the effectiveness of audits has also sharply increased: the share of audits that found irregularities increased by 83.3 percent between 2015 and 2017. The availability of information has also resulted in increasing the pace of VAT refunds; the refund time dropped by over 18 days between the first semester of 2015 and the second semester of 2017.⁹

Other positive effects of the institutional reforms are yet to come. The increased compliance strengthens the fairness and equity of the tax system, in which every party pays what it owes. This is a key driver of trust in the system, which will likely strengthen tax morale.

LESSONS LEARNED

Change management is a complex process, especially in large organizations like the NRA (NRA has more than 59,000 employees). The most important lesson: the more detailed the planning, the thinner the margin for mistakes. That is to say, avoid shortcuts and do not count on things automatically happening the way they were intended to happen.

Changing the tax system is about more than changing legislation. During the planning process it is equally important to allow the necessary time for changes in the IT systems and infrastructure and for staff training. The time necessary for providing information and, when necessary, training is a substantial factor when considering implementation time and effectiveness.

Some changes can be implemented in parallel and independent of one another, and should be identified as early as possible in the planning process to optimize overall implementation time.

In the change management process communication is one of the critical factors. Inside the organization, employees should know what will happen, what the change will mean for them, and how they will be involved. And outside the organization, the NRA is to support legal business and the fight against fraudsters.

Another lesson: Invest in people. The best legislation will not implement itself, and the best IT systems will be only as good as the people who operate them.

Political support for legislative changes is a must for a timely and planned process of introducing changes to the legal system. Very often this factor is underestimated, when in reality during parliamentary proceedings the best projects can undergo substantial changes that will seriously limit their impact.

⁹ Source: Ministry of Finance; see <http://pie.net.pl/wp-content/uploads/2019/01/Raport-LUKA-VAT.pdf>.

CASE STUDY 2.2

Bulgaria: Shared Administrative Services

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CONTEXT

Bulgaria’s public administrations are divided into general administration (general administrative support, including human resources management, or HRM), financial management (FM), property management, information technology (IT), legal, and specialized administrations responsible for discharging the specific competencies of the administrative body. The public administration’s model of organization and functioning is characterized by high costs, divergent practices, and weak coordination of activities.

Currently each administrative body maintains its own staff for the performance of general administrative tasks. There is scope to reap economies of scale and reduce the duplication of functions and inefficiencies. Several back-office functions are currently provided in a siloed manner through small units that are not able to achieve a critical mass and deliver quality services. In addition, IT systems and solutions are lacking, there is a strong perception that administrative support services are of low quality, and there are tensions between the public administration staff who are tasked with general administrative support and the specialized, subject matter staff. The Government’s vision is to eventually establish a Government-wide system for the delivery of some of the general administrative support services.

The Council of Ministers has developed and endorsed two concepts aimed at enhancing the efficiency and effectiveness of the organization and functioning of the general administration units: (a) standardization of the general administration within the structure of the central administration, and (b) introduction of shared services.

The first step toward this vision is the establishment of shared services within each ministry, followed by sharing back-office

functions between ministries without causing undue disruption to the day-to-day functions of government.

There are different approaches to the implementation of the shared services principle. The first option is to ensure the coordination and interaction of different administrative bodies functioning within one or several ministries. Under this model, units would be set up for the provision of shared services to the participating administrations. The second approach envisages the centralized provision of shared services for the entire public administration. It would require the creation of single centralized units serving all other administrative structures, and a robust information management system. Such changes would require amending and supplementing the current legal framework. A methodological framework is needed to guide the effective utilization of the opportunities that shared services will provide for optimizing administrative work.

IMPLEMENTED ACTIONS

Administrative reform was given high priority at the political and strategic level through the adoption of the Public Administration Development Strategy 2014-2020. The strategy aimed at finding the best reform “driver” and prioritized a few selected areas, including FM and accounting, HRM, and property management. In May 2017, the Government commissioned an advisory services project from the World Bank to assist with the introduction of shared services.

The shared services project had an inception report and the following deliverables:

1. A baseline report that provided a detailed assessment of the current status of HRM and FM processes in Bulgaria’s public sector, a discussion of the legal amendments needed to introduce shared services, and a summary of how shared services were established

and currently function in three EU countries, the Netherlands, Estonia, and Finland.

The baseline report included a substantial annex on IT aspects, covering multiple issues connected with the introduction of shared services: the state of IT infrastructure, migration to cloud-based services, e-governance, digital transformation, and so on. The Bulgarian State E-Governance Agency, while not a formal beneficiary under the project, appreciated the advice and implemented several of the recommendations outlined in the ICT report.

2. A property management report providing the Government with several options for the management of public property. The Government appreciated the report and has already implemented some of the smaller recommendations made by the World Bank team.
3. A pilot implementation report, the core analytic output detailing the proposed model for establishing the pilot shared services units and offering proposals for reengineering high-level business processes in each of the two pilot administrations, recommended legal amendments, and proposals on necessary upgrades to the IT systems.

In addition, the World Bank team delivered detailed pilot-specific analytical reports assessing the state of the FM processes, HRM processes, and IT aspects of the administrative bodies nominated to pilot the introduction of shared services: the Bulgarian Food Safety Agency and the Ministry of Health. These reports were not formal deliverables but were provided to enhance the understanding of the shared services principles and support the Government's decision-making process.

The World Bank also submitted a brief on the experience of five EU member states concerning the introduction of shared services, as well as an advisory piece detailing international best practice on the criteria for selecting public bodies to pilot shared services reforms.

4. A performance management framework report, providing comparative benchmarks for shared services units, detailed proposals for functional models for introducing shared services, and recommended legal amendments, including model service-level

agreements for each of the selected HRM and FM business processes.

5. A monitoring and evaluation mechanism to monitor shared services units' achievements, and a comprehensive ex-post evaluation report of the organizational model for shared services.
6. A change management program and comprehensive communication plan.

RESULTS

The project was successful in introducing the principle of shared services in the work and organization of Bulgaria's central administration. Project-related activities – assessments, analysis, advice, capacity building, and implementation support – provided by the World Bank team proved that the introduction of shared services enhances the efficiency and effectiveness of administrative support activities within the administration. The World Bank team, in close collaboration with its Government counterparts, developed a methodological framework for the introduction of shared services in Bulgaria's public sector, leveraging lessons learned from the introduction of shared services in other EU member states; developed detailed proposals for legal amendments; and supported the practical implementation of the shared services principle in two pilot administrations. The experience of the two pilot administrations was that with shared services, HR and FM experts are relieved of non-core, technical, transactional, and ancillary functions, and freed to focus on their key functions.

The key recommendations provided by the World Bank team under the two stand-alone reports delivered at the beginning of the project, ICT and property management, have been largely implemented by the Government.

LESSONS LEARNED

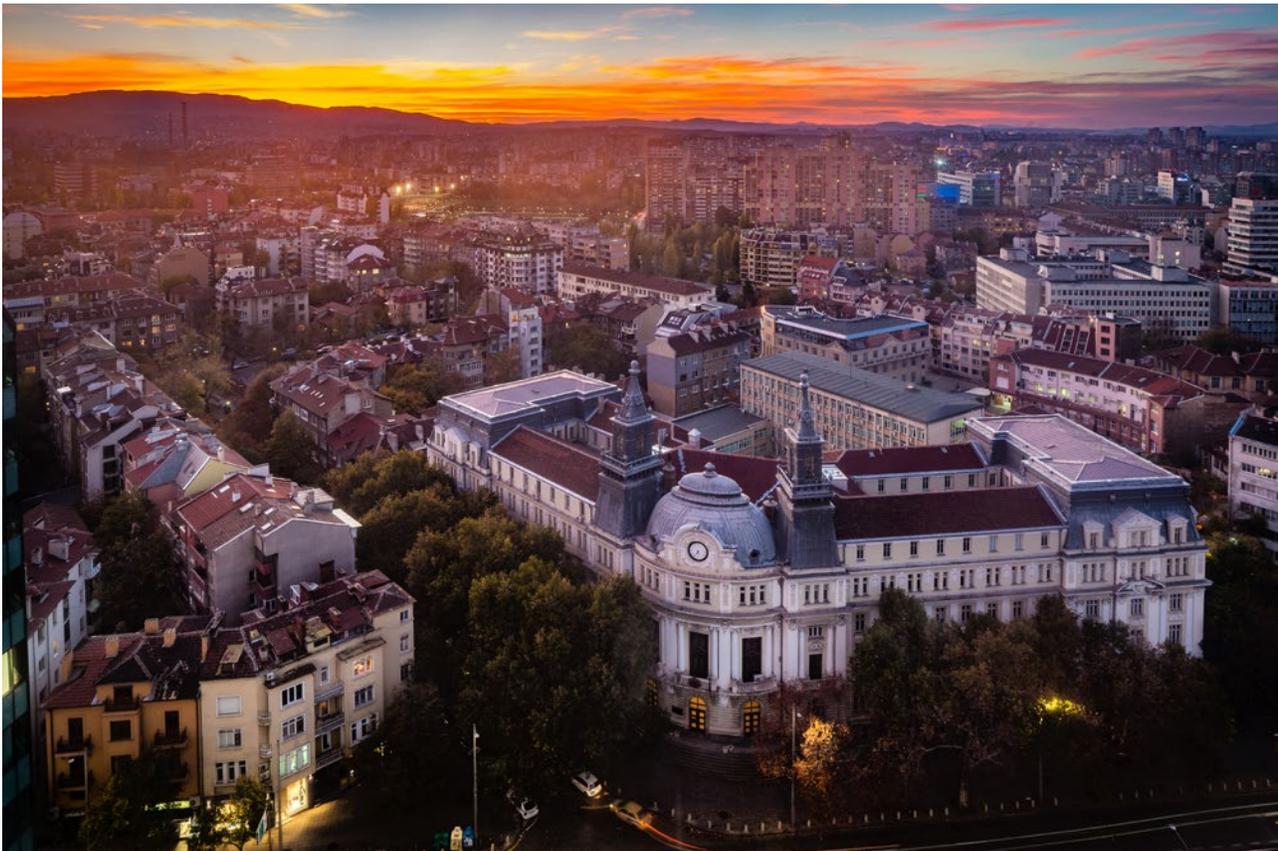
Introducing shared services is a highly collaborative process that requires proper and timely sequencing of the reform actions to be taken by the Government and the World Bank team. The interactive nature of the partnership calls for open and effective communication to avoid a mismatch in expectations on the delivery of analytic and advisory inputs by the World Bank team and the Government.

The provision of administrative services in a shared services setting is dependent on the availability and wide use of HRM and FM information systems within the administration. The Government's HR management information system had missing functionalities and needed to be upgraded to run the business processes reengineered in the course of project implementation. Responding to this urgent need, the Government and the World Bank team consulted with the original system vendor and expanded the scope of the analytical output to detail the required upgrades to the system. On the basis of the team's guidance, the Government will initiate a procurement process for the recommended upgrades.

Another lesson learned is the need to capture the Government's responsibility for authorizing the necessary legal or institutional changes to move the reform forward. Reform implementation depends on enacting amendments allowing the provision of administrative support services in

a shared service setting. The necessary legal amendments should be enacted before introducing the reform.

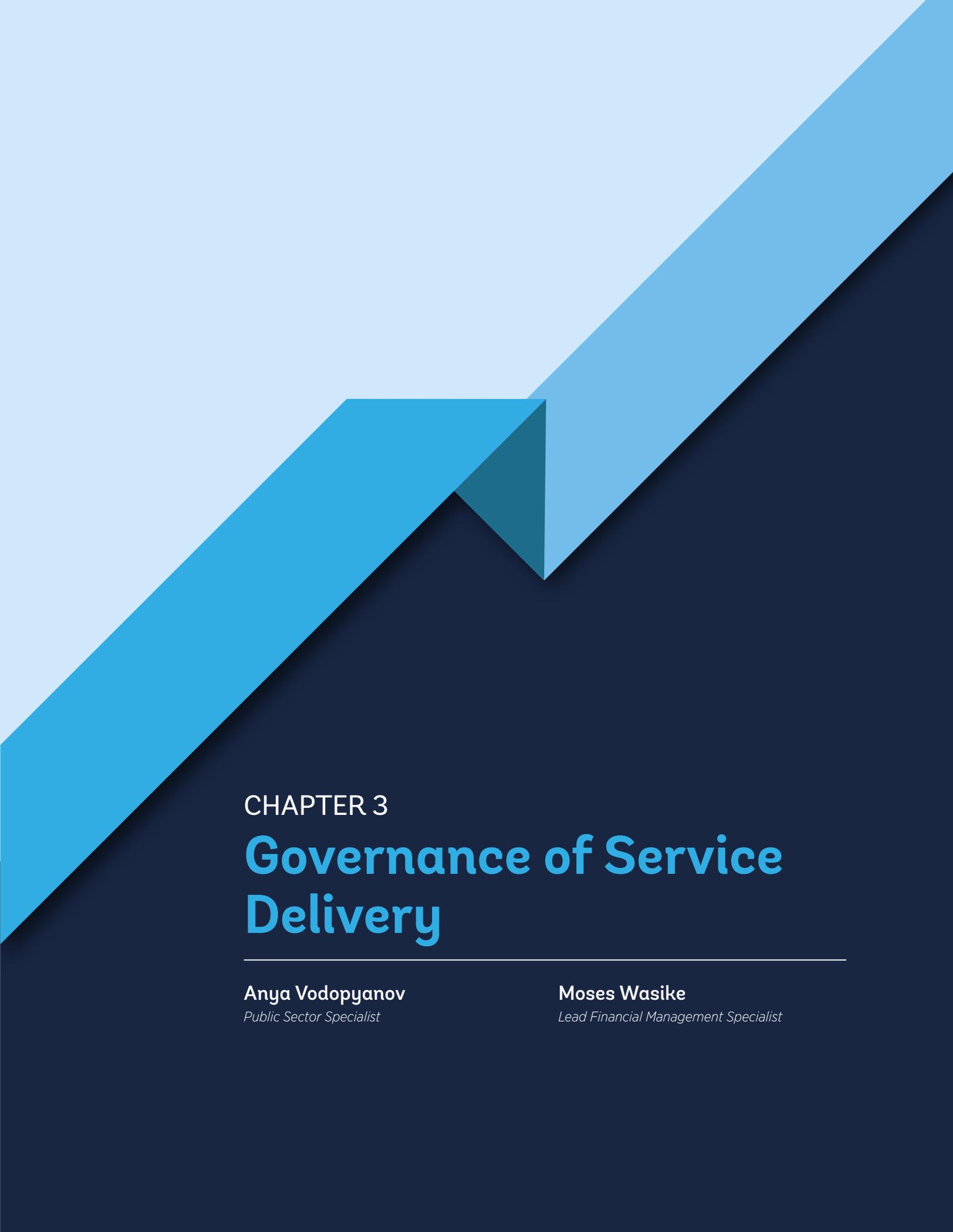
The most valuable lesson is the need to win the "hearts and minds" of public administration staff. Introducing shared services is a comprehensive reform that requires changing the mindset within the administration to introduce a service culture, introduce performance indicators, and track unit and individual staff performance. The interactive nature of the partnership enabled a shift in perceptions about the shared services reform and significantly increased acceptance of the concept. Special attention was given to change management actions, information sharing, and capacity building. As a result, the acceptance of the reform among staff doubled, and the Government has ownership of the reform and is committed to continue implementing the shared services principle in the work and organization of its administration.



Sofia, Bulgaria. Photo: © iStock/ Nikolay Pandev



View of downtown Astana, the capital of Kazakhstan.
Photo: © Gulbakyt Dyussenova / World Bank



CHAPTER 3

Governance of Service Delivery

Anya Vodopyanov

Public Sector Specialist

Moses Wasike

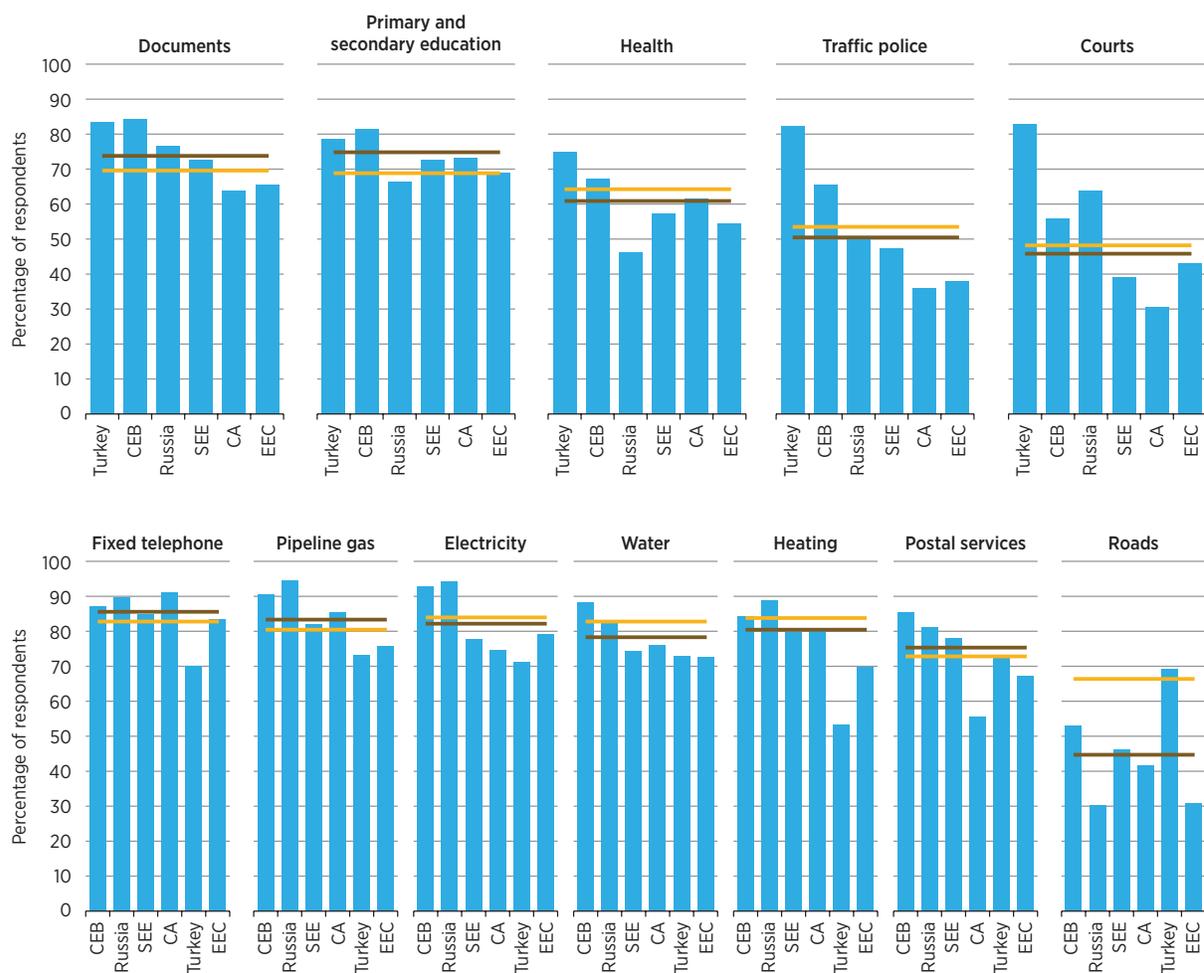
Lead Financial Management Specialist

Globally, governments play a critical role in the provision of social services – and citizens have high expectations. Despite a steady growth in private service delivery, governments continue to play a vital role because they offer services that markets often cannot, including services to remote and sparsely populated regions and vulnerable communities. As economies grow and mature, citizens also come to expect more from their governments. This is particularly the case in the sophisticated and high-tax economies of the ECA region, where citizens strive for OECD-level service and living standards. Both the civil service and downstream public providers, including hospitals, schools, and state-owned enterprises, play a critical part in the service delivery chain.

All need to have the right resources, capabilities, and incentives to deliver well.

Over the last decade, ECA countries have made major strides in improving public service delivery, but gaps remain. A useful proxy for service quality, accessibility, and efficiency is citizen satisfaction. The Life in Transitions Survey (LiTS) measures citizen satisfaction with services in all ECA transition countries, including Central Europe and Baltics (CEB), South-Eastern Europe (SEE), Central Asia (CA), Eastern Europe and Caucasus (EEC), Russia, and Turkey.¹ The LiTS suggests a mixed picture. For services such as primary education and documents administration, most ECA countries perform

FIGURE 3-1.
Percent of respondents satisfied with social and utility services



Source: Life in Transitions survey, 2016. Yellow line - Western Europe. Brown Line - Transition Countries, proportion either “satisfied” or “very satisfied” users.

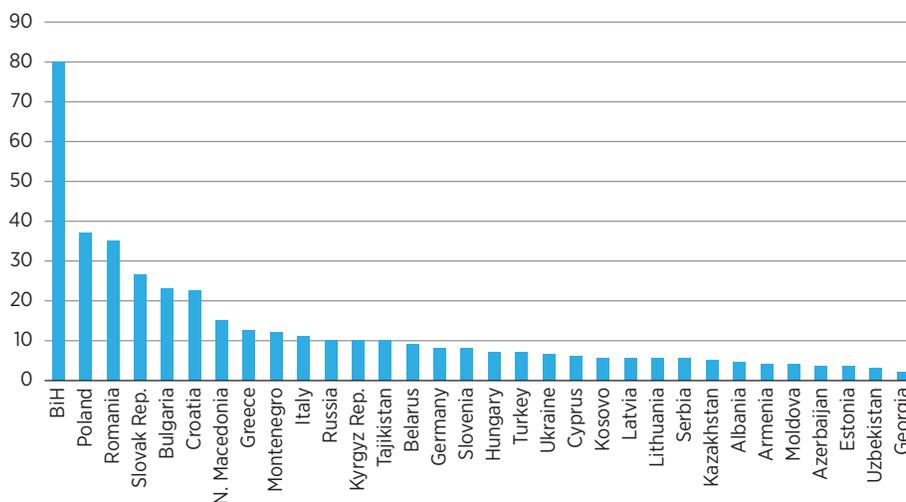
¹ CEB includes Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. SEE comprises Western Balkans, Bulgaria, Cyprus, Greece, and Romania. CA is Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan, and Mongolia. EEC is Belarus, Moldova, Ukraine, and 3 Caucasus republics.

well relative to Western European comparators;² however, for other services, such as courts, health, roads, and utilities, there is a wide spread in results and many countries are below Western Europe averages (see Figure 3-1).

A mixed picture also emerges when considering the efficiency of services for businesses. Many countries show

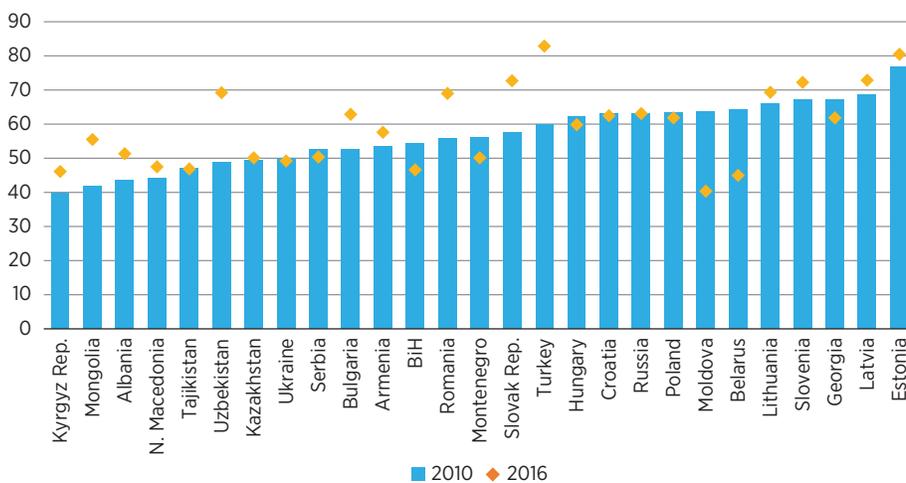
significant inefficiencies in this area, as measured by the time required for completing administrative procedures to start a business (Figure 3-2). Change across time has been uneven. Some countries have made remarkable improvements in recent years, while others have remained unchanged or have regressed, suggesting that improvements in service delivery have not kept up with public expectations (Figure 3-3).

FIGURE 3-2. Government service inefficiency for firms, as reflected in time required to start a business (days)



Source: World Bank Doing Business, 2018.

FIGURE 3-3. Percent of respondents satisfied with public social services (average of 8 services), 2010 and 2016



Source: Life in Transitions Survey, 2016.

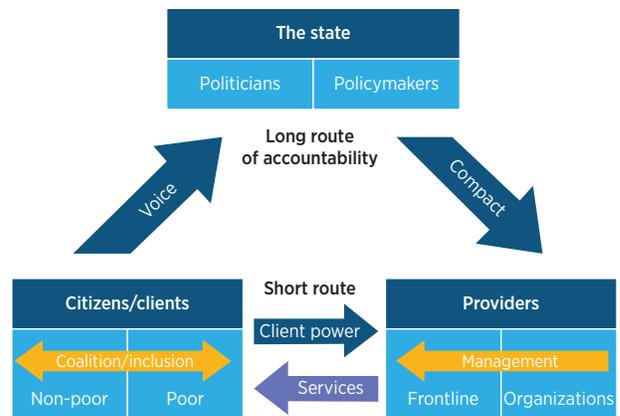
2 Founding EU members.

Institutional Weaknesses as a Source of Poor Service Delivery

Gaps in service delivery stem from several factors. One frequent factor is insufficient funding, but funding is only one piece of the puzzle, as service delivery often falls short even when sufficient funding is available. For sophisticated reformers like ECA countries, the main driver is often institutional weakness – and indeed, evidence from ECA and from countries around the world shows that the best service outcomes require capable, inclusive, and accountable institutions. Capable institutions (often resulting from performance-oriented recruitment and management practices, as discussed in Chapter 2) are critical to improved quality and efficiency of service delivery because they ensure that the most qualified and motivated staff are hired to deliver services. Institutional inclusiveness is important for ensuring broad citizen access to services. And accountability is critical to good service delivery as it incentivizes providers to be productive, efficient, and client-oriented. Indeed, one could say that accountability (and transparency) is the overarching institutional driver of good service delivery because it sets the right incentives and can endogenously improve institutional capacity and inclusiveness as well. The link between accountability and governance is well documented and most clearly explained in the flagship World Development Report, *Making Services Work for Poor People* (World Bank 2004).

The 2004 World Development Report provides a widely accepted framework for understanding the importance of accountability relationships in a triangle of service providers, citizens, and policy makers (Figure 3-4). Service delivery is affected both by the “long route of accountability,” whereby citizens elect policymakers who influence service providers through policy and compacts, and the “short route of accountability,” whereby citizens directly influence service providers through feedback and by “voting with their feet.” The channels are mutually reinforcing, and both rest on the ability of citizens, as key users of public services, to give feedback on their service experience and to hold service providers accountable through voice or client power.

FIGURE 3-4. Accountability relationships and service delivery

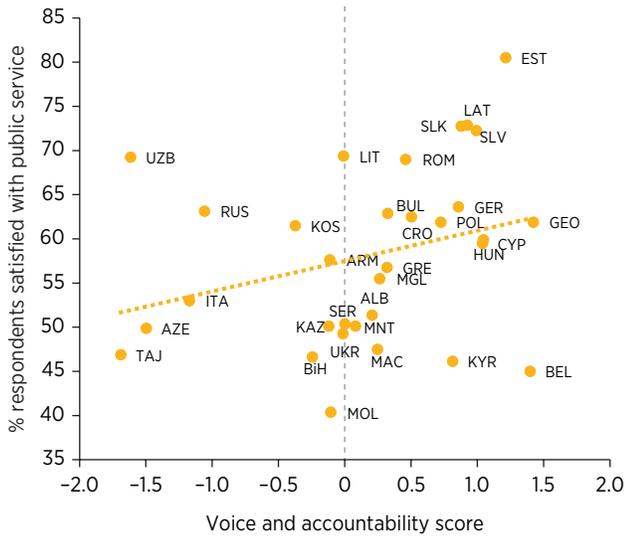


Source: World Bank 2004.

The importance of institutions for service delivery in ECA is confirmed by data showing that citizens are more satisfied with service delivery when there are high levels of voice and accountability (Figure 3-5), institutional capacity (government effectiveness) (Figure 3-6), and institutional inclusiveness, measured by control of corruption (Figure 3-7).³ Effective, responsive, accountable institutions help ensure that the right services are delivered to the right people, in the most fiscally prudent and economically and socially beneficial manner. The data also show a broad spread in institutional quality in ECA countries, which directly affects service experience. Some countries—Estonia, Latvia, Slovenia, and Georgia—have closed the gap with EU countries on voice and accountability, government effectiveness, and control of corruption, and these institutional achievements have been rewarded with high citizen satisfaction with public services and trust in the state. Meanwhile, some other ECA countries lag behind. In this group, government investments in service delivery could see meager returns because citizens may not

³ Control of corruption serves as a good proxy for institutional inclusiveness because it reduces the incidence of a practice (corruption) that diverts resources from services and rations, and charges informal fees for, service delivery, all of which reduces access, particularly for the poor and vulnerable.

FIGURE 3.5.
Citizen satisfaction with social services positively correlated with voice and accountability

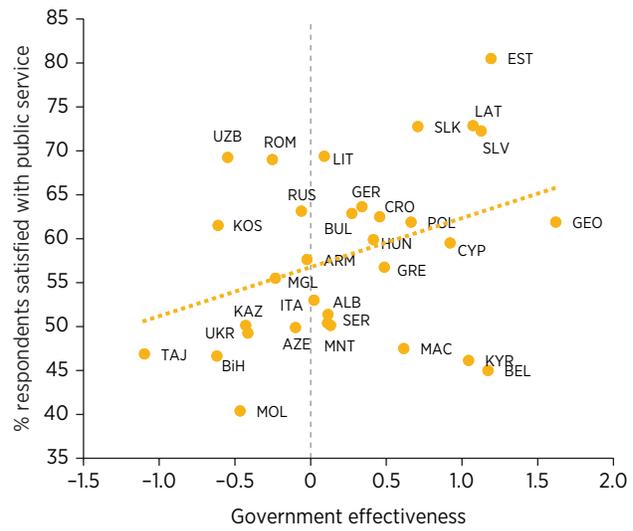


Note: Composite of 8 public social services: traffic police; processing official documents; civil courts; primary or secondary public education; vocational public education; public health care; unemployment benefits; and other social security benefits.

appreciate service provision if it is rife with corruption and not responsive to user needs and feedback.

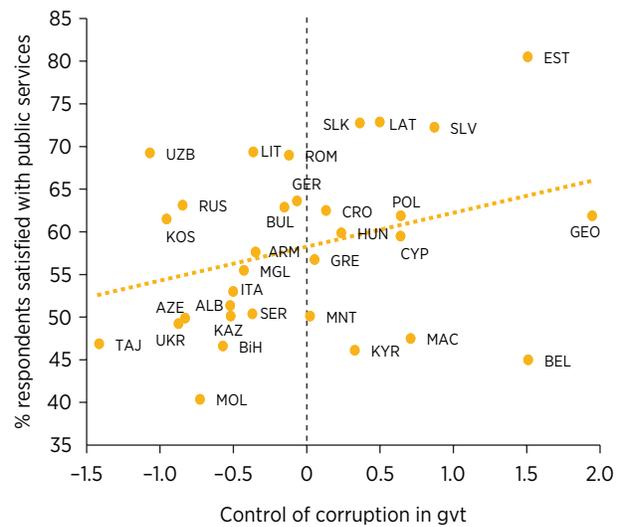
Governments in ECA are coming under growing pressure to raise the efficiency, accessibility, and quality of public services for social, economic, and fiscal reasons. Citizens of ECA's sophisticated economies have high expectations about the quality and level of public service delivery, and meeting those expectations is critical to maintain citizen trust and avert social discontent. Several ECA countries that could not meet such expectations have experienced popular unrest in the past. Economic considerations are also central. Quality education, health care, and transport can make citizens healthier, more educated, and better connected to markets, and therefore more productive. Faster and more responsive administrative services reduce the cost of doing business and attract investment. Productive citizens and businesses drive growth and reduce brain drain, an important constraint in some ECA countries. Finally, fiscal constraints make it imperative for governments to consider ways to invest in more efficient service delivery—for example, through technology and innovation in management practices.

FIGURE 3-6.
Citizen satisfaction with social services positively correlated with government effectiveness



Source: Life in Transitions Survey 2016, Worldwide Governance Indicators 2016.

FIGURE 3-7.
Citizen satisfaction with social services is positively correlated with control of corruption



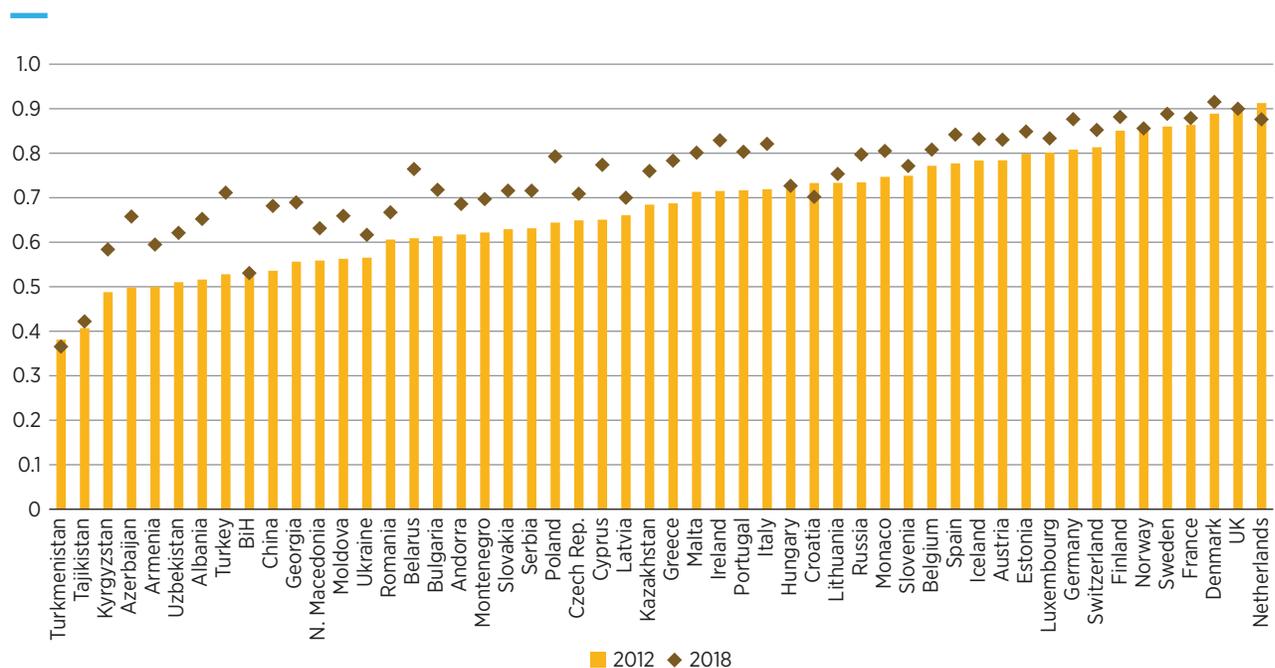
Source: Life in Transitions Survey 2016, Worldwide Governance Indicators 2016.

Service Delivery Reforms in the ECA Region

Many ECA countries recognize these imperatives and have embarked on reforms. Some have taken very decisive steps to strengthen the institutional prerequisites for effective services delivery. A number have also coupled these steps with investments in digital technologies to reinforce transparency, efficiency, and a performance culture. The 2019 ECA Governance Conference profiled some of the innovative reforms. In Albania, the World Bank-supported Citizen-Centric Service Delivery Project boosted citizen satisfaction and trust in a range of public services by increasing provider transparency and accountability and by reducing the scope for corruption. Italy, Albania, and Azerbaijan implemented e-services and e-procurement systems with measurably positive effects on the efficiency and quality of service delivery and on the transparency and efficiency of procurement and public investment management. The key ingredients for the success of these initiatives were simple: feedback mechanisms for citizens and businesses to express their needs and keep providers responsive and accountable, and digital technologies to speed up delivery and improve data for decision-making and oversight.

As ECA governments look forward to opportunities to improve their service delivery and citizens' confidence, it is clear that there is no single blueprint for reform, but there are some core ingredients. Every country has a unique set of endowments and challenges, and solutions must be tailored to them. But even though the recipes differ, the basic ingredients are usually the same: accountable, capable, and inclusive institutions, supported by a strategic vision, sufficient political and financial capital, investment in digital technology, and monitoring and evaluation mechanisms to track progress and make course corrections, at a minimum. Generating even these basic ingredients is not an easy task and requires time and learning, but experience shows that relatively small investments can bring large social, economic, and fiscal payoffs. Many of the "success cases" profiled in this volume also struggled initially and benefited substantially from World Bank technical assistance and learning from peers. One of the more feasible entry points is advances in digital government readiness, especially if coupled with corresponding reforms in accountability incentives

FIGURE 3-8.
E-Government Index, ECA



Source: United Nations 2012, 2018.

and managerial and service culture at the provider level. As the Albanian and other cases show, the transition to digital government can dramatically improve service delivery by increasing transparency, efficiency, client orientation, and oversight. Although many ECA countries have seen improvements on this front in the last decade, many are still far from the frontier (Figure 3-8).

Improvements in service delivery are a net benefit to society and economy, and they are feasible. Relatively small investments can bring large social, economic, and fiscal payoffs.

The challenge for each country is to find the approach and sequence that is appropriate for its unique circumstances. In all cases reforms will need to strengthen the institutional foundations, and will require broad partnerships – between the government, civil society, private sector, and other partners. The World Bank’s Governance Global Practice has supported many governments along this challenging journey. The country cases profiled in this chapter provide some examples of these successful partnerships and models for ways governments can strengthen institutions for improved public delivery.



Lights illuminate a bridge in Skopje, North Macedonia.
Photo: © Tomislav Georgiev / World Bank.

CASE STUDY 3.1

Albania: Citizen-Centric Service Delivery

LORIN YMERI, EXECUTIVE DIRECTOR, AGENCY FOR THE DELIVERY OF INTEGRATED SERVICES IN ALBANIA (ADISA)

CONTEXT

For many years, Albanian citizens who needed a public service would likely go to dingy and cluttered bureaucratic offices to get assistance, contending with long lines, confusing procedures, and unclear instructions. Public services were marred by an entrenched institutional culture that showed little regard for the customer and provided only a token opportunity for citizen feedback. There was no transparency. Citizens were never certain about the documentation they would be asked to present when requesting a service, nor did they know what to expect in terms of procedures. The barriers to public services – multiple visits, difficult-to-find offices without service windows, delays, unjustified denial of services – contributed to a faltering trust in Government institutions.

Albania needed change. Reform of public services became one of the Government's six priorities in September 2013. Piecemeal changes would not suffice. Since 2014, the Government of Albania has pursued a groundbreaking reform that reinvents the way public administration delivers services to its citizens. The reform relies heavily on innovation and the use of IT to improve standards, procedures, and the organization of service delivery. In its first three years, it has already made inroads to combat corruption, foster a customer-care culture, enhance public access, and increase efficiency in the Albanian public administration. It remains a core priority also in the reform Government's second term. The reform champion is the Agency for the Delivery of Integrated Services in Albania (ADISA).

The objective of the public service delivery reform was to create an administration that focused primarily on the needs of citizens. While the goal was clear, the path to getting there was not. The job ahead was enormous, with multiple challenges to tackle. Resistance to change from within the administration was a test from the start. Some Government agencies and offices perceived their authority being questioned or diminished.

Others, who had benefited from petty bribes and corruption in exchange for favors, did not want to give up their informal income. They also resented added scrutiny of their performance. At the institutional level, each of the involved agencies – from property registration to health insurance – had separate ways of doing business. Also, staff in each office operated with little regard to what happened in other departments. An engrained bureaucratic culture ran counter to customer care standards that are more prevalent in the private sector. Public service delivery was often considered an afterthought, as was illustrated by the considerable number of institutions that had no dedicated service windows or service clerks.

Time-consuming and convoluted processes were considered the normal way of work, even if they made no sense. In some cases, for example, citizens were asked to bring in notarized copies of documents issued by the very same institutions to which they were applying for the new service. A commitment to standardization and harmonized procedures, putting citizens in the center, was a dramatic shift from existing norms and would need buy-in from civil servants at all levels.

At the institutional level, the key stakeholders involved in the implementation of the citizen-centric services reform are ADISA, the National Agency for Information Society (NAIS), and the institutional public service providers as needed. To detail objectives, principles, and key interventions for the implementation of the strategic vision and harmonization of activities among all actors involved, the Albanian Government has prepared a long-term policy document on the provision of citizen-centric services by central Government institutions in Albania.

From the outset, the reform of administrative services for citizens and businesses has received the support of international development partners such as UNDP, EU, World Bank, the Italian Government, and other donors.

IMPLEMENTED ACTIONS

The process of designing the reforms involved tapping into the experiences of EU member countries, other European countries, and even countries in Asia that had had extensive involvement with citizen-centric public service delivery reforms. The government of Albania (GoA) visited countries like Georgia and Azerbaijan because they had carried out public service delivery reforms. Knowledge from local and international businesses in Albania also served as an invaluable source of ideas for shaping the reform. Those with well-established customer care practices, such as banks and retail companies, provided insights into what works.

The GoA borrowed from Georgia the idea of a one-stop shop and the notion of how to create a user-friendly space. That model provides citizens with some of the major services they need in one place, instead of requiring them to go from one institution to another to get those services one by one. However, Albania's unique situation required home-grown approaches as well.

With local innovations and international good practices under review on the design front, reform management structures had begun to take shape as well.

The fast-paced reform included important milestones—for example, completion of the first inventory of central government administrative services and their classification and codification according to best EU practices; the establishment of ADISA as a dedicated agency to guarantee customer care standards in service delivery to citizens and businesses; the set-up of a citizen feedback mechanism; the revamping of the e-Albania portal; the initiation of a standardization and simplification process in service delivery and piloting of front office (FO) and back office (BO) separation, with FO management by ADISA; and the opening of a nationwide Call Centre for information on services.

ADISA is the designated institution responsible for citizen-centric public service delivery models and standards established under Council of Ministers Decision of 22 October 2014. Its purview was expanded under Law No. 13/2016 on Public Service Delivery at the Front Office level. This core law defines the rules for provision of public services by removing administrative barriers and offering fast, efficient, transparent, and higher-quality service. It identifies and defines the role of

ADISA, the principles and channels of public service delivery, the rules for developing public service models, the rules for cooperation among different institutions (including local government), and the rules for organizing service windows and the functioning of ADISA.

ADISA is the institution behind the FO-BO separation. It serves both as the “brain” behind the citizen-centric services and the “face” of those services. It is the brain that sets the standard design for and monitors the services across all relevant Government offices. It is also the public face of the services, which means that it establishes and manages customer care service windows in the ADISA Centers.

But these reforms were not without some challenges:

- a. No definite list of public services delivered by institutions. Consequently, there was a need to codify and accurately name the services for each institution.
- b. The absence of information on public services, a condition that created ambiguity and possibilities of misuse of the funds of the citizens and companies.
- c. The need to standardize requirements, unify application procedures, and establish the legal basis for the reform.
- d. Not just changing the mentality about service delivery, but also raising citizens' awareness of their rights as beneficiaries of public services.
- e. The expansion of the network of ADISA Integrated Service Centers (ISCs) throughout the Albanian territory.

RESULTS

In the ISCs, ADISA provides FO services for a number of central Government institutions, thus giving citizens and businesses fast, easy, and transparent access to public services. Setting up ISCs has entailed a fundamental change in how Albanian state institutions interact with citizens. Eight regional ISCs had been established by February 2020, and Elbasan was scheduled to open in March 2020, and Kamez and Vlora later in the year. In smaller municipalities ADISA offers its services by colocation with municipal one-stop centers. Currently ADISA is collocated in the municipalities of Maliq, Belsh Patos, and Divjaka and Librazhd. Colocated centers in Malësi e Madhe, Kukes - Kolonje, Pogradec, Rroskovec, and Mat are currently under development and predicted to open in 2020. To ensure access to even the most remote rural areas, ADISA will use converted

vehicles. Mobile units will be piloted in the counties of Tirana and Shkodra as of September. Separating the FO interface with the public from the BO operations was one of the biggest shifts in the reform. This move put an end to direct contact between applicants and the officials processing the paperwork, cutting opportunities for corruption and helping focus the work of the BO staff on their core processing responsibilities.

Queue management, welcoming premises where citizens are treated with respect, a complaint management system, and simplified procedures in service windows are some of the standards at each ADISA Center. Centers are also equipped with clear directions, parking facilities, waiting areas, children's playrooms, and ramps for people with disabilities.

ADISA has created new standards for application forms. As a result, 315 application forms for 35 institutions have been standardized to ensure a unified approach to service delivery in all state institutions. In addition, ADISA prepared user-friendly service passports for each administrative service to simplify and standardize information about them. The service information passports ensure that citizens have a standardized reference to everything that is required to apply for a service, including the documents that are needed, the fees that must be paid, and the deadlines for filing. Standardized and easy-to-understand information is now available to the public for more than 915 public services, with the remainder under preparation. (Some ISC offerings are summarized in Table 3.1-1.)

For the first time, citizens receive information in a well-structured and predictable manner. They can find instructions through several means: the in-person service windows, the

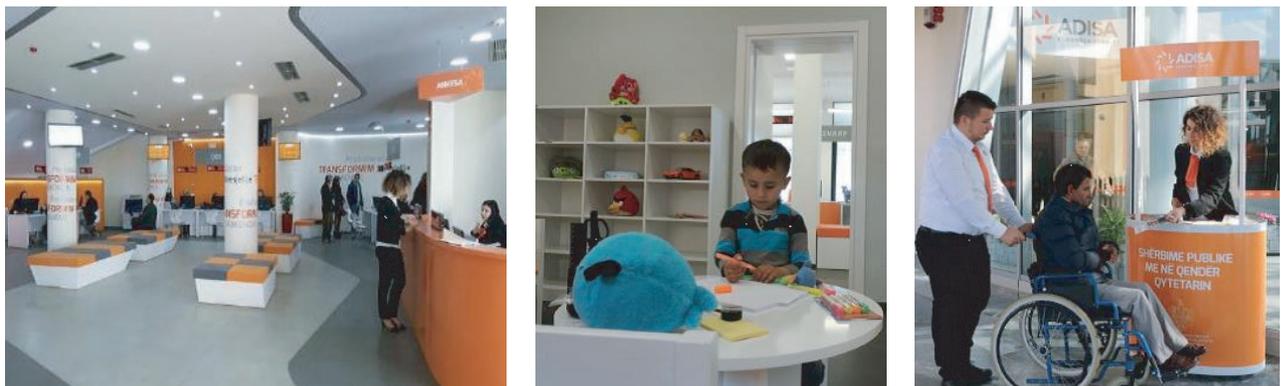
ADISA website, the ADISA Mobile App, or the e-Albania online portal. In addition, ADISA has established a unique phone number for citizens to obtain information on services. Before people even leave their homes, they can now get preliminary information about public services from that new national phone number.

While the new FO system gained momentum, reengineering of the BOs of 10 key institutions began in January 2016 under an ADISA-administered project. The mapping of targeted services had started more generally soon after the inventory process in March 2015. It involved analyzing and remapping workflows from application time to the delivery of services, to save time and lower the administrative burden for citizens and businesses. As a result, some 450 public services have undergone a major analysis of the three main components: procedures, legal, and IT.

In 2017, recognizing that innovation is the key pillar of public service transformation, ADISA established an Innovation Lab – ADISALab. ADISALab is designed to provide capacity building and good practices to promote continuous improvement in service delivery, and to support the necessary change in the institutional and management culture through set-up assistance, training, and mentoring. This activity will enhance the sustainability of the reform and help ensure its longevity.

The ADISA FO customer standards have contributed to BO implementation of uniform processing procedures. Separation of duties has meant that BO institutional staff can focus entirely on performing their processing responsibilities.

FIGURE 3.1-1.
ADISA Service Centers



Source: Agency for the Delivery of Integrated Services in Albania (ADISA), 2019.

TABLE 3.1-1.
ADISA centers through the years

	2016	2017	2018	2019
ISCs and colocations	2	5	6	14
Number of services offered	311	343	380	449
Number of information passports	420	497	892	1073
Number of application forms	98	115	296	333
Number of citizens served	196,996	480,176	514,259	812,570

The service delivery reform has reduced the possibilities for bribes to expedite procedures and cut through red tape, and standardization of processes has precluded the need for such petty corruption. In the past, processing speed and transparency received the lowest ratings from citizens, followed by fairness and appropriate office locations. Now, with the overhaul of the application processes at ADISA service windows, citizens are expressing high levels of satisfaction.

In 2016 a Baseline National Survey found that 51 percent of citizens were satisfied or very satisfied with the services they received from all state institutions they had contacted during the last 12 months. By 2018, the World Bank's midterm assessment found that the share of similarly satisfied citizens had risen to 65 percent.

The ADISA standardized services are on a par with those offered at bank or telecom windows. Citizens have indicated that the customer care at ADISA Centers is comparable to what they usually receive at a private company rather than a public institution. ADISA has set improved standards of service delivery, ensuring equal access to public services to persons with disabilities in all the ISCs.

Surveys conducted both before and after the reform process began have measured the level of citizen satisfaction with Government services. The more recent surveys aimed to identify strengths and weaknesses; set further objectives for improving the quality of service delivery; measure citizen satisfaction with information points, reception, accommodation, the application process, and the BOs; and obtain data on improvements achieved by ADISA in all ISCs. The survey results show greater citizen satisfaction since ADISA took over the administration of the FOs.

The functioning of ISCs and other service channels would not be complete without rigorous performance monitoring and assessment to help identify ways to constantly improve the activity of ISCs/service channels against objectives and targets. ADISA's performance assessment of service channels aims at improving public service delivery to citizens and increasing the overall satisfaction of service users.

LESSONS LEARNED

Some important factors have contributed to the continued progress in the citizen-centric service delivery reform in Albania:

- Strong political will at the highest levels of the Government has been essential.
- A critical aspect of support was securing funding for the reform outside of the state budget. This included an early pledge from the World Bank and the donor pool fund implemented by the GoA in partnership with UNDP, with key contributions from the UN, the Italian government, and Austria.
- The establishment of the legal framework provided the grounding for the whole process.
- Trying new approaches and using incubators to test new initiatives proved effective in refining the model and building buy-in from relevant constituents, including citizens and public administration staff.
- The governance structure and citizen review mechanisms have ensured that expansion occurs organically and in line with a staged approach under the overall reform agenda.

Resistance to change from within the administration was a test from the start, as some Government agencies and offices perceived their authority being questioned or diminished. To drive home the importance of the changes in their day-to-day

work, civil servants were reminded from the start that they too were citizens who needed the same services as everyone else. They were asked to put themselves in the customers' shoes. It was important to identify partners in the administration who would help make sure that the reform was being understood and accepted.

The transformational shifts in the way the state serves its citizens will continue over the coming years as it is embedded in the long-term policy on the delivery of citizen-centric public services.

Now that ADISA has strengthened capacities and achieved tangible results, it needs to establish and implement a quality management framework in all the ISCs and invest efforts in ensuring that quality assurance tools are also introduced

by other Government bodies providing over-the-counter services. ADISA needs the support of the Government to increase its oversight role to ensure that other Government institutions comply with the public service quality requirements and standards.

ADISA and NAIS should pursue a quality management system policy by gradually aligning the ISCs' organization, processes, and documents, with the principles and requirements of ISO 9001- 2015. ISO 9001 is a worldwide recognized system, which sets quality management standards to be implemented by service delivery organizations that wish to acquire a label of excellence.



City of Tirana, Albania. Photo: © Flore de Préneuf / World Bank.

CASE STUDY 3.2

Azerbaijan: e-Courts

NAIL HUSEYNOV, MONITORING AND EVALUATION MANAGER, AZERBAIJAN JUDICIAL SERVICES AND SMART INFRASTRUCTURE, MINISTRY OF JUSTICE

CONTEXT

Azerbaijan is vigorously pursuing a strategy to meet high level of democratization, protect human rights, uphold the rule of law, and develop a market economy, with the intention of raising these areas to European standards. Azerbaijan's admission to the Council of Europe in 2001 has brought the nation closer to European democratic values, which stipulated large-scale reforms in the judicial system.

The courts faced a dramatic fourfold increase in civil and criminal case inflow (from 40,000 cases in 2000 to 192,000 in 2013) that was largely due to rapid and intense economic development and the comprehensive mechanisms available to the public and Government through judicial remedies. The Government of Azerbaijan made a logical response to the increase, increasing the number of courts by 15 percent, doubling the number of judges, and increasing court staff by 75 percent. These measures had a short-term effect, but it soon became obvious that a structured and strategic approach was needed to tackle demand issues, and to institute performance management in courts to address the efficiency and effectiveness of court services and operations.

Increasing the number of judges was a very typical system response to address a large backlog of cases, an increase in case inflow, or long court proceedings. Although insufficient resources may be a major cause of long court proceedings, a number of studies have found that employing more judges has little impact on the length of court proceedings. In a study of the judiciary of 11 countries, Dakolias (1999)⁴

finds that courts that are not well managed often cite a lack of resources as the main reason for delays in reaching court decisions. Dakolias concludes that if the courts are well managed, an increase in case inflow may even result in cases being resolved faster. Dimitrova-Grajzl et al. (2012)⁵ found that in Slovenian local courts there is little correlation between the number of cases resolved and an increase in the number of serving judges. Mitsopoulos and Pelagidis (2007)⁶ report the same result for courts in Greece. On the financial side, the OECD reported in 2013⁷ that there is no apparent link between court budgets and the length of court proceedings. Therefore, adding resources does not necessarily resolve the problem; in fact, it may even compound it.

Another incomplete response has been the strong global tendency to introduce information and communication technologies (ICT) in the courts to improve system efficiency. However, in 2013 the OECD presented findings based on its cross-country international experience that provided a rather weak correlation ($r=0.18$) between the productivity of judges and the ICT justice budget. In other words, purely technical introduction of ICT is not an adequate approach to achieve increased productivity. Nevertheless, a sound judicial information system, with a Court Case Management System (CMS) as its core feature, needs to be recognized as a necessary precondition – a cornerstone upon which any and all managerial tools in the judiciary can build to enhance efficiency and effectiveness.

Interestingly, the same OECD report (2013) found a strong positive correlation ($r=0.57$) between the productivity of judges, defined as number of cases resolved per judge, and

4 Dakolias, M. (1999). *Court performance around the world: a comparative perspective*. The World Bank

5 Dimitrova-Grajzl, V., Grajzl, P., Zajc, K., & Sustersic, J. (2012). Judicial incentives and performance at lower courts: Evidence from Slovenian judge-level data. *Review of Law & Economics*, 8(1), 215-252

6 Mitsopoulos, M., & Pelagidis, T. (2007). Does staffing affect the time to dispose cases in Greek courts?. *International Review of Law and Economics*, 27(2), 219-244

7 Palumbo, G., Giupponi, G., Nunziata, L., & Mora-Sanguinetti, J. S. (2013). Judicial performance and its determinants.

an increase in the production of statistics.⁸ In other words, there is much wisdom in the saying “You can’t manage what you don’t measure” (which has been attributed to both W. Edwards Deming and Peter Drucker), and it helps explain why the recent explosion in digital data in the judiciary is so important. Because of digital data, court presidents (and judges) can measure, and hence know, profoundly more about their courts, and directly translate that knowledge into improved decision-making and performance.

IMPLEMENTED ACTIONS

But the question is, what to measure, and how? How to establish a performance management system in the courts? Various international examples of performance management systems in the judiciary—those in Austria, Bosnia and Herzegovina, Slovenia, Singapore, Australia, and the United Arab Emirates—were assessed and analyzed to find the best solution that could be applicable to courts in Azerbaijan. A few striking findings follow:

- Performance management in courts must cover three dimensions: (a) *time*, (b) *quality*, and (c) *cost efficiency/productivity*.
- A formalized set of key performance indicators (KPIs) and corresponding target values covering the three dimensions must be introduced at all decision-making levels.
- Existing ICT systems need to be adjusted to incorporate the performance management system that is represented by the set of KPIs and their target values.
- While simple descriptive statistics are sufficient to define KPIs for *time* and *quality*, more robust and sophisticated statistical methods are needed to introduce KPIs for *cost efficiency/productivity*.

In essence, sound evidence-based policy- and decision-making in the area of judicial administration would be impossible without addressing all three dimensions of the performance management system. Without addressing the *cost efficiency/productivity* dimension, judicial administrators would only describe symptoms of a problem (backlogs, excessive length of court proceedings), entering into

endless debates without the ability to make diagnostics and discover the root cause(s) of a problem. They would not be able to identify the courts that need support, or those that are overfunded and those with excessive human resources. Judicial administrators would not be able to perform their core functions and competences adequately and fairly (such as allocation of court budgets, allocation of judges, and evaluation and promotion of judges).

Following the research on international best practices, a set of 12 KPIs was established, 10 of which were obtained from the existing CMS (see Table 3.2-1).

In addition to introducing these KPIs and associated formulas for calculations, a Court Pulse was developed to monitor the trends in each of the KPIs and report them at the level of court president (see Figure 3.2-1). Much as the clinical measurement of pulse rate, temperature, respiration rate, and blood pressure indicates the state of a patient’s vital body functions, the Court Pulse provides unprecedented insight into the status of the core functions of the court and judicial functions by delivering data on individual KPIs on a monthly basis and providing alerts for corrective action if the target values for the KPIs are not met.

Court Pulse provides three types of insight: descriptive, which reports on past values; current status, which presents current KPI values; and deviation, which shows how far the value of the KPI is from the targeted value.

- a. Court Pulse provides a visual measurement of the KPIs, comparing the actual and target values and reflecting their status through traffic-light colors: green for acceptable and red to warn that a target was not reached.
- b. Deviation is presented as distance in percent of actual from target.
- c. The history (trend) is presented as a line or a bar chart. It is up to the user to decide the granularity of the data displayed.
- d. There are three banding types: Increasing is better, Decreasing is better, and Closer is better. Each KPI should be classified in one of the three banding types.

⁸ Judicial Performance and its Determinants - ECO/CPE/WPI(2013)4. The types of statistics examined are cases by case type, type of plaintiff/defendant, and monetary value of the claim; clearance rates by case type; pending cases and backlogs by case type; average length of proceedings by case type and stage of proceeding; average number of hearings by case type; average number and length of adjournments by case type; resolved cases by method of disposition; percentage of appeals; and judges’ workload.

TABLE 3.2-1.
Court Key Performance Indicators (KPIs)

COURT KEY PERFORMANCE INDICATORS (KPIs)	DATA SOURCE
<i>Time</i>	
1. Case clearance rate	CMS
2. Age of pending cases (% of open cases within timeframes)	CMS
3. On-time case processing (% of cases closed within timeframes)	CMS
4. Rate of postponed court hearings	CMS
5. Rate of cases closed in two court sittings or fewer	CMS
<i>Quality</i>	
6. Rate of successfully appealed cases	CMS
7. Rate of pending to disposed cases	CMS
8. Satisfaction of court users	Periodic survey
9. Hours of permanent education of judges	Human Resource Module
10. Number of total and successful complaints and of challenges to a judge	Judicial-Legal Council,CMS
<i>Cost efficiency / productivity</i>	
11. Cost per case (mathematical modeling)	CMS - All courts of same instance
12. Human resources per case (mathematical modeling)	CMS - All courts of same instance

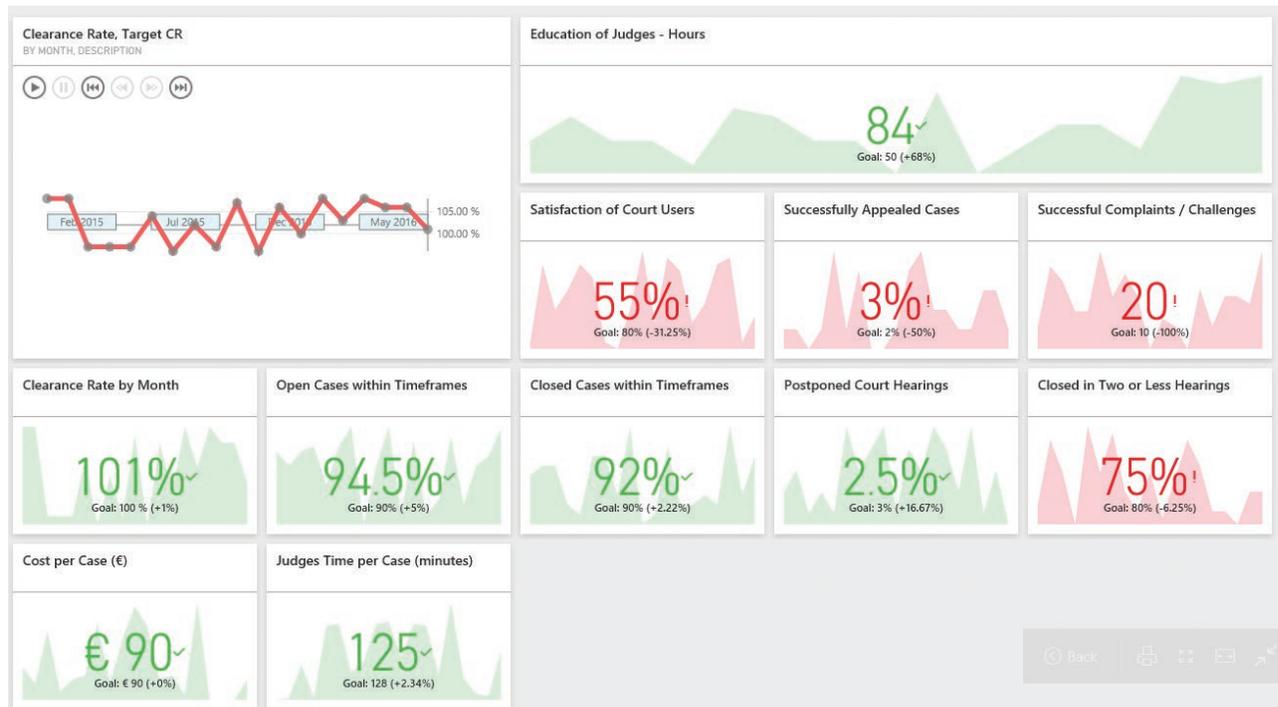
- e. Status is calculated for the last (latest) value and target.
- f. Deviation can be calculated as percentage or as relative or absolute number.

RESULTS

Stakeholders had to fundamentally rethink how the analysis of data can create value for themselves and other parties in the proceedings. Classic annual reports are too detailed, showing information that is already obsolete and thereby preventing any action to identify the cause of the problem and mitigate the risks in a proactive and timely way. Therefore, the decision was made to introduce and implement the Court Pulse system, which is based on international best practices.

Court Pulse eliminated black-and-white reports in favor of dynamic, colorful, complex visuals with easily discernible problem areas and successful operations. CMSs previously produced cumbersome and overly detailed reports; now, reports are insight providers, digesting information and giving court presidents just-in-time information for operational and strategic decision-making. This strategic change in focus means that there is a new role for analytics in courts. Consistent with the increased speed of data processing and analysis, Court Pulse dashboards are embedded in day-to-day operational and decision-making processes, dramatically increasing their speed and impact, and making it harder for decision-makers (court president and judges) to avoid using analytics – which is usually a good thing, because decisions are now based on evidence, not on historical precedents.

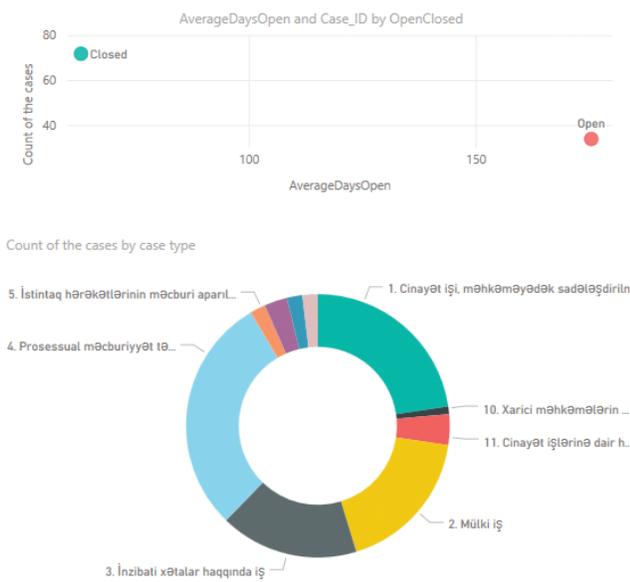
FIGURE 3.2-1.
Court Pulse Dashboard with Key Performance Indicators (KPI's)



FIGURES 3.2-2.
Data Analysis of Judges' caseload using Court Pulse



FIGURE 3.2-3.
Court Pulse Dashboard



Courts can now recognize a host of related challenges and proactively respond with new capabilities, strategies, and priorities. At obligatory monthly meetings court presidents and judges use the Court Pulse dashboard to analyze KPIs and deviations from the target values, discover the causes of deviations, and agree on corrective actions. For example, if time-related KPIs begin to deteriorate on the Court Pulse dashboard, the court president uses the drill-down function to examine which judges and which cases are trailing with the case processing. The president then discusses the causes with heads of departments, and together they agree on corrective actions (such as providing support in dealing with difficult cases, additional training, new court expert, etc.). In this way, deviations from set targets are tackled jointly, proactively, transparently, and fairly.

With Court Pulse, the court redesigned its core processes and adjusted them to data-driven strategies. The Court Pulse dashboard gives a panoramic view of the court's operations and environment, while drill down functions allow for a more granular view at the level of the department or individual judge. Ultimately, using the simple visual interface of Court Pulse to deliver complex statistical models makes invisible factors visible to decision-makers and facilitates the discovery of areas

that need attention. This has produced a management revolution that dramatically improves both performance and strategic management, increasing the proactive roles of court president as strategic leader and of judges as effective and efficient leaders in their courtrooms. Thus the ability to see what was previously invisible improved operations, court client experience, and strategy. The power of Court Pulse is being used to support the common goals of improved quality, shorter time for case processing, and improved cost efficiency/productivity.

Another important corollary effect relates to how data are organized to service Court Pulse. Court Pulse does not limit the ability of Ministries of Justice or of academics, social scientists, and legal experts to use the monumental amount of data in research on various subjects—for example, on the quality and fairness of services to disadvantaged groups or detailed evaluation studies for the whole system. This is possible because data is warehoused in a way that allows distilling “big data” into actionable specific information. Thus, even if some of the data are not used for the dashboard, other data—such as age, gender, region of provenance, type of case—can be extracted and correlated for strategic sector wide investigations (for example, types of crimes most prevalent among people aged 16-18, disaggregated by gender and region).

LESSONS LEARNED

We believe that this scheme is extremely important and could be used by judicial administrators in other countries. This solution can significantly improve and simplify performance management, e-decision, and e-policy-making in the judiciary. Court Pulse represents the top of the iceberg of the complex ICT system. The scientifically produced and embedded quantitative performance management system covers the dimensions of *time*, *quality*, and *cost efficiency/productivity*, introducing a mature and standardized decision-making process in the courts.

Even advanced court administrations of countries that do not use a dashboard could benefit from Court Pulse, which would further streamline the reporting functions of the performance management system. It can also give countries a way to combine data science and ICT, resulting in a revolution in court management and significantly improved service to citizens.

Also, as a part of any change, all those who will be affected should know what the change will mean for them, and how they can benefit. To achieve the best results, any system changes should be accompanied with sufficient informational support and trainings.



New courthouses in Azerbaijan financed by the World Bank aim to make the judiciary process faster and more efficient. Photo: © Allison Kwesell / World Bank.

RESULTS BRIEF 3.1

Italy: Innovative Framework Agreements in Centralized Procurement

A contribution by authors of the World Bank Governance Practice, with case details provided by Marco Sparro, Head of Economic Analysis and Sustainable Development Unit, Consip S.p.A., Italy

CONTEXT

Consip, the Italian central purchasing body (CPB), is a public company that is wholly owned by the Ministry of Economy and Finance. Its mission is to foster efficient and transparent use of public resources by providing public entities with tools and skills that will enable them to make public purchases easily and efficiently.

This case illustrates how Consip evolved procurement methods from its “classic” model of Framework Contracts (FCs), which are single-award procurements, to a new more flexible concept of Framework Agreements (FAs), which are multiple-award procurements. FAs, part of the evolution of centralized procurement, provided in Italy such benefits as greater impact on the market, more involvement of small and medium enterprises (SMEs), and sustainability (see Figure 3.3-1).

The figure illustrates (from left to right) how earlier goals like cost savings – which are still very valid – have been augmented by additional goals such as a conscious effort to attract more SMEs to the bidding process. And increasingly, sustainability is recognized as an important goal.

IMPLEMENTED ACTIONS

In one concrete example of the new concept, Consip used the FA method to establish contracts for computer desktop outsourcing. The computer “desktop” consisted of integrated management of the workstation, including software licensing, hardware rental, standard maintenance, and service via a service desk.

Because the procuring entities were large public entities with very heterogeneous needs, the eventual awards called for customization to take place at the “call-off” stage – the procuring entities made the four contract awardees compete for the business by adapting their tenders in quality, price, and additional hardware services.

As a result of this procurement (see Figure 3.3-2), one of the traditional goals (under the FC method) of cost savings was achieved. But in addition, the procuring entities got a higher level of product customization than they might have under the traditional FC method, and the number of awardees was increased. The benefits did not come without some effort, however: the customization process was seen to be more cumbersome and took longer, and it also required the procuring entities to have a higher skill level to adapt their tenders to achieve the desired level of customization.

FIGURE 3.3-1.
The evolving role of centralized procurement

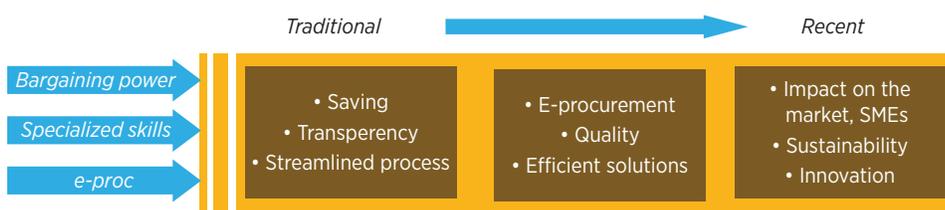


FIGURE 3.3-2.
Summary results of FA procurement

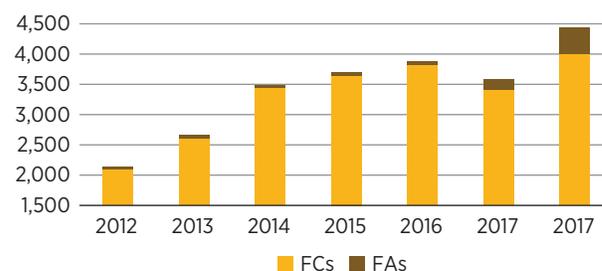


RESULTS

The Italian experience highlights that centralized procurement is powerful but needs to be handled with care. This experience showed that there is no single optimal solution that fits all circumstances. The best (centralized) procurement design depends on decisions about the goals and desired outcomes of the procurement.

- What is the goal? Is it cost savings, high quality, involvement of SMEs, innovation? Is it desirable to have a multiple-award structure?
- What are the market conditions? Both the demand and supply-side matter! In the example, demand came from large public entities with highly heterogeneous needs, and supply came from about 10 national and multinational firms, working with local partners.

FIGURE 3.3-3.
Spending in Italy through FCs and FAs



LESSONS LEARNED

A CPB can make the most of specialized skills, but its impact is limited without skilled customers. Therefore, it is important to provide buyers with guidance and training and involve them in decision-making. In the example, buyers needed skill and a lot of effort to award the contract. Educating and working with the buyers will take additional time that must be factored into the procurement plan.

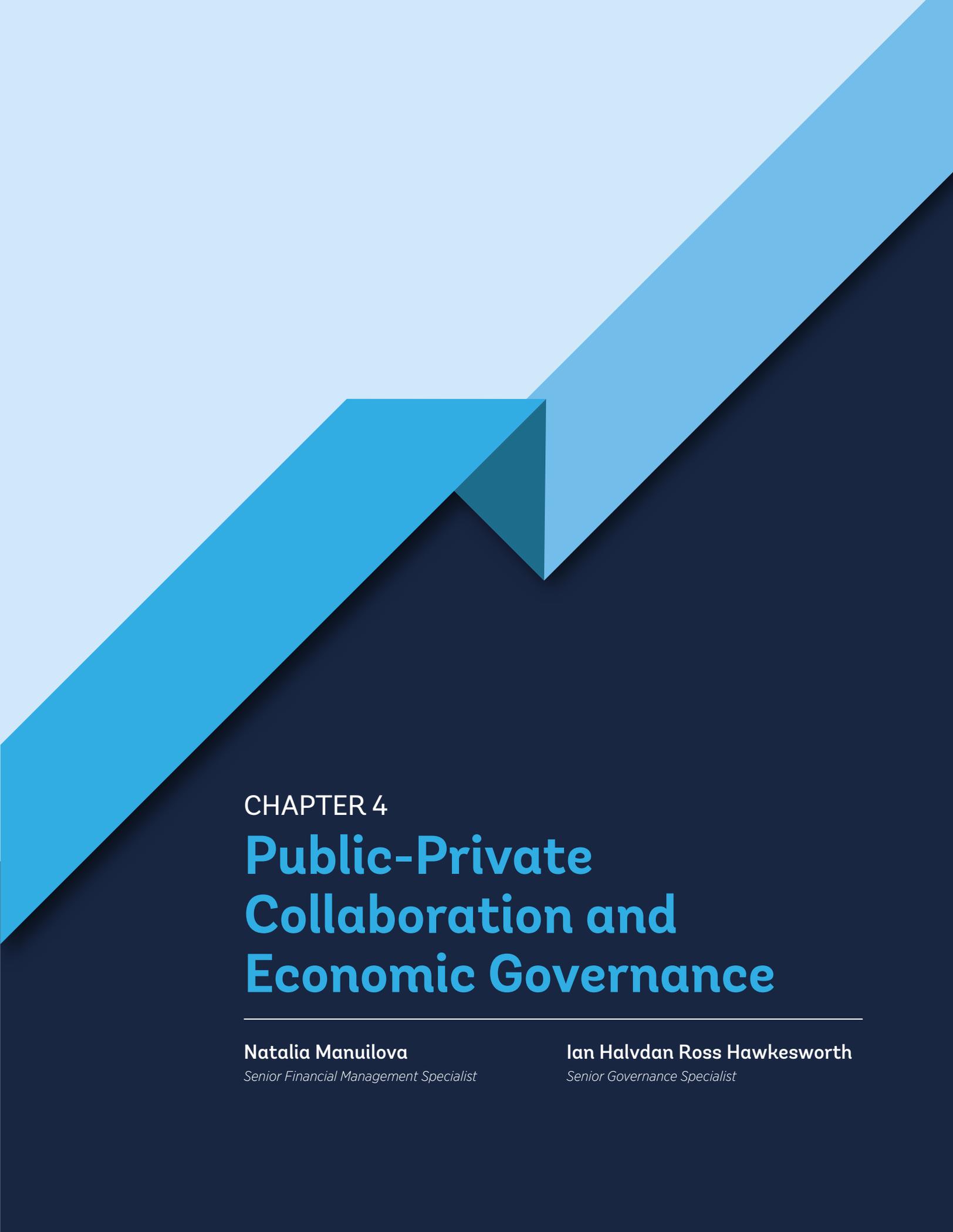
Overall, the CPB in Italy is on the right track. At Consip the value of procurements conducted through FA methods has increased each year, particularly in 2017 and 2018. FAs are now a significant share of the nearly €4.5 billion value of recent public procurements in Italy.



Palazzo Montecitorio, seat of the Italian Chamber of Deputies, Rome, Italy.
Photo: © iStock/YingYang



Rehabilitation of the Intumak Dam on the Nura River, Kazakhstan.
Photo: © Shynar Jetpissova / World Bank



CHAPTER 4

Public-Private Collaboration and Economic Governance

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Achieving the Sustainable Development Goals (SDGs) will require large increases in social and economic infrastructure, which the IMF estimates at 4-15 percent of GDP by 2030. The World Bank's "Beyond the Gap"¹ publication also refers to the need for combining investment in infrastructure with governance improvements and the use of technology to build the needed sustainable infrastructure at a lower cost. Few countries have sufficient public resources to close the social and economic infrastructure gap. Therefore, it is prudent for them to galvanize private financing and know-how by building an effective and fair public-private interface that can enable financing, concessions, public-private partnerships (PPPs), and so on, as well as strengthen state-owned enterprises' (SOEs') governance, operation, and access to finance.

It is becoming increasingly clear across the ECA region, and around the world, that to ensure sustainable growth, the public and private sectors must leverage their key strengths and acknowledge their interdependence. A productive public-private interface is one that achieves efficient, equitable economic growth through the optimal use of private sector strengths (capital, expertise), public sector tools (public interest focus, regulation, public spending), and civil society influence (independent, people-centric, agenda setting).

Governance affects results. Countries need reforms to enable effective cooperation between the public and private sectors—reforms such as revisions to the legislative frameworks that create and foster an operating environment that is conducive to effective public-private collaboration, with fair and transparent distribution of costs and benefits.

While there are issues particular to each sector of the economy, the fundamental questions of the role of the public and private actors are to a great extent cross-cutting, and they require a whole-of-government approach. They often, but not always, center on decisions about asset creation, operation, or divestiture. Thus central ministries such as Finance and

Economy or state asset managers and operators must ensure that the decision-making process works in a holistic and coordinated manner, moving toward the same objective – effective, efficient, and transparent performance of publicly owned assets and better service delivery for users.

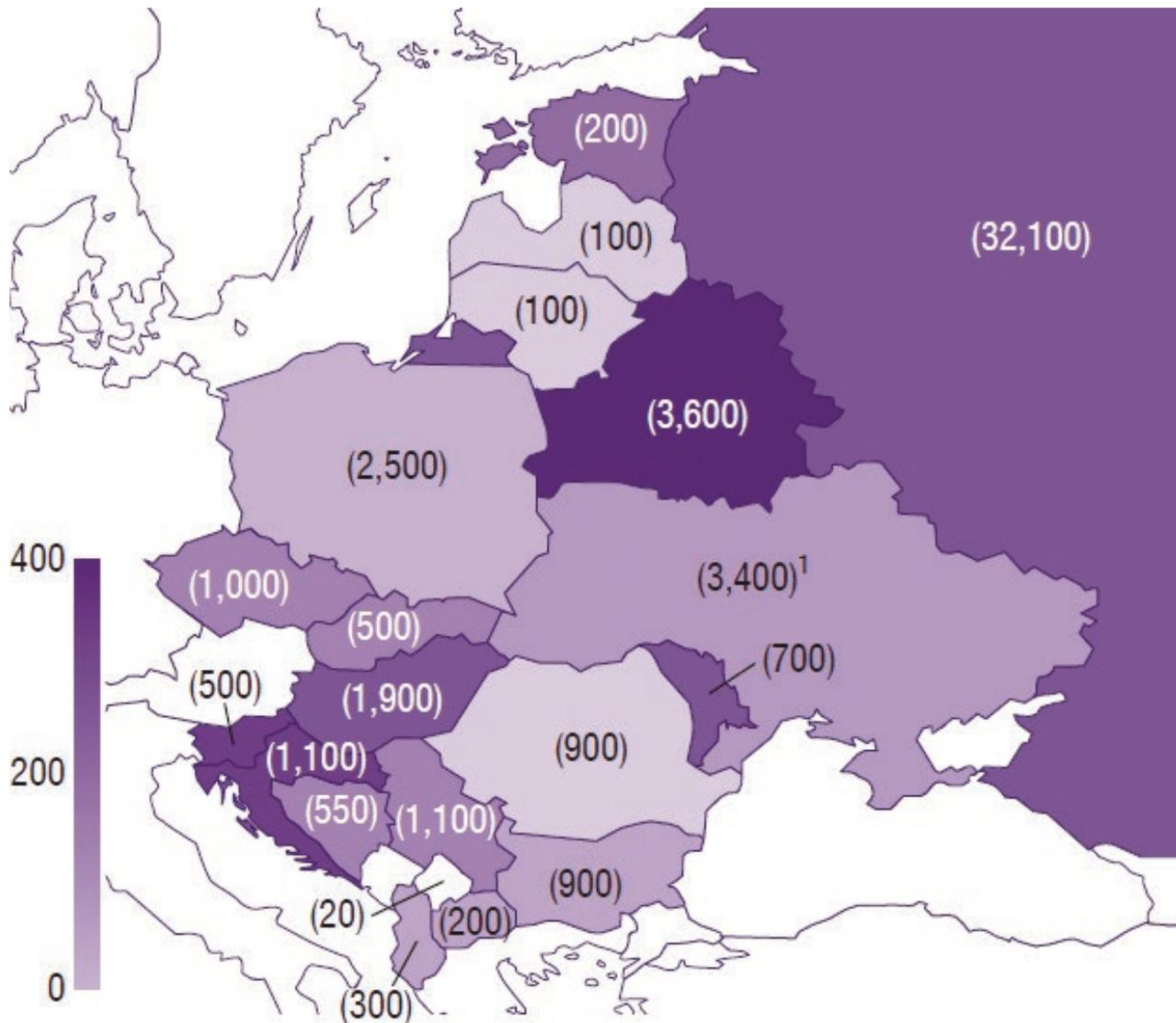
Despite significant reforms that have reduced the state's role in European economies over the past decades, in the countries of Europe and Central Asia (ECA) the state continues to play an important and often dominant role in economic development and people's lives, especially in utilities, health, transportation, finance, and natural resources. Many countries have been implementing ambitious reforms to reduce the state footprint in their economies, improve the efficiency of SOEs, and crowd in private capital to narrow the infrastructure investment gap, but SOEs remain significant according to many metrics, including their contribution to GDP, share of overall employment, and share of total investments (Figure 4-1).

In ECA, the state continues to provide the population with essential public services that would not be available from private providers. The rationale for SOEs to provide such public goods and services relates mostly to the presumed lack of a functioning market for these services, advantages of scale, and information asymmetry that would undermine users' ability to hold providers accountable. However, poor service delivery and SOEs' failure to provide effective infrastructure are cited in surveys around the world as major constraints to investment and economic growth. In addition, poor service delivery tends to affect poor people disproportionately, as households with sufficient means can turn to alternative, private sources—for instance, by acquiring their own generators for power, using private schooling, buying bottled drinking water.

It is often suggested that the private sector has intrinsic advantages over the public sector in certain areas, largely because of its profit-driven incentives and its ability to tap market forces for innovation, leverage, and scale. At the same time, governments need to ensure that public services are appropriately offered to citizens in an equitable manner. Governments safeguard against market failures and must ensure inclusiveness, which often means subsidizing certain

1 "Beyond the Gap: How countries can afford the infrastructure they need while protecting the planet." World Bank, 2019. <https://openknowledge.worldbank.org/handle/10986/31291>

FIGURE 4-1.
Nonfinancial State-Owned Enterprises (SOEs) per million population



Source: Reassessing the Role of State-Owned Enterprises in Central, Eastern, and Southeastern Europe. IMF, 2019.

services to make them affordable to the vulnerable. This suggests that public-private collaboration could be a path to achieve public goals with private-sector efficiency and effectiveness. It should be noted, however, that private sector involvement is not a panacea; there have been mixed experiences from sector to sector and from country to country.² At the same time, the use of private finance in a development

context has been shown to be worthwhile on a large scale when the governance has been right, as the Turkey case study in this chapter attests.

A government should therefore carefully assess what role the public and private sectors should have with respect to delivering public services in light of its strategic development

² Eduardo Engel, Ronald D. Fischer, and Alexander Galetovic, "When and How to Use Public-Private Partnerships in Infrastructure: Lessons From the International Experience," NBER Working Paper No. 26766/2020; Burger, P. and Hawkesworth, I., "How To Attain Value for Money: Comparing PPP and Traditional Infrastructure Public Procurement," *OECD Journal on Budgeting*, Volume 2011/1.

direction and the national context. To do this, the government needs to define the state's ownership role in various sectors, while balancing legitimate public interests, the country's long-term strategic interests, the current efficiency and effectiveness of SOEs, and SOEs' social functions. Finding the right balance for an effective public-private interface entails addressing two major issues:

- Ensuring that when a private party participates in sectors that were previously fully controlled by the state, it does so in a productive, fair, and transparent manner; and
- Creating the environment and mechanisms for SOEs to become profitable, effective, and accountable to the government and the public.

A transparent, capacitated, and inclusive reform process can help achieve the reform objectives. Structuring the reform

process and sequencing it properly are the most critical steps to reduce state capture and minimize corrupt practices. Engaging with political parties and with economic and civil society actors in a complex reform process may provide the necessary checks and balances to achieve the reform objectives. Similarly, good experiences, challenges, and lessons learned from around the region may provide useful guidance and enable reformers to avoid common mistakes. A key issue in all countries is ensuring that public sector actors with appropriate capacity – skills, know-how, and resources – are available to steer the reform and interact with highly experienced private actors.

The key pillars of such reforms are legislation, equal treatment, governance and oversight, transparency and disclosure, public consultation, and capacity building (see Figure 4-2).

FIGURE 4-2.
Key reform elements in the public-private interface



The Vital Role of Governance

Good governance is a necessary condition to ensure the provision of accessible public services and infrastructure. Data show that better governance results in more efficient spending and better growth outcomes at the national and subnational levels of government.³ Several studies⁴ estimate that improvement in infrastructure management could lead to substantial efficiency enhancements and enhanced infrastructure productivity over the life of assets. Conversely, poor governance is a major reason why infrastructure projects fail to meet their timeframe, budget, and service delivery objectives. Unfortunately, countries that need infrastructure investments the most are also those in which the governance of infrastructure frameworks is less effective. This challenge demands a strengthening of the entire institutional architecture of government to deliver the right strategic infrastructure on time, within budget, and in a manner that commands the confidence of all stakeholders. It raises questions such as how the public sector should prioritize, plan, budget, assess, deliver, and regulate infrastructure. One key and often neglected dimension to this is to develop a coherent strategy with respect to how to use SOEs and the private sector to supplement traditional public works.⁵

An infrastructure governance gap, rather than a financing gap, is hindering increased private sector participation in infrastructure. More specifically, several risks and challenges threaten the creation of legitimate, effective, and efficient infrastructure assets. Most of these risks can be mitigated by implementing good governance practices—a message that has been coming through many research papers and through consultations and discussions with private sector lenders, construction companies, sovereign wealth funds, institutional investors, civil society groups, and government officials, including during the governance conference organized by the World Bank in 2019. One example of a successful PPP program that has delivered good results is found in

Turkey: the Turkish case study highlights that careful project selection based on a clear economic justification is central to delivering results.

SOEs play a key role in the economy of many ECA countries, so improving their governance and performance is high on the policy agenda. Key objectives in this reform process should include (a) improving service delivery to citizens and local businesses; (b) enhancing the country's financial and fiscal sustainability; (c) ensuring a level playing field in domestic markets so the private sector can compete and develop; (d) maximizing finance for development; (e) reducing the risk of corruption, which is often associated with weak corporate governance; and (f) increasing transparency about the role and resources of SOEs. Poor governance and low accountability of SOEs limit private and public investment in infrastructure projects and breed inefficiency. The Lithuania and Uzbekistan case studies in this chapter explain how two countries carried out SOE reforms.

Weak corporate governance—such as an overall lack of transparency and accountability, or insufficient separation of ownership, policymaking, and regulatory functions—creates room for increased state capture and corruption in SOEs. The financial relations between SOEs and the state are often not fully transparent, thus facilitating the extraction of rents to the benefit of insiders and political groups. Types of corruption that are particularly common in SOEs include (a) corruption related to the procurement of infrastructure or services, (b) the misappropriation of company assets, (c) undue benefits given to individuals in leadership positions, and (d) employment of relatives or politically affiliated individuals.⁶

SOE performance in delivering services has several dimensions. The first aspect of performance is access to

3 OECD (2013), *Investing Together: Working Effectively Across Levels of Government*, OECD Publishing, Paris; Abdul d Abiad et al. (eds) (2015), *The Macroeconomic Effects of Public Investment: Evidence from Advanced Economies*, IMF Working Paper No. 15/95.

4 IMF (2015), *Making Public Investment More Efficient*, IMF Policy Paper; A. Rajaram et al (eds.) (2014), "The Power of Public Investment Management: Transforming Resources into Assets for Growth," *Directions in Development*, Washington, DC: World Bank.

5 Hawkesworth, I. "Policy Guidance for Public Governance of Infrastructure" in Helmut K. Anheier (Ed.) *The Governance Report*. (2016). Oxford University Press.

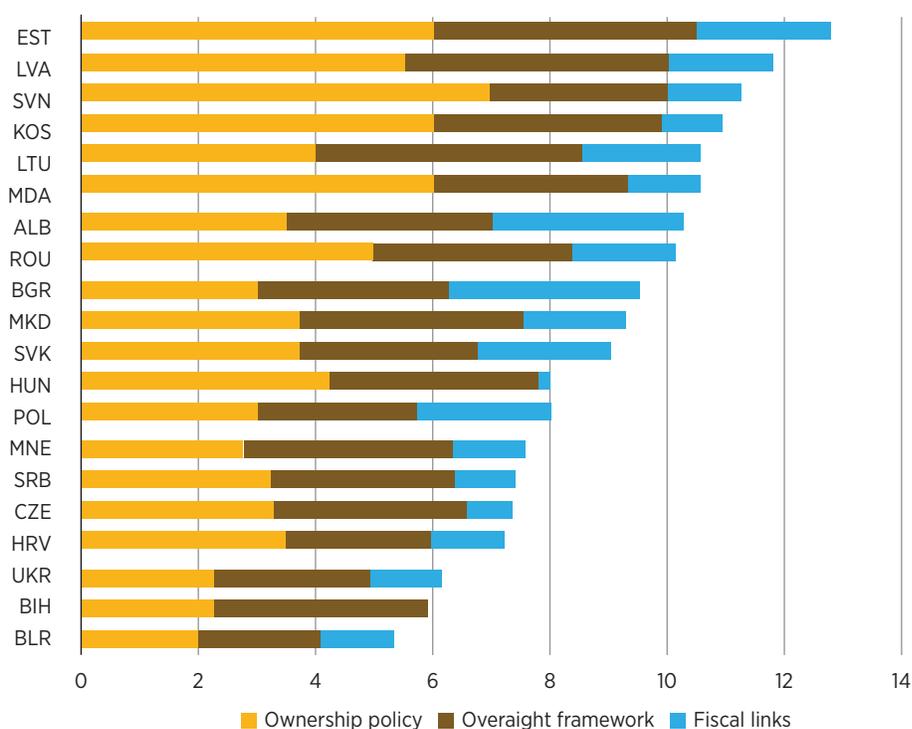
6 OECD (2018) *Ownership and Governance of State-Owned Enterprises: A Compendium of National Practices*.

services, which determines whether or not the services—for example, connectivity to the water network or the electricity grid, access to basic bank accounts or public transportation—are available in certain parts of a country or to certain populations. A second aspect is the *reliability* of service provision. In many countries, most electricity is generated, transported, and distributed by an SOE. Many of these SOEs struggle to provide electricity continuously, and blackouts are frequent. In the water sector, in extreme cases, poor SOE performance can lead to water shortages. A third aspect is the *quality* of the goods and services delivered—for example, the speed of Internet connections provided by a state-owned telecommunications operator. A final aspect is the *affordability* of the services for customers when the SOE operates as a monopoly, as in the case of the cost of public transportation.

Poor service delivery results from numerous factors. The major factors are poor governance and ineffective management, but other causes can include weak regulatory frameworks, inadequate oversight, outdated technological capabilities due to insufficient investment in human and physical capital, and so on. State support to SOEs through the provision of inputs on favorable terms (for example, below-market prices) or to meet their liabilities (including through bailouts) often contributes to inefficient management. Achieving higher levels of economic activity and delivering good-quality public services requires substantial improvements in the productivity and performance of existing SOEs.

The SOE Governance Index developed by the IMF⁷ demonstrates that there is significant room for improvement in implementing better governance practices among ECA SOEs.

FIGURE 4-3.
Composite SOE Governance Index



Source: Reassessing the Role of State-Owned Enterprises in Central, Eastern, and Southeastern Europe (IMF, 2019).

Note: Score is out of a maximum of 16.5. Higher values denote closer adherence to WB toolkit,⁸ OECD guidelines.

⁷ <https://www.imf.org/-/media/Files/Publications/DP/2019/English/RRSOECESEEEA.ashx>

⁸ <http://documents.worldbank.org/curated/en/228331468169750340/Corporate-governance-of-state-owned-enterprises-a-toolkit>

The index compares policies in place with OECD guidelines.⁹ As might be expected, the EU member states have higher scores than non-EU members, because of their stronger institutional development, higher transparency requirements related to budgetary support, and a more mature degree of corporate governance development.

Reforms aimed at improving governance and attracting private finance into the delivery of public services (including infrastructure) must be based on the principle of competitive neutrality—that is, that all companies, whether

public or private, domestic or foreign, face the same set of rules and policies. To achieve this, governments' ownership of SOEs and their engagement in SOEs' operational activities, influencing price-setting or other involvement in the marketplace, in fact or in law, must not confer an undue competitive advantage on any actual or potential market participant. Competitive neutrality solutions need to complement the enforcement of competition laws, as well as investment, trade, and innovation policies that ensure a level playing field for SOEs and the private sector.¹⁰

Key Lessons for Managing Public-Private Collaboration

To scale up investment in critical public services and infrastructure sectors, Governments should consider the entire toolbox of the public-private interface. The selection of collaborators should be based on clearly formulated policies and value-for-money principles, be affordable to users and to the public purse in a sustainable manner, and be subject to cost-benefit analysis. Private market operations, SOE market participation, concessions, PPPs, and public investments are all instruments in a large toolbox for effective collaboration between the public and private sectors. (The Ireland case study in this chapter describes a program that is heavily dependent on PPPs.)

A proper public-private interface allows the public and private sectors to work in tandem, addressing significant gaps in infrastructure, building effective mechanisms for service delivery, and right-sizing the state footprint in the country. Building frameworks that allow for such an effective collaboration between the state and private sector requires proper legislation, capacity, and trust between the actors.

Effectiveness, transparency, and accountability must be central to the way the public-private interface operates. Any mechanism selected – including PPPs and investments via SOEs – should be properly managed, allowing the government to act as an active and professional owners of the country's resources, and should ensure affordability, value for

money, and integrity. To be effective owners, governments must minimize the risk of failure by properly preparing and planning investment arrangements, assessing risks and benefits, and searching for optimal solutions.

It is critical that governments limit their interventions to those sectors where the government's presence is necessary to achieve the country's strategic priorities or address market failures, while establishing a level playing field for keen market competition in all other sectors. Entities that remain in state ownership should be required to operate on market terms, adhere to established corporate governance practices, and apply appropriate accountability rules. In such an environment SOEs should be held to a high level of transparency and accountability and should be allowed to operate as independently as possible on a commercial basis without political interference. Proper corporate governance practices require that SOEs have professional boards of directors that work to build strong companies with motivated management, better performance, proper risk management, sound internal control, and improved economic accountability.

One way to approach the public-private interface is for governments to holistically assess the health of the current state of play. A point of departure for such work could be the World

⁹ https://www.oecd-ilibrary.org/governance/oecd-guidelines-on-corporate-governance-of-state-owned-enterprises-2015_9789264244160-en

¹⁰ OECD (2012). Competitive Neutrality Maintaining a Level Playing Field Between Public and Private Business.

BOX 4-1.

Infrastructure Governance Principles for Maximizing Finance for Development (MFD)

Principle 1: Develop a strategic plan.

Principle 2: Ensure that projects are prioritized, affordable, and delivered in an efficient way, balancing financial and nonfinancial considerations.

Principle 3: Design a process that agnostically guides the decision on how to provide the infrastructure service, and the role of the private sector, prioritizing value for money.

Principle 4: The government should ensure that the infrastructure services are delivered.

Principle 5: Regulators of infrastructure should ensure that private operators maximize efficient operation and receive a reasonable return on investment, and that public welfare is maximized in the long term.

Principle 6: State-owned enterprises should operate on market terms and use private sector finance and participation to fulfill their mandate most efficiently.

Principle 7: Ensure a high degree of transparency across the investment cycle.

Principle 8: Direct public participation should be sought on a proportionate basis at all key stages of the investment cycle.

Principle 9: Measures to promote social, gender, and environmental sustainability should be implemented across the investment cycle.

Principle 10: Mechanisms to protect and promote integrity should be incorporated comprehensively across the investment cycle.

Bank's Infrastructure Governance for Maximizing Finance for Development Framework (2019), which aims at building an enabling environment to foster an effective public-private interface (see Box 4-1).

Working to implement these principles requires significant political commitment, administrative capacity, and patience. While the costs of reform are often easily identified, the benefits usually take longer, and the public

beneficiaries may be less vocal than rent-seeking special interest groups. Experience also shows that this is an area where substantial cross-fertilization from other countries is of benefit. While one size doesn't fit all, lessons can surely be learned, and mistakes avoided. In this context regional policy dialogues, the structured sharing of information and the creation of communities of practice of like-minded reformers will be important and an obvious task for national, regional and multilateral development partners to commit to.

CASE STUDY 4.1

Turkey: PPP Program, Collaboration with the Private Sector, Impact on Service Delivery and its Governance Structures

SEDEF YAVUZ-NOYAN, HEAD OF PUBLIC-PRIVATE PARTNERSHIP DEPARTMENT, PRESIDENCY OF STRATEGY AND BUDGET, PRESIDENCY OF REPUBLIC OF TURKEY

CONTEXT

Turkey's public-private partnerships (PPPs) date back to the Ottoman Empire. A cable car funicular, which was in operation in 1875 and is still in operation in Istanbul, is a good example of PPPs in the Ottoman Empire. The first law on PPPs dates to 1910.¹¹ Contemporary Turkey's PPP adventure began in the 1980s as Turkey switched to a totally liberal economy. Now part of the global game, Turkey aimed to make a leap in terms of industrialization for exports,¹² and it focused its development plans accordingly. More industrialization and export necessitated investment in infrastructure, especially energy infrastructure. To meet the increasing demand for energy, power plants were needed in a short time, and the country had a limited budget. PPPs were seen as the solution for this important infrastructure gap, and the first law for PPPs in contemporary Turkey—the *Law on Authorization of Other Institutions than Turkish Electricity Authority for Electricity Production, Connection, Distribution and Trading*—was published in 1984 for energy investments. This law allowed energy infrastructure projects to be implemented through the build-operate-transfer (BOT) model.

The next PPP law, in 1998, was for motorways and motorway facilities to be implemented through BOT. The successful use of BOTs also prepared the way for a BOT law in 1994,

which widened the scope to include many sectors: the *Law for Implementation of Investments and Services by the Build Operate-Transfer Model*. The aim of the BOT law was to realize investments and services with high investment value and high technology through the PPP model. In 1994, another law, the Privatization Law, was enacted, and it included the transfer-of-operating-rights (TOR) model. Thus, in the 1980s and 1990s many energy, airport, port, marina, and motorway facilities projects were undertaken using BOT and TOR. Turkey's expectations from PPPs were to mobilize private funds, benefit from the private sector's expertise and efficiency, develop innovative solutions, improve cost-effectiveness in providing public services and investments, provide a high standard of services, and increase people's access to services.

In the 2000s, Turkey began to use PPPs for mega-projects, especially for transportation projects using BOT and for health campuses using the build-lease-transfer (BLT) model. Most of the mega-transportation projects aimed to make Turkey a regional hub and connect the country's important production and consumption centers, which together accounted for 50 percent of the country's GDP¹³ and 70 percent of total exports.¹⁴ The health campuses were an attempt to achieve quality health service, which was defined in the 10th Development Plan¹⁵ as 28 qualified beds per 10,000 people.

¹¹ KÖİ Mevzuatı 2015, Ministry of Development of the Republic of Turkey, <http://www.sbb.gov.tr/wp-content/uploads/2018/10/Kamu-%C3%96zel-%C4%B0%C5%9Fbirli%C4%9Fi-Mevzuat%C4%B1-2015.pdf>, visited 11.10.2019.

¹² Dilbaz Alacahan, N., 2008, "1980 Sonrası Türkiye'de Kalkınma Planlarındaki Ekonomik Hedeflerin Gerçekleşme Düzeyleri," *Sosyal Bilimler Dergisi* 1: 19-31.

¹³ Turkish Statistical Institute, "GDP by Cities," Newsletter, <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=30888>, visited 11.10.2019.

¹⁴ Turkish Exporters Assembly, <https://www.tim.org.tr/tr/ihracat-rakamlari.html>, visited 11.10.2019.

¹⁵ 10th Development Plan (2014-2018) of the Republic of Turkey, <http://www.sbb.gov.tr/wp-content/uploads/2018/11/Onuncu-Kalk%C4%B1nma-Plan%C4%B1-2014-2018.pdf>, visited 11.10.2019.

As a result, by 2018, Turkey was ranked first¹⁶ in Europe in terms of contract value signed by PPPs, and fourth among developing countries in the world.¹⁷

IMPLEMENTED ACTIONS

PPPs are used for public investments and public services. However, the PPP model is much more complex than traditional public procurement in many ways. First, it is a long-term contract that includes operation, and this longer timeframe decreases the predictability of the conditions during the contract life. And second, it has three partners: the public, the sponsors (private sector), and the lenders—three sides that must be in coordination with each other over a long time. This complicated structure must be managed well. The main pillars should be established so that uncertainties are reduced. Turkey set up the main pillars as legislation, institutional setup, and incentive mechanisms. Political support backed all of these pillars.

Turkey first laid the foundations of a good legal system in which PPP projects could be undertaken. As was summarized in the Context section, Turkey developed its legislation to meet new needs. The legislation set out the rules for open and transparent bidding, contracting, and the general procedures to be followed. This was important to improve the predictability of the market for investors. In addition, in 1999 the constitution was changed to facilitate the smooth flow of PPPs, opening the way for PPPs to be realized by private contracts. This change was a sign of strong political support.

Turkey's PPP legislation also facilitated the set-up of PPPs. Traditional public procurement projects had a different approval mechanism from PPP projects. Before the advent of the new Presidential System (which has been in force since July 2018, replacing the Parliamentary System), the High Planning Council (HPC), headed by the Prime Minister and comprising ministers appointed by the Prime Minister, had the authority to approve the PPP projects. Legislation had given the HPC the option of asking for assessments by the Ministry of Development, the Ministry of Finance, the Undersecretariat of the Treasury, and any other public institution, if necessary.

The HPC Secretariat fell under the Ministry of Development, which at the same time was responsible for the preparation of 5-year development plans, medium-term programs, and annual public investment programs. This structure ensured that PPP projects were assessed against Turkey's macroeconomic targets and sectoral priorities and passed through the same assessment mechanism as the traditional public investment/services projects. Moreover, mechanisms for PPPs' approval by public institutions were also defined by legislation for every stage of the projects.

After the start of the Presidential System in 2018, the authority to approve PPPs passed to the President. The duties of the Ministry of Development and the Directorate General of Budget in the Ministry of Finance were transferred to the newly created Presidency Strategy and Budget. The Ministry of Finance and the Undersecretariat of the Treasury merged to form the Ministry of Treasury and Finance. The assessment of PPP projects is now performed by the Presidency of Strategy and Budget and the Ministry of Treasury and Finance. Thus, although the names have changed, the assessment mechanism is the same as before the Presidential System began.

Legislation also defined the incentives to be applied to PPPs, to increase the perception of predictability for the private sector in terms of risk allocation. Tax incentives, expropriation incentives, shadow toll mechanisms, demand guarantees, availability payments and debt assumption mechanisms, and step-in rights were defined in the legislation. In addition, international arbitration is allowed. These incentives were designed to increase the private sector's willingness to invest in projects, some of which are very large-scale greenfield projects.

Turkey did not set up all these pillars in their complete form at one time. As the scope of the PPPs grew, new sectors were added, and experience accumulated, additions were made to the legislation. We are still learning from our experiences. One example concerns institutional capacity. In the early days of PPPs, the PPP contracts were followed by traditional units in the line institutions. Over time, many institutions—especially those with large-scale PPPs—have recognized how different PPPs are

¹⁶ Market Update, Review of the European PPP Market in 2018, European PPP Expertise Centre, 2019, https://www.eib.org/attachments/epec/epec_market_update_2018_en.pdf, visited 11.10.2019.

¹⁷ World Bank Group, Private Participation in Infrastructure Database Featured Rankings, 1990 to 2018, <https://ppi.worldbank.org/en/snapshots/rankings>, visited 11.10.2019.

from traditionally procured public projects, and the extent to which each project needs good contract management over a long time span, and so many have created a dedicated unit for PPP projects. Efforts to provide better risk allocation between the public and the private sector are continuing. Every contract may show a new challenge to be overcome in the next contract. There is always another sector coming up for PPP and another way of doing things by PPP. Being flexible and adapting to changing conditions are important in this context. The need for capacity building, especially for the public institutions that are newcomers to PPP, and experience-sharing between institutions has become clearer. Studies for standardized documents and capacity building have begun to fulfill these needs.

RESULTS

With more than 30 years' experience, Turkey has a successful track record in PPPs. The PPP models that are in use in Turkey are BOT, TOR, build-operate (BO), and BLT. As of the middle of 2019, Turkey has used PPP for a total of 246 projects, of which 218 are in operation and contributing to the Turkish economy. The total investment cost of the PPP projects is US\$67.5 billion in

2019 prices.¹⁸ The highest contract value belongs to the airports, including the Istanbul Airport, which has been in operation since October 29, 2018. These numbers make Turkey one of the leading countries in PPPs in the world (see Figures 4.1-1 and 4.1-2).

The average Turkish PPP contract value is high when compared to the contracts of other countries. Turkey has focused especially on large-scale greenfield projects for the last 10 years. Some of these projects are already operating successfully—for example, the 427 km Gebze-Orhangazi-Izmir motorway project, the 148 km North Marmara Motorway Project (Odayeri-Paşaköy Part), the Eurasian Tunnel (under the Strait), 10 health campuses with 13,375 beds, and 12 airports with 267 million passenger capacity (see Figure 4.1-3). One of the significant achievements of Turkey is that it has been successful with these mega-projects with no direct public capital contribution—that is, using only private investment.

This success led to the creation of Turkish “brands” on PPPs, and Turkish firms began to export their know-how abroad. Turkish firms now undertake airport, port, and highway PPP projects in many countries around the world.

FIGURE 4.1-1.
Aggregate value of projects by country¹⁹
(EUR billions)

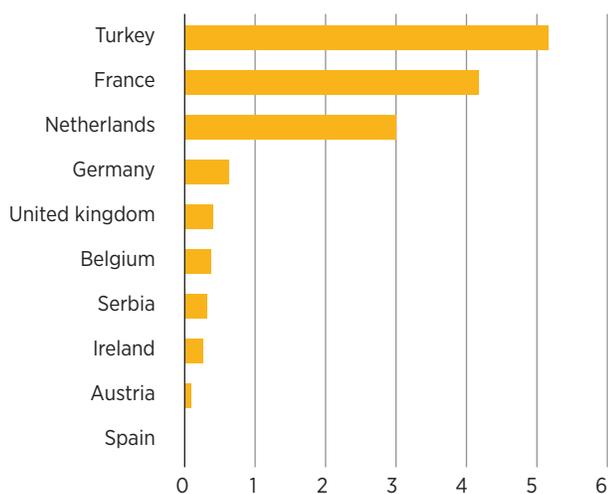
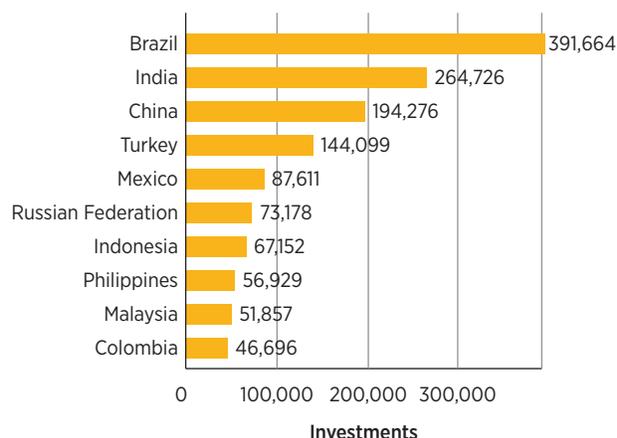


FIGURE 4.1-2.
Top 10 PPP countries, by investment²⁰(US\$ millions)



¹⁸ PPP Projects in Turkey, Presidency of the Republic of Turkey, Presidency of Strategy and Budget, https://koi.sbb.gov.tr/Main_EN.aspx, visited 11.10.2019.

¹⁹ Market Update, Review of the European PPP Market in 2018, European PPP Expertise Centre, 2019, https://www.eib.org/attachments/epec/epec_market_update_2018_en.pdf, visited 11.10.2019.

²⁰ World Bank Group, Private Participation in Infrastructure Database Featured Rankings, 1990 to 2018, <https://ppi.worldbank.org/en/snapshots/rankings>, visited 11.10.2019.

LESSONS LEARNED

Turkey has learned a great deal about PPPs. First, we learned the expectations of the private sector. Sponsors and lenders search for political stability and political will for these complicated, long-term projects. Rule of law is another important need of the private sector. Under the rule of law, unwanted surprises are less likely to occur, and issues can be elaborated without putting anyone at an unjust disadvantage. Macroeconomic stability is also important, as the private sector operates the projects, and demand, payment conditions, and risks all depend on the macroeconomic situation. Dispute resolution mechanisms are important for the risk perception of the private sector, as conflicts must be adjudicated through sound mechanisms. International arbitration is especially important for less developed and developing countries. Transparency is as important as all these issues. It boils down to the fact that the private sector undertakes projects for profit, so things that increase the likelihood of profit are important for the private sector. In the end, PPPs are partnerships (as the name clearly indicates); for a PPP project to be successful, this partnership must work well.

The public also learned that understanding PPPs is important. PPPs differ from traditional public procurement in many ways. The long time a PPP covers includes many risks, not only for the private sector but also for the public sector. Unqualified service or an investment that is not completed on time is still considered a sin of the public sector even if the project is a PPP. If the technology changes radically and

the contract designed is not adaptable to these changes, the PPP project may become a burden for the public. It is much harder to cancel a PPP project, because there is also a creditor in the equation. These kinds of examples emphasize the importance of well-designed contracts and good contract management. The public also learned that no project is cost-free even if it is a PPP. If not designed right, PPPs can be more costly than traditional public procurement. The risk allocation between public and private must be done in a balanced way. Therefore, it is important to prioritize projects on sound socioeconomic, financial, legal, and technical grounds. Not all projects are suitable for PPP. Economic and financial sustainability of a project is important, and PPPs should be used where they bring value for money. Thus, a good preparation phase is very important for deciding whether to use a PPP model for a project, and it accounts for half of the success of the PPP projects.

Turkey is one of the world's pioneer countries in the PPP area, and it has been successful on many fronts. However, there is always room for improvement, and we are still learning from our experiences. Turkey's 11th Development Plan, which was approved by the National Assembly in July 2019, emphasizes the areas for improvement. One of the targets is a new framework that will ensure more flexibility in scope and models and more common procedures. The importance of value for money and optimum risk-sharing are emphasized. Another target is to carry out an impact assessment of PPP projects that are in operation to measure the effectiveness of

FIGURE 4.1-3.
Examples of PPP Projects by Turkish Companies



Source: Georgia Tbilisi Airport, operated by TAV²¹



Source: Marsaxlokk Malta, operated by Yilport²²

²¹ Tbilisi Airport, <http://www.tbilisiairport.com/en-EN/about-tav-airport/media-centre/page/photo-gallery>, visited 11.10.2019.

²² Marsaxlokk, Malta, <https://www.yilport.com/tr/medya/galeri/Marsaxlokk-Malta/522/795/0>, visited 11.10.2019.

the realization of public investments. The plan also emphasizes the aim of strengthening the institutional structure for executing the national PPP policy by considering the country's macro-fiscal balance and investment policies.

Turkey is now an upper-middle-income developing country. Committed to achieving the SDGs, Turkey—like the rest of the world—needs infrastructure investment to develop and increase the welfare of its citizens. To bridge the infrastructure gap, it continues to use PPPs with different scales and scope and more focus on creating greater impact for the welfare of people.



Photo: © Kubat Sydykov / World Bank.

CASE STUDY 4.2

Lithuania: Making Ownership of State-Owned Enterprises Successful

DR. MARIUS SKUODIS, VICE-MINISTER OF THE ECONOMY AND INNOVATION OF THE REPUBLIC OF LITHUANIA

CONTEXT

External observers often describe the development of the governance of Lithuania's state-owned enterprises (SOEs) over the past several years as revolutionary. This view is especially supported by the reforms implemented around the country's accession to the Organisation for Economic Co-operation and Development (OECD) in 2018, which could be reasonably seen as one of the main factors behind the major changes in the country's corporate governance framework in general and its SOE sector, in particular.²³

At the end of 2015, Lithuania had 128 directly owned SOEs, yet it ended 2018 with only 61. As of this writing, the number had decreased further to 51, well on the way to the Government's target of 34. Similarly, at the end of 2015 the share of independent members sitting on SOE boards was only 13 percent, but at the end of 2018 it reached 56 percent. Lithuania also started 2018 with no people of political confidence appointed to boards, although at the end of 2015 there were 63 (19% of all board members at that time). In addition to these, there were other significant changes. Lithuania's SOE reforms could be seen as a significant leap forward in an evolutionary process that dates to 2010 and was divided into a number of distinguishable steps.

To increase SOEs' returns to the state, Lithuania started the SOE reform in 2010 with transparency and disclosure. Its first step was to adopt the Guidelines for Ensuring Transparency of SOEs (Transparency Guidelines), establishing common standards on the disclosure of SOE-related data, information, and documents, and setting requirements for SOE websites and annual reports. The Transparency Guidelines also introduced

aggregate SOE portfolio reporting (annual and interim reports), which the Government had not used before.

As a second step, the Government focused on ownership policy. The Ownership Guidelines, adopted in 2012, defined common principles and requirements for the governance of SOEs, including standards for strategic management (strategic plans, monitoring of strategy implementation, setting profitability targets), establishment of boards and committees, and introduction of independent board members (large fully corporatized SOEs that had the legal form of private or public limited liability companies were required to have at least one-third independent board members from that time). To ensure the consistent and professional governance of SOEs, the Government also established the Governance Coordination Center.

As a third step, in 2015 the Government went further and defined board nomination principles for statutory SOEs (state enterprises that have no shares).²⁴ It adopted Board Nomination Guidelines that introduced a standardized public nomination process and nomination committees and set the requirement that in large state enterprises at least one-third of board members must be independent. Also in 2015 Lithuania's OECD accession negotiations were opened, and they later had a large impact on the content and process of corporate governance reforms.

Because the largest changes related to the governance of SOEs took place around the accession to the OECD, this case study discusses some of the key achievements, including governance professionalization around the pre-accession period

²³ Skuodis, M. (2018), Lithuania's Membership in the OECD: Benefits Are Already Here, *Lithuanian Foreign Policy Review* 34: 39.

²⁴ One of three legal forms of SOEs in Lithuania, besides private or public limited liability companies. See OECD (2018), *Corporate Governance in Lithuania*, OECD Publishing, Paris, p. 50.

and SOE portfolio optimization, that became the focus of the Government after joining the OECD.

IMPLEMENTED ACTIONS

The OECD-accession-related reforms of Lithuania's SOE sector focused on four main areas recommended and required by the OECD: (a) strengthening the state's ownership function, (b) improving board autonomy, (c) streamlining SOEs' legal and corporate forms, and (d) ensuring that SOEs are subject to high-quality accounting and transparency.²⁵ The actions taken in each area are discussed below.

Strengthening the ownership function. To strengthen the state's ownership function, the Government focused on its SOE-coordinating institution, the Governance Coordination Center. The Center was established in 2012 as the Government's analytical unit for all activities related to the governance of SOEs, which could be divided into five main areas:²⁶ (a) activities to ensure the establishment of professional collegial bodies (advising on and directly participating in board member selection procedures); (b) safeguarding the proprietary interests of the state (evaluating shareholder letters of expectations written for individual SOEs, SOE strategies, and strategic plans and their implementation); (c) collecting and analyzing information (analytical reports on SOE performance and disclosure of SOE data); (d) consulting the Government, responsible ministries, municipalities, SOEs, municipality-owned enterprises (MOEs) and other stakeholders in the area of corporate governance; and (e) promoting good corporate governance practices (developing the SOE Good Corporate Governance Index and organizing other activities). It should nevertheless be noted that these functions were initially narrower and expanded only over time (for instance, the Governance Coordination Center initially did not participate in board member selection process, evaluate letters of expectations, or analyze the performance of MOEs).

Initially the OECD recommended increasing the Center's independence, since it was originally established within one of the SOEs, state enterprise "Turto bankas," a centralized manager of state-owned real estate. Therefore, the Center

was transferred to a separate public institution under the Ministry of the Economy and Innovation, the monitoring and forecasting agency. However, this improvement in the institutional structure alone would not have allowed achievement of the key objective. It was also decided to double the Center's 2018 budget and increase the number of staff (or analysts). Moreover, the Government strengthened the Center's advisory role by making its input in certain decisions of SOE shareholders mandatory—for instance, assessing their draft letters of expectations. All these changes contributed to the Center's ability to fulfil its functions more effectively. Even so, it remains difficult for the Center to attract and retain professionals, who are always welcome to join private sector companies or SOEs.

Increasing the operational independence of SOE boards. In response to the OECD recommendation on improving board autonomy, in 2017 the Government upgraded related provisions in the Board Nomination Guidelines adopted in 2015. The new Guidelines standardized nomination procedures for all SOEs regardless of their legal form and included changes related to the composition of the boards of directors. First, following the best practices of the OECD, it was decided to increase the share of independent members in all SOE boards; the share was raised from at least one-third to no less than one-half. Second, OECD membership also required barring the old practice of appointing politicians (people of political confidence) to serve on boards, thereby eliminating direct political influence. The extent of changes can be seen in Figures 4.2-1.

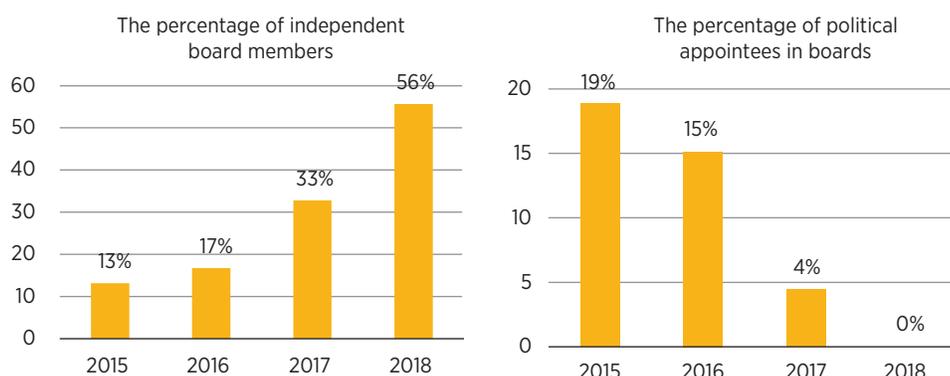
The practice of appointing politicians was broadly discussed at the highest political level. In the context of the substantially increased independence of SOE boards, individual members of the Seimas (Lithuanian Parliament) increasingly expressed doubts about the Government's ability to ensure proper governance of its SOEs without having a majority in their governing structures. Since the changes had to be implemented in a relatively short period of time (by January 2018), the Government also faced the challenge of finding the needed number of independent professionals willing to join its SOEs; consequently, it attempted to attract not only independent Lithuanian professionals living in the country, but

²⁵ For instance, OECD (2017), Letter to the Ministry of the Economy on the Accession review of Lithuania in the Corporate Governance Committee (3 November 2017) and the Working Party on State Ownership and Privatisation Practices (24 October 2017), 1 December 2017, p. 2.

²⁶ Governance Coordination Centre (2019a), "Activities." Available at: <https://vkc.sipa.lt/en/apie-mus/veiklos-sritys/> [Accessed 12 October 2019].

FIGURE 4.2-1.

Percentage of independent board members and political appointees on boards in Lithuania



also foreigners and Lithuania’s diaspora living abroad. These changes took place in parallel with the implementation of an ambitious plan of optimizing the SOE portfolio and streamlining SOEs’ legal and corporate forms.

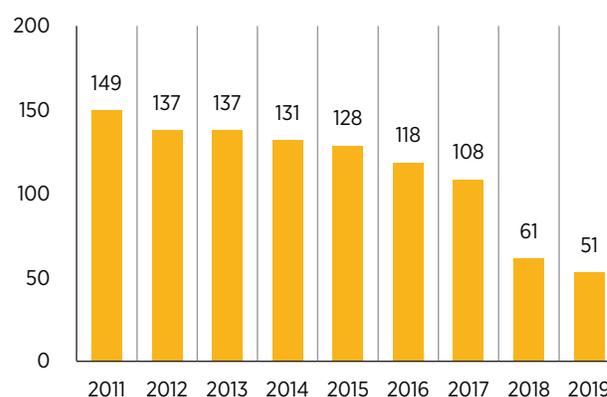
Streamlining SOEs’ legal and corporate forms. As expected, the objective of optimizing the SOE portfolio generated ardent political debates. As Figure 4.2-2 shows, in a relatively short period of three years the number of SOEs in the country’s portfolio decreased by more than half, from 128 at the end of 2015 to 61 at the end of 2018. According to the most recent plans approved by the Government, by the end of 2020 the size of the Lithuanian SOE portfolio is expected to shrink further.

The largest drop in the number of SOEs took place as a result of consolidating 11 road maintenance companies into one entity, State Enterprise Road Maintenance (in the last quarter of 2017), and the merger of 42 state forestry enterprises and the State Forest Management Institute into one State Forestry Enterprise (at the beginning of 2018). Regarding the forestry reform, external observers found it surprising that the Forest Law actually defined the exact number of 42 state forestry enterprises. At the same time, the political resistance to changes in the forestry sector was so high that the required decisions in the national Parliament to remove the related legal provisions even presented a significant challenge to the stability of the coalition Government. It could be argued that the notably strong political consensus for joining the OECD by mid-2018 was the key factor allowing the delivery of the forestry reform—that is, the OECD accession recommendations were used as an important argument to support the necessary

political decisions, thus subordinating the needed legislative changes to the much broader political goal.

Besides the mergers of a number of SOEs into fewer legal entities, other changes in the size of the country’s SOE portfolio were reached by privatizing smaller entities, liquidating them after transferring their publicly important functions to other public institutions, or reorganizing them into public agencies or budgetary institutions. However, besides optimizing the portfolio of private/public limited-liability SOEs, the Government also faced the relatively much larger challenge of optimizing its portfolio of statutory enterprises that are subject to separate regulation from limited liability companies. The list of such state enterprises encompassed the majority of large SOEs, including such strategically important SOEs as Lithuanian Airports and the Klaipeda Sea Port Authority.

FIGURE 4.2-2.
Number of SOEs (2011-2019)

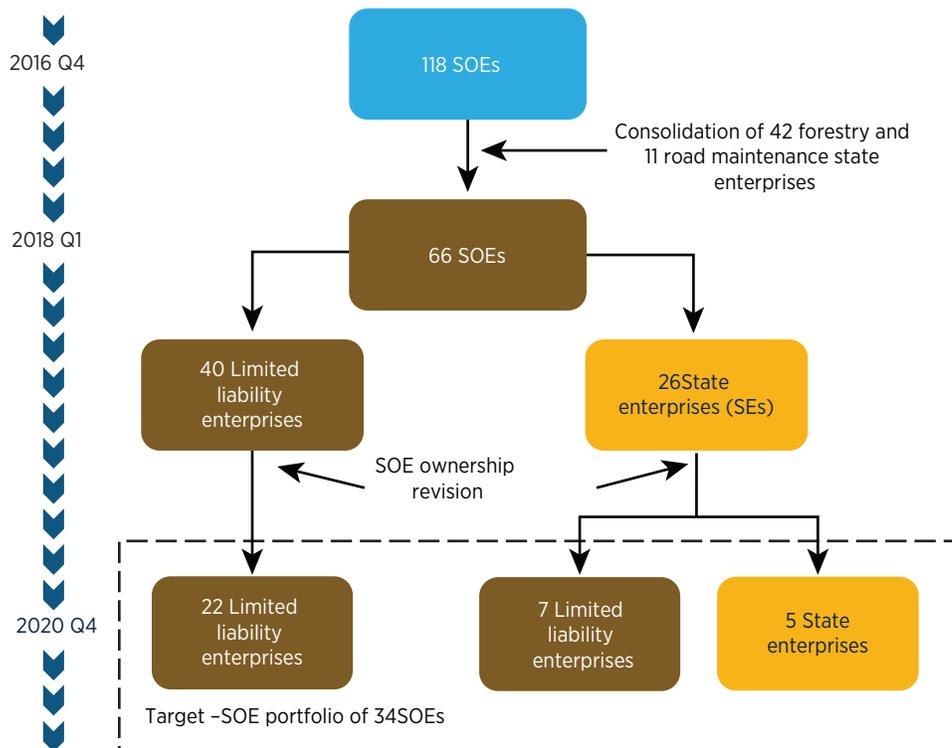


Given the fact that from the corporate governance perspective the globally common legal forms of private/public limited liability companies are considered to be superior to those of statutory enterprises, the OECD recommended the full incorporation of commercially oriented statutory SOEs. As a result, the Government decided to convert seven state enterprises into private/public liability companies, and in five cases decided to retain the current legal form (see Figure 4.2-3). In this regard, the OECD also initiated inter-institutional discussions about whether to eliminate the legal form of state enterprise altogether, but at the time of this writing concrete decisions have not yet been taken; discussions are likely to continue only after the implementation of the Government’s SOE portfolio optimization and ownership centralization plan.

Ensuring that SOEs are subject to high-quality accounting and transparency. The final group of main OECD recommendations pertained to ensuring high-quality accounting,

auditing, and transparency standards for SOEs. Following the OECD best practices, in 2016 the Government reviewed the Transparency Guidelines regulating the disclosure of SOE-related data and for large SOEs made all provisions of the Transparency Guidelines mandatory (the earlier requirement was to “comply or explain”). One of the changes for large SOEs—which also affected the newly created Road Maintenance and State Forestry Enterprises—was the mandatory application of the International Financial Reporting Standards (IFRS). Moreover, to better separate commercial activities and public policy assignments implemented by SOEs, it was decided to review the accounting and disclosure policy of public policy assignments. The Governance Coordination Center also increased its soft pressure through more intense dissemination of its annual monitoring tool, the SOE Good Corporate Governance Index, developed and renewed annually with the aim of finding out how SOEs implement national legislation and globally recognized good governance practices.²⁷

FIGURE 4.2-3.
Incorporation of commercially oriented statutory SOEs



²⁷ See Governance Coordination Center (2019b), ‘SOE Good Corporate Governance Index’. Available from: <https://vkc.sipa.lt/en/valdysenos-indeksas/> [Accessed 12 October 2019].

RESULTS

One of the key motives for the initiation of the SOE sector reform in 2010 was the findings of the first aggregate review of Lithuanian state-owned commercial assets in 2009. It showed that the majority of SOEs performed poorly and their financial return on equity in 2009 was significantly lower than that of SOEs in other European countries, not to mention private sector companies operating in comparable economic sectors. The background of extreme economic contraction of 15 percent of GDP that Lithuania experienced in 2009 created an additional push for demanding higher returns.

Have all the SOE governance reforms had an impact on SOE returns? As Figures 4.2-4 and 4.2-5 show, from 2010 to 2018 the profitability of Lithuania's SOE sector increased significantly, as did returns to the state. However, it is too early to reach any final conclusions. First, the profitability of SOEs and their returns to the state may be affected by other factors such as economic events, decisions to sell part of their assets, and decisions of the Government. Second, SOEs operating in monopolistic sectors could in theory easily increase (subject to price regulations) their profitability and returns at the expense of consumers. Nonetheless, observers already note the impact of better governance on SOE performance in general (besides the financial results): increased disclosure and transparency, clearer strategies and targets, better

fulfillment of the state's expectations, and so on. It could also be observed that the recent changes in corporate governance practices, including increased transparency, amplified public pressure for all Lithuanian SOEs to generate returns, in addition to successfully implementing public policy assignments.

LESSONS LEARNED

Five major sets of lessons have been learned from the changes in the governance of Lithuania's SOE sector since 2010 and the significant reforms around Lithuania's accession to the OECD in 2018.

First, the implementation of corporate governance reforms revealed the importance of data and of an independent coordinating institution for the country to ensure the professional governance of its SOE sector, which would consistently follow national standards and best global practices. This is also the key answer to sceptics' questions about the capacity of the state to govern its SOEs, whose boards consist largely of independent professionals.

Second, given the fact that revolutionary changes are typically hard to implement, it is important to note that small steps can be very effective. In Lithuania, the reforms of the SOE sector started in 2010 and by 2015–2018 the country was already prepared to implement the best global practices

FIGURE 4.2-4.
Profitability of SOES (2010-2018)

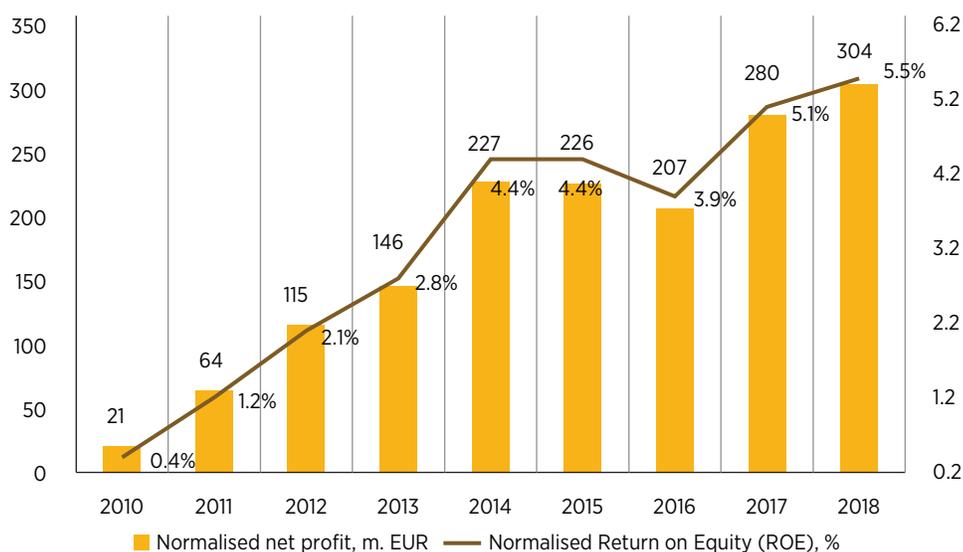
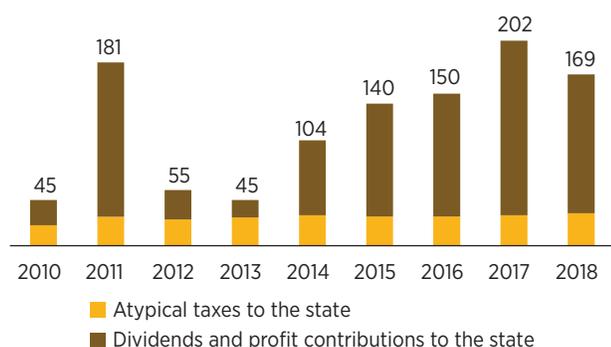


FIGURE 4.2-5.
Returns to the state (2010-2018, in EUR million)



(rather than start from the beginning). The initial ambition – even if not fully realized – could therefore be useful for providing a momentum for changes in the future.

Third, Lithuania’s accession to the OECD in 2018 in general and the pre-accession negotiations since 2015, more specifically, constituted an especially powerful external factor for reforming its SOEs and implementing sometimes politically difficult corporate governance reforms. In addition to using the OECD’s strong expertise, the proponents of changes could build their arguments on the need to follow the OECD regulations and global practices. The political consensus to join the OECD no later than 2018 was also one of the key drivers of the exceptional pace of reforms, which in some cases surprised even the OECD team.

Fourth, while the ultimate goal of joining the OECD helped to sustain political attention, it also helped that the SOE reform in Lithuania was implemented using the Government’s newly established strategic project management practice. It provided an additional channel for the Ministry of the Economy and Innovation, the key coordinating institution of the reform,

to regularly update a special committee chaired by the Prime Minister and seek quick decisions.

Finally, it is important to acknowledge that the initial ambition for the reforms might be higher than the actual results, since certain decisions might need higher approval than that of the Cabinet of Ministers (for example, the approval of Parliament) and could face unexpected challenges. In a constantly changing environment, it is sometimes wise to adapt the course and initial targets. In Lithuania this could be illustrated by several changes that were made in the Government’s SOE portfolio optimization and ownership centralization plan. Thus, while the general course of moving to a smaller SOE portfolio continues, it remains to be seen whether the recently approved targeted number of SOEs in the country’s portfolio will be reached.

What is currently on the Government’s agenda in the area of its SOEs? First, building on the recent changes, one of the Government’s key objectives is to ensure the consistent implementation of existing decisions and common governance practices by all SOEs. It is therefore focusing on increasing the centralization of governance. Besides further reduction in the number of enterprises, Lithuania is also planning to reduce the number of ownership entities. Second, with a view to further professionalization of board nomination procedures, the Government has recently decided to involve headhunting agencies in candidate search, evaluation, and formulation of shortlists for evaluation committees. Finally, the Governance Coordinating Center has started a new function of monitoring Lithuanian MOEs (250 as of end-2018). It has recently published the first aggregate report on their performance and is focusing on increasing consultations on good governance practices.

CASE STUDY 4.3

Uzbekistan: The State's Role in the Economy

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CONTEXT

Until recently, all enterprises and factories in Uzbekistan were state-owned in an environment with an almost nonexistent private sector. The antimonopoly regulation, the state assets management, and the securities market regulation functions were concentrated in one body—a major conflict of interest.

As background, at the time of Uzbekistan's independence in the early 1990s, the Government embarked on a course of reducing the state's share of the economy. The privatization of state enterprises was to be implemented in three stages:

- Stage one (1992-1994) – small state properties
- Stage two (1994-1998) – medium-sized properties
- Stage three (1998 to present) – large properties

Figure 4.3-1 illustrates the many challenges the Government faced in carrying out the SOE reform over the years. However, most recently, the Government faced the following problems and challenges in reducing its footprint in the Uzbek economy:

- a. Absence of a single government agency exercising the shareholders' rights over SOEs. At the beginning of 2018, only 21 percent of the SOEs were overseen by the State Competition Committee, and the remaining 79 percent were subordinated to the line ministries and other state bodies. As a result, it was impossible to pursue a unified policy for the ownership and management of SOEs.
- b. Conflict of interest at the State Competition Committee, which concentrated the functions of anti-monopoly regulation, management of SOE and state assets, and securities market regulation.
- c. The need to review and reform SOEs' activities to allow them to react to market trends, to address their high dependence on tax and customs benefits, and to phase out targeted aid to individual SOEs.

- d. Lack of a strategy for SOE reform and criteria for continued ownership of SOEs.
- e. Weak cooperation with international financial organizations.
- f. Lack of good international practices in attracting private investors, including by selling state properties via IPO and SPO.

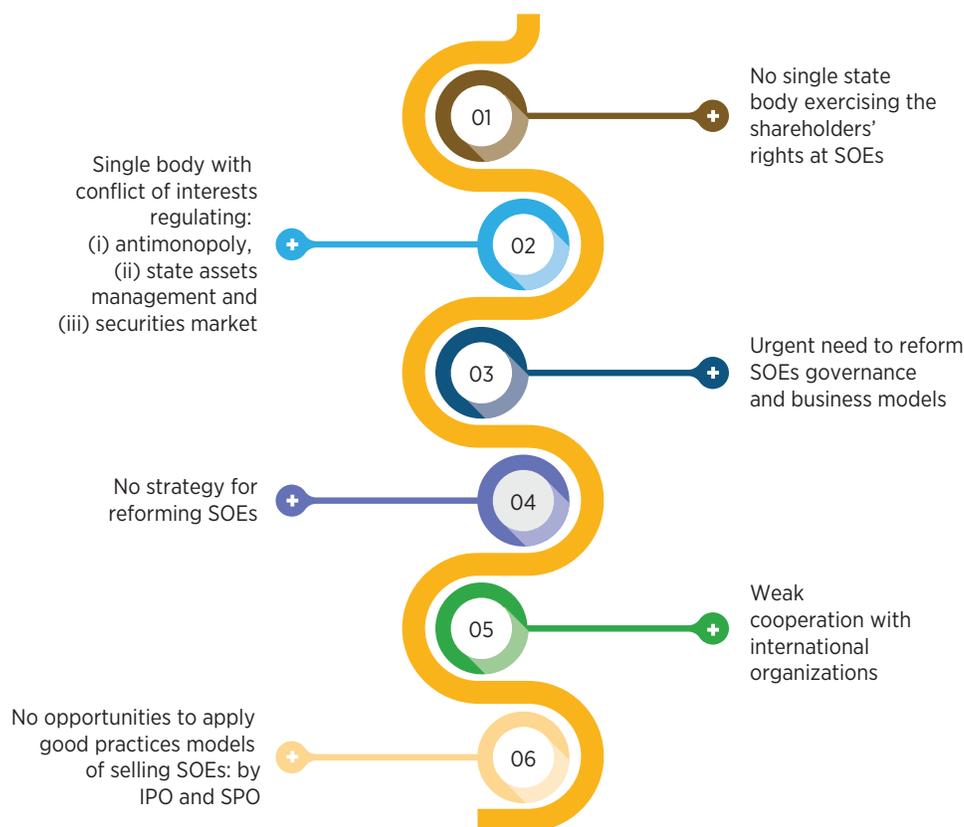
IMPLEMENTED ACTIONS

Starting in 2016, under the leadership of newly elected President Shavkat Mirziyoyev, the Government of Uzbekistan embarked on an ambitious economic modernization program to reinvigorate growth and benefit all Uzbek citizens. On February 7, 2017, the Government issued its 2017–2021 National Development Strategy, which reflects a clear intention to build a private-sector-led market economy. It is a market-oriented reform program with five priority policy areas: enhance state and public institutions, secure the rule of law and reform the judicial system, promote economic development, foster social development, and ensure personal and public security.

Starting in 2018, Uzbekistan began developing its strategy on ownership and reform of its significant SOE sector. In January 2019, the State Assets Management Agency (SAMA) was established by the decision of the President, with the following objectives:

- Implementation of the common state policy on effective management of state assets.
- Introduction of modern methods and practices of corporate governance in SOEs.
- Development and implementation of programs aimed at financial recovery and improved efficiency of SOEs.
- Ensuring an open and transparent mechanism for the privatization and leasing of state assets.

FIGURE 4.3-1.
Challenges faced in starting SOE reform



Addressing the newly formulated mandate and previously existing limitations, the Government took the following steps in the SOE reform agenda:

- To eliminate the conflict of interest in the State Competition Committee, two separate agencies were created to implement state policy: one for capital markets development and one an antimonopoly committee.
- An Internet site was launched to contain corporate information, reports, and main facts about state-owned joint-stock companies - www.openinfo.uz.
- An SOE strategy was prepared, setting out reforms to the ownership and management of SOEs; defining criteria and justification for holding shares in SOEs; unbundling functions of the owner and the regulator, where applicable; and requiring the implementation of modern corporate governance and management practices in SOEs.
- SOE reforms started in energy, transport, mining, and other sectors aimed at the largest SOEs: JSC

Uzbekenergo, NAC Uzbekistan Airways, and Navoi Mining and Metallurgical Plant.

- New methods of privatization initiated, such as IPOs and SPOs. In 2018, for the first time, Uzbekistan held an IPO/SPO for the glass factory JSC Kvarits and JSC Kukon mehanika zavodi.
- Cooperation with international financial institutions is expanded, with the aim of building institutional capacity, obtaining credit ratings, and attracting institutional investors. Uzbekistan has increased its cooperation with the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development.

SOE Governance and Management Reforms Update

A new corporate governance code for SOEs was adopted and its implementation launched in 412 SOEs. The code requires that, starting in March 2019, one member of SOE boards must be independent. SOEs interviewed potential candidates and announced their selections.

FIGURE 4.3-2.
The State's dominant role in the economy

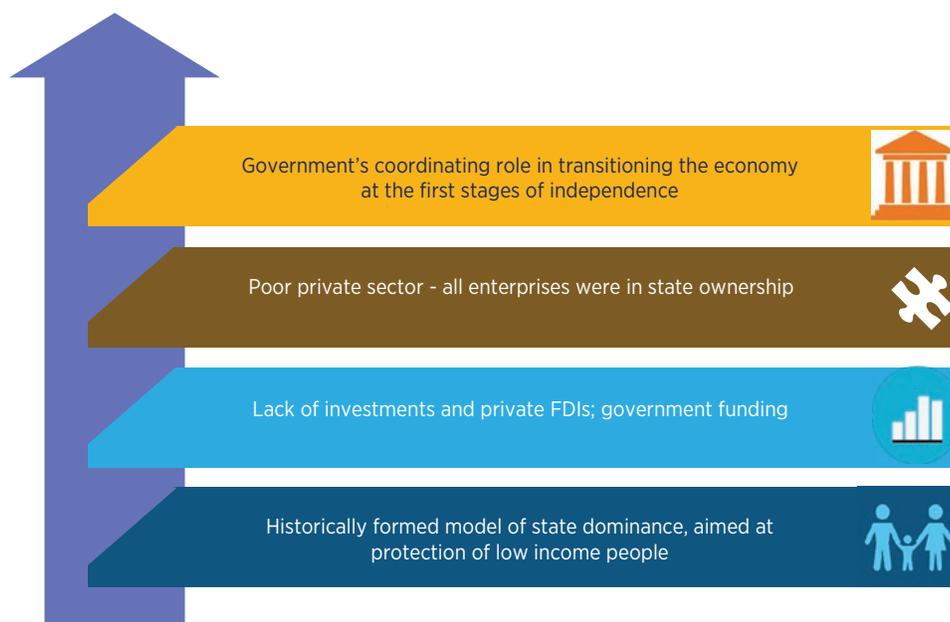
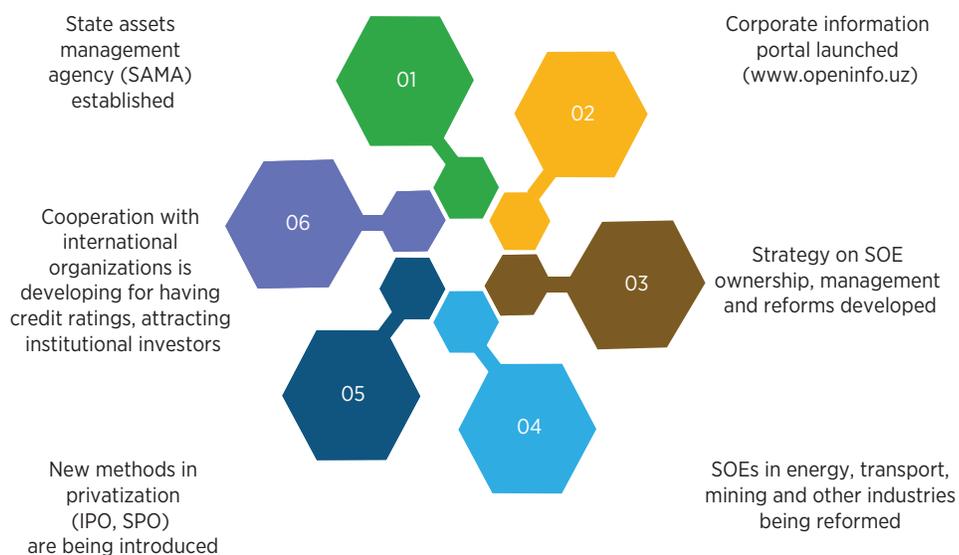


FIGURE 4.3-3.
Government actions taken to address challenges



A corporate financial information portal was launched (www.openinfo.uz) to increase the transparency of SOEs. In parallel, the central Government training center was established to train the existing and potential management cadre for SOEs.

The key challenges remaining include the low level of expertise and capacity, and weak cooperation with international financial institutions.

Ongoing Sale of State Assets

SAMA is implementing a sale of state assets through a variety of methods, such as open competitive bidding. Direct sale is also possible, subject to appropriate approval:

- Investment over US\$1.0 million - the decision is made by local governments (the khokims).
- Investment over US\$50.0 million - the decision is made by the Government Commission.

The following methods are widely used to sell/privatize state assets:

- Determined value provided by a valuation company.
- Privatization at “zero” redemption value, in which case the asset is sold with specific investment obligations.
- Auction at initial price of UZS 1. This method saw 444 listings of empty state-owned real estate auctioned via an electronic trading platform. Of these, 310 were sold for a total of UZS 11.2 billion (ca. US\$1.2 million) with investment obligations of another UZS 172 billion, and creating over 3,400 new jobs.

The following benefits and preferences are offered to potential investors during privatization to attract a larger base of investors, including foreign investors: (a) installment payments for up to 36 months (depending on the amount of payment); (b) discounts, when paying the purchase price within one month (equal to the Central Bank refinancing rate of 16%); and (c) additional issue of shares, to direct the funds from the sale of shares to pay off company debts, capital costs, and current assets.

RESULTS

- Corporate Governance Code developed based on *OECD Guidelines on Corporate Governance of SOEs* (2016)²⁸; the Code is being implemented at 412 state-owned joint-stock companies.
- Successful launch of the corporate financial information portal, with more than 25,000 information messages posted by SOEs.
- Key performance indicators developed in 2015 are implemented in 1,404 SOEs.
- Successful IPO of JSC Quarty.
- In general, the following measures/results have also taken place in Uzbekistan:
 - » Liberalization of foreign currency.
 - » Liberalization of trade import tariffs reduced, roadmap for WTO accession developed.
 - » Improved investment and business climate: Uzbekistan rating in Doing Business improved from 166 (2012) to 76 (2018).
 - » Tax reform approved, introducing equal competitive conditions and reducing administrative interference in the economy.

LESSONS LEARNED

As the father of American philosophy of government, Peter Drucker, said, “What gets measured gets managed.”

Uzbekistan has adopted good corporate governance practices based on OECD recommendations. To achieve more progress in SOE reform, Uzbekistan now needs to develop a mechanism for monitoring SOEs’ performance in a timely way and evaluating their implementation of these governance innovations.

Capacity building is key to reform implementation. Therefore, Uzbekistan is expanding its cooperation with international financial institutions and will look to peer countries to learn from their successful SOE reforms.

²⁸ https://www.oecd-ilibrary.org/governance/oecd-guidelines-on-corporate-governance-of-state-owned-enterprises-2015_9789264244160-en

CASE STUDY 4.4

Ireland: Experience with PPPs: Developments and Challenges

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CONTEXT

The Irish Government began using PPPs in the late 1990s; the Irish economy was experiencing rapid growth, but the country was not able to meet its infrastructure needs fast enough. In 1999 the Government launched a National Development Plan for €26.6 billion in investments, of which the majority would be allotted to social and economic infrastructure. Of this massive program approximately €1.85 billion of investment would be under the PPP scheme.

After a wave of project cancellations in 2008, the Government needed to reestablish a PPP market. During the 2012 financial crisis, the Government passed a stimulus package to leverage about €1.4 billion of private financing in the health, education, justice, and transport sectors.²⁹ However, although governments undertake PPP projects to deliver services through off-balance-sheet financing, it is important to assess the framework and processes for such process, and the results they achieve—that is, their *value for money* (VfM).

The PPP program in Ireland changed over the years and can be broken down into two eras: (a) the pilot program, which started in 1999 with the National Development Plan and expanded year after year as PPPs started showing results, and (b) the post-2012 framework for PPPs.

In the Multi-Annual Capital Investment Framework of 2008–2012, PPPs accounted for 16 percent of planned public investment. The economic crisis led to 24 project cancellations. However, the stimulus plan of 2012 showed the Government's continuing commitment to the PPP procurement method

for capital-intensive infrastructure projects, adding 38 PPPs to the portfolio. Ireland saw itself in the company of a small but growing group of countries with a significant proportion (over 15%) of public investment spending for infrastructure being procured through PPPs.³⁰

THE PROGRAM

In January 1998 the Irish Business and Economic Council and the Construction Industry Federation presented the Government with a proposal for a PPP program to tackle Ireland's increasing infrastructure deficit. The main constraint that a PPP program would address was the human and financing resources, requiring a private sector solution that was managed and planned by the public sector.

The Government rightly chose to tread carefully in taking on a PPP program and began with an initial group of eight pilot projects announced at the end of the 1990s. After the initial success stories, policymakers were largely on board with the use of PPPs as a procurement method, and the portfolio expanded rapidly to 134 PPPs by 2003.³¹ In 2000, other relevant stakeholders, such as civil society organizations, trade unions, and political parties opposed to private sector mobilization in public infrastructure, were folded into the “social partnership” agreement called the *Program for Prosperity and Fairness*, which had an explicit commitment to the PPP model from all relevant stakeholders. This consensus-based policymaking approach informed the overall PPP framework on the larger infrastructure planning,

²⁹ Journal of Comparative Policy Analysis, 2015, Vol. 17, No. 5, 467–480, <http://dx.doi.org/10.1080/13876988.2015.1023018>

³⁰ Burger, P. and Hawkesworth, I., How to attain value for money: comparing PPP and traditional infrastructure public procurement. OECD Journal of Budgeting, 2011, pp. 1–56.

³¹ Journal of Comparative Policy Analysis, 2015, Vol. 17, No. 5, 467–480, <http://dx.doi.org/10.1080/13876988.2015.1023018>

preparation, and implementation processes as well as on individual projects.

The formal framework, aptly named *A Framework for PPPs*, was launched in November 2001, and it clearly set out the objectives, scope, institutional arrangements, and processes for implementing Ireland's PPP program. Through the framework the Government explained the justifications for the use of PPPs, with a focus on the efficiency (both cost and speed) of PPPs in service delivery, overcoming supply-side constraints, and provision of value for money through optimal risk allocation.

PROJECT GOVERNANCE CHALLENGES

Project Preparation Lags and Pipeline Expansion

One universally recognized downside of PPP projects is the high transaction costs, possibly attributable to the longer procurement process and negotiation between parties (public and private). If the project is to be successful, the benefits must outweigh these costs. By 2003 the critical mass of the PPP portfolio was a liability in the eyes of the private sector, which saw drawn-out tendering processes and low deal quantities (only 23 projects had been procured by 2012).³²

The ambitious PPP program the Government had sought to establish fell victim to rapid expansion matched with low public sector capacity to see the projects through the project lifecycle (complex long-term contracts and risk allocation mechanisms). In a 2014 publication, Reeves et al. shed some light on the tendering periods for PPPs in Ireland: tendering periods were about 3 years on average, and they could go up to 58 months in more complex projects (such as waste to energy).³³

Value for Money and Transparency Challenges

Given Ireland's long track record with PPPs, it is now able to look back and assess whether, and to what degree, PPP projects have provided VfM. The Department of Finance officially requires four VfM assessments at different stages of the project

lifecycle, which in theory allows for a data-rich public sector benchmarking exercise to prove the hypothetical case for the traditional procurement method vis-à-vis the PPP option chosen. However, access to these assessments and benchmarking is difficult, since contracting authorities are not obliged to disclose them on a public platform. This is a huge missed opportunity for Ireland, since by regulation it has the responsibility to conduct such assessments but it has no central authority or process to aggregate the data and transparently disclose to the public the value-added provided by PPPs.

RESULTS

A VfM assessment on 15 projects was conducted with data and evidence drawn from parliamentary queries and reports published by the Comptroller and Auditor General (C&AG). The analysis shows VfM estimates ranging from negligible to 47 percent over a public sector comparator. Parallel analyses carried out by auditing entities refute some of these optimistic findings, citing errors in timing and discounting of payments and residual value of the assets (in one case schools) at the end of the contract. Although a case could be made that initial assessments were less sophisticated and with time the methodology was fine-tuned, as was capacity to conduct such assessments, an obvious solution would be to provide more transparency on the assessments and the methodology used to conduct them.

In all cases the analysis was done ex ante, and several variables changed after the PPP was procured (initial assumptions were therefore subject to change and affected VfM calculations). The general lack of comprehensive framework for disclosure seems to be a problem along the PPP project lifecycle. The lack of publicly available data has led to doubt about the effectiveness of the PPP program.

A database with PPP project data is curated by the central PPP Unit within the Department of Finance. As of April 2013, the database contained 97 PPP projects with an investment value of approximately €5.4 billion that were either completed or under procurement. Most of the portfolio was in the water and wastewater sector. The greatest impact and the majority of investment value went to the road network, which

³² Idem

³³ Idem

saw the road deficit reduced. While looking at overall public investment in Ireland, it is encouraging to see that unlike similar cases in other developed countries such as the UK, the PPP program was complementary to sustained major capital investment by the public procurement method, therefore proving by proxy the case for PPPs' additionality to infrastructure spending. The pipeline of planned projects has a stronger focus on social infrastructure such as health and education.

LESSONS LEARNED

To date the PPP portfolio consists of seven regional court-houses, 14 primary care health centers, and eight high schools. Two more schools and a university are under construction. The pipeline includes more investments in social infrastructure, including a social housing program, tertiary education, as well as health and justice PPPs. In fact, many of the reforms that were implemented focused on delivering a predictable project pipeline in more acceptable timeframes than previously experienced. In that regard, since 2006 the Government of Ireland has given a procurement and contract management mandate to the structuring agency NDFA, which has shown greater capacity for project preparation and implementation.

Additionally, the NFDA and contracting authorities have innovated on ways to increase interest in projects and enhance the capacity of the construction sector companies, which is limited. For example, the "meet the buyers" events for the first tranche of the Social Housing PPP in the City of Dublin "provided opportunities for Irish construction services to pitch for business, which ultimately grows

their experience in the delivery of significant building infrastructure," according to Enterprise Ireland CEO Julie Sinnamon. The experience Irish companies would gain by working on these projects will build their repertoire and expertise so that they may have an edge in future projects, both domestically and internationally.

Global Financial Crisis and Balance Sheet Treatment of PPPs

PPPs' off-balance-sheet nature has had its allure in Ireland, especially for delivering projects and services in the context of a fiscal crisis and entry into the "Troika," the program of financial assistance between the EU, IMF, and EC. This element of PPPs creates perverse incentives for contracting authorities that are looking to optimize their public service delivery in a constrained fiscal space. This could give rise to a ballooning portfolio of contingent liabilities stemming from PPPs unless proper safeguards are put in place to account for them through a transparent methodology that is codified in regulations for all contracting authorities to follow. This approach would also provide transparency for the general public and other agencies controlling public finances.

Given Ireland's weakened borrowing position, in the relaunched PPP program post-2012, financing from sources such as the European Investment Bank (EIB) played a more important role, as these sources could accept lower returns in supporting PPP projects. In total the EIB is supporting 24 approved projects through the European Fund for Strategic Investments, with €1 billion in total financing that will trigger €5.1 billion in total investment financing.³⁴

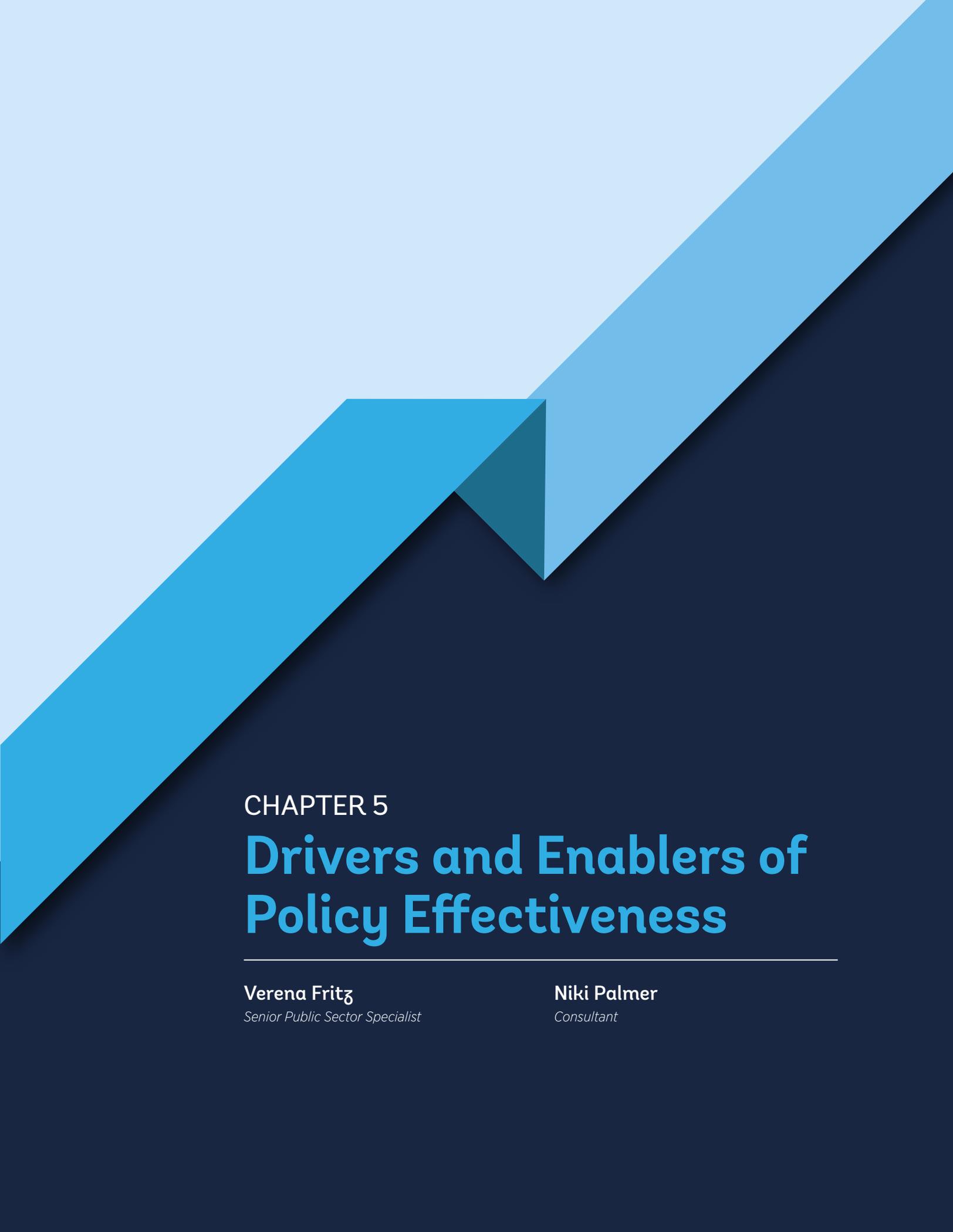
³⁴ Investment Plan: Ireland. (2020, February 2). Retrieved February 6, 2020, from https://ec.europa.eu/commission/strategy/priorities-2019-2024/jobs-growth-and-investment/investment-plan-europe-juncker-plan/investment-plan-results/investment-plan-ireland_en



Wind Park near Kavarna, Bulgaria. Photo: © Ivelina Taushanova/World Bank.



Seaport in Bulgaria.
Photo: © iStock/ pbnew



CHAPTER 5

Drivers and Enablers of Policy Effectiveness

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Governance is not a purely technical exercise. Every part of the policymaking process – from formulation and agreement to revenue generation and implementation – depends on a complex system of interrelated parts, all shaped by people with distinct incentives, constraints, and commitments. The factors that influence policy development are to a large extent dependent on context, and are driven by a range of calculations of power, position, and opportunities, balanced alongside issues like stability and public good. Even the most cursory look across the countries of Europe and Central Asia (ECA) reveals a large variety of governance forms and functions that reflect the motivations of local political and economic elites. Some are based on highly centralized systems, with power tightly controlled and with very limited devolution to local levels, while others have greater decentralization. Some have established political competition and regular elections and have a vibrant civil society, while others have retained or re-created more limited opportunities for public debate, and at best limited space for competition.

The types of governance systems at work in ECA directly affect whether policymaking is transparent and policymakers accountable. The interaction between state institutions and private firms also influences policy and in turn has shaped governance. State capture—that is, the efforts of firms to shape the laws, policies, and regulations of the state to their own advantage by providing illicit gains to public officials—is particularly pernicious across low- and high-income countries in ECA. Using this form of grand corruption, “capture firms” (see Hellman and Kaufman, 2000)¹ block policy reforms that might undermine their influence; therefore, capture economies have become not just a symptom but a cause of governance failures in ECA.

Many factors, including political conditions and degrees of state capture, as well as such aspects as culture and natural resource base, play a role in determining whether policy is likely to be adopted and, if so, what elements are implemented. These factors also determine “political will,” or the specific motivations of certain powerful political actors that condition whether they will champion or oppose policy, regulatory, or

legal changes. With the right direction even under-resourced and badly capacitated institutions can be propelled to deliver. The opposite is also true: seemingly capable and responsive institutions can fail to maintain the pace and requirements of policy implementation if political will fades or is lacking from the outset.

Fundamentally, the promotion of greater government accountability and transparency in ECA requires an in-depth appreciation of the underlying factors that shape policymaking and dictate implementation. The World Development Report 2017, *Governance and the Law*, underscores that there should be no technical blueprints for development; efforts to transplant systems and practices from one context to another often fail to address the specific problems and to offer contextually appropriate solutions. Rather than providing best practice technical solutions, which are unlikely to navigate local vested interests and have been proven to have limited impact over time, externals like the World Bank can better develop responses to governance challenges through examining both technical and nontechnical political economy factors. The World Development Report 2017 also underlines that governance is essential for the formulation and implementation of effective policy across sectors. Accordingly, political economy and governance play key roles across the various development areas – economics, public financial management, social protection, and environment, for example – revealing a need to integrate these considerations into sector-based work.

This chapter illustrates how to recognize and develop an understanding of the political economy factors that affect policy effectiveness by concentrating on common causes of governance failures in ECA, particularly state capture. It looks at the importance of asking *why* rather than just prescribing *what* needs to change. Before policymakers formulate technical reforms intended to enhance policy processes, it advocates that they explore how underlying factors shape the “rules of the game” and motivate stakeholders. Finally, the chapter considers how political economy analysis can lead to identifying pathways toward change in ECA and also looks at international experience in this regard.

¹ Hellman, J. S., Jones, G., & Kaufmann, D. (2000). *Seize the state, seize the day: State capture, corruption, and influence in transition*. The World Bank.

Understanding and Engaging with Political Economy Factors in ECA

As the various themes in this book illustrate, a wide range of political economy factors potentially affect policy effectiveness in ECA. Although there are similarities among countries, each context exhibits different combinations of factors, and therefore varying opportunities and challenges for raising income and increasing the inclusivity and resilience of economies. Countries with stable institutions and stable political processes, for instance, have more predictable policies, while in countries where, and at times when, institutions and politics are in flux, policies and their implementation are likely to become more unpredictable. Political economy factors influence the likelihood that certain policies will (or will not) be supported by elites and adopted by politicians as much as they condition what will prove popular and what policies will be opposed or reversed by certain interest groups in wider society. They shape the way the private and public sectors address issues and formulate responses, as well as the degree to which the general public participates in policymaking.

Political economy factors are also dynamic and likely to change over time. Appetite for policy reform will fluctuate, as will levels of opposition, factors that together affect the implementation of external support. It is also worth bearing in mind that the international community is subject to its own set of political economy factors; the imperative to spend certain amounts of money, for instance, influences the behavior of donors supporting governance reforms. In general, it is helpful to assess political economy factors by dividing them into three categories—structural factors, institutional factors, and stakeholder factors—and then considering their interactions.

Structural factors. Structural factors are those deep-seated issues that shape society in a given context, and that are outside the direct control of individuals. Historical legacies that have shaped political conditions are important to consider, as are factors like the natural resource base, demographics,

commodity prices, and the progressive effects of climate change. Structural factors work in combination with one another and interact with institutional and stakeholder factors. For instance, in an environment that is resource-constrained, with high levels of unemployment, a legacy of an authoritarian political culture and clear signs of state capture, policy-setting is likely to lack accountability and (fiscal) transparency. Factors like these driving deficits in accountability are unlikely to be solved without major political changes. However, political pragmatism could lead to incremental reforms motivated by civil society mobilization on issues like unemployment. Structural factors can be constant, like geographic location, and they can be a source of exogenous shocks, for instance when global prices for commodities drop, or when a country dependent on rain-fed agriculture is hit by a drought. The extent to which the state is well established, the government's revenue base, and the sustainability of public finances can all influence how well a country is equipped to deal with exogenous shocks.

Institutional factors. Consideration of institutional factors presents another layer of information and can shine light on how solutions would fit into an existing institutional landscape, as well as help identify potential bottlenecks and problems. These factors include not just the range of formal laws and policies that shape societal norms, but also the many informal practices that influence how, in practice, processes work and deals get done. Institutional factors can help to determine why it is that despite the adoption of anticorruption legislation in a given context, and the set-up of new oversight organizations, corruption actually remains widespread. In ECA contexts', institutional factors can be used to determine the types and degree of state capture as well as to clarify an understanding of the drivers and influences that maintain and deepen capture. Some research has suggested that state capture differs by function, with key distinctions between "party state capture" to reassert political monopoly and "corporate state capture," in which public power is exercised primarily for

private gain.² In situations where capture has taken place – for political or economic gain, or both – public policy tends to be an instrument of these vested interests and ambitions, with adverse consequences for transparency, accountability, and the rule of law.

Depending on the levels of linguistic, ethnic, and cultural diversity in a country, institutional factors may differ from region to region, as both local practices and as localized development challenges play a role in influencing how (and sometimes, if) policy is implemented at subnational governance levels. For example, regional differences between northern and southern areas are well known to shape policy effectiveness in Italy.³ Culturally specific informal rules and traditions can lead to formal policy being adapted to more comfortably fit the needs of local people. This often occurs in countries where policy decisions are made centrally, with limited subnational input, and tend to follow “one-size-fits-all” formulas. Informal rules and practices that influence how decisions are made and actions taken can also reflect a shadow or illicit economy, rent-seeking agreements, and expectations of illicit financial gain attached to doing certain things and not others. In some cases, the expectation of illicit gain is so habitual and widespread – and sometimes necessary to protect against poverty – that trying to change these informal practices can lead to popular revolt and risk destabilizing society. State capture, a form of grand corruption, can also help build on a complex web of smaller-scale corruption, in the form of kickbacks, bribes, and illicit benefits. This web ultimately helps to insulate the perpetrators of capture from adherence to formal rules and laws.

Captured economies are a major impediment to consistent and good-quality policymaking. High degrees of capture force a vicious circle, in which attempts to increase transparency or change policy are suppressed by the vested interests that are benefiting from illicit payouts from private firms. When analyzing these kinds of issues, it is important to consider multiple perspectives. It may be straightforward to identify the power-holders who benefit from opaque policy processes that, by virtue of the fact that they are hidden from public view, enable public funds to be misused, skimmed off, or transferred to political supporters, but it is also possible to find those who would benefit from greater oversight

and accountability. Though this second group of people often tend to be in lesser positions of power and influence, there are likely to be far more of them; the majority of people lose out in situations of state capture, with very few reaping large-scale benefits. Groups such as small and medium-sized enterprises, consumers, and citizens’ advocacy organizations are all losers in capture economies. There may also be politicians who are excluded from the budget process and citizens receiving substandard public services who will have vested interests in increasing participation in policymaking and fiscal transparency. These actors, though less powerful, may have politically smart strategies that could be promoted and supported, such as advocating for greater investment in audit processes or wider awareness of existing rights and laws concerning budgetary transparency. Mobilizing coalitions for change to address issues like transparency and accountability can be more effective than working solely with the people who own the formal responsibility for implementing reforms. Locally led solutions are more likely to be based on an understanding of the formal and informal “rules of the game” governing how policy processes actually work in reality, rather than in theory.

Stakeholder factors. Considering different perspectives is a step toward conducting stakeholder mapping, which is useful for more closely considering the dynamics between different (groups of) people with an influence over policymaking and policy implementation. Depending on the sector, the location, and the subject matter, these stakeholders are different. At the national level – where policy is likely to be formulated, approved, and potentially entered into law – the influence of stakeholders on one another and on the policymaking process will look markedly different from a similar mapping at more local levels, where policy is operationalized. At these levels stakeholders may include a wider range of nongovernment actors like religious leaders or community leaders. The interplay between public and private sectors will be particularly instructive, particularly when looking at who motivates policy and why.

In capture economies the interpersonal connections between well-positioned stakeholders in the private and public sectors is all-important: “The capture economy rewards connections over competence and influence over innovation; it is fueled

² Innes, A. (2014). The Political Economy of State Capture in Central E Urope. *JCMS: Journal of Common Market Studies*, 52(1), 88-104.

³ See, e.g., Putnam, Robert D. (1994). *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton University Press.

by private investments in politics that weaken the state and undermine the provision of basic public goods” (Hellman and Kaufman, *op. cit.*). In these situations, corrupt influence is directed at those who form rules, laws, and regulations; buying votes, bribing officials to enact favorable regulations, and bribing judges to follow bias rather than the rule of law are all classic signs of state capture. Stakeholder analysis can help to map not just *who* may be under the influence of capture, or vulnerable to corruption, but also *why* they are. Investing in analysis of what motivates invested stakeholders, their incentives and disincentives, can be illuminating, particularly as incentives can be very simple, but also surprisingly complex. Money, for instance might be singularly motivating, but it can be tempered by adherence to certain religious beliefs, influenced by the desire for a legacy, or seen through a lens of prejudice.

Political economy analysis can also be used to identify past instances in which reforms have worked, and why they have worked. Crises and public scandals are often drivers of change, creating opportunities for coalitions of reform-minded advocates to break through “business-as-usual” political realities, or, at a minimum, incentivizing incumbents to seek some changes so as to appear less self-interested. In politically liberal contexts, opposing political parties, often encouraged by civil society groups, may favor reforms to improve oversight and accountability, to gain the support of new sets of constituents. In illiberal environments there may be other ways to incentivize greater transparency; the more that is known about the connections, relationships, and incentives underlying capture, the better the understanding of how change may come about.

Using Political Economy Analysis to Identify Pathways to Change

It may be tempting to conclude that in some contexts, especially those with high levels of state capture, the opportunities to support effective policymaking and implementation are few and far between. And this may well be the case; realism about what can be achieved is necessary. Yet an appreciation of the underlying factors that have prevented reforms, blocked transparency initiatives, and stifled attempts to increase accountability can be used to prioritize and inform further engagement. Increasing transparency in a capture economy, for instance, may be more or less likely depending on a range of socioeconomic trends. For example, would incremental change in a context’s structural factors, or a sudden and dramatic event, be more likely to produce a shift? Similarly, would a change in the relationships between formal and informal institutions or in support for civil liberties make a difference to the way institutions work? Could different types of action from interest groups – inside the country or international – make a difference? Formulating a theory for why it would be realistic to expect change, as well as a plausible idea of what the mechanism for change might be, is invaluable *before* considering the implications for governments, development agencies, and other interested parties.

Certainly, there is enough evidence to suggest that technical methods like strengthening formal audit bodies, improving government procurement, and contracting and drafting greater legal protections against monopolistic practices have limited utility on their own. Unless the right incentives are in place, it is likely that technical measures will have limited impact on issues like transparency, because there are just too many powerful vested interests keeping transactions out of view or finding ways around formal requirements. Although generic solutions might be well known, how to ensure that reform measures are adopted and implemented, given the inevitable political economy restraints, is often not obvious and not likely to be solved by copying technical solution that might have worked elsewhere. Yet it may be possible to identify scenarios in which one intervention, or a combination of several, is more likely to bring about change. What is crucial is continuing to ask why it is realistic to expect change, given the underlying factors at play, as is continuing to analyze and engage with these factors as they shift over time.

Looking “behind the façade” at deeper issues can raise challenges. Thinking beyond the “what,” or the *form* governance

reform might take, and explicitly engaging with the *functions* of governance – what is expected and why – should lead to an explicit acknowledgement that politics matter. Although it is now generally well recognized that politics matter, embedding politically smart approaches into programming continues to be a challenge. At times, there is also a disconnect between the expectations of internal reformers and those of external organizations like the World Bank with regard to the feasibility or necessity of particular reforms. Inevitably there is always some tension between the specific political economy conditions in a given country and those of a donor. However, greater clarity between donors and funding recipients can lead to a much greater degree of realism about what can be moved forward, with international support, and what cannot. Of course, understanding that politics matter is no guarantee that consensus for change will be forged between elite groups, or that citizens will be empowered and institutions made more capable – there is no silver bullet. Yet, an appreciation of political economy factors makes it more likely that routes forward on issues like accountability, transparency, and anticorruption can be identified and used to strengthen the theories of change that inform reform processes.

Political economy analysis focuses primarily on the potential drivers and enablers of policy effectiveness at the country level, but it is also important to acknowledge that country-level governance dynamics are shaped by cross-border and transnational influences, including on issues like corruption, tax evasion, illicit trade, and violent extremism. Moreover, reform ideas as well as ideas about how to capture the state or particular sectors and business opportunities are also very much shared across borders. Governance challenges have become global in nature, and solutions often require cooperation across borders. It is possible to extrapolate themes from several country-based political economy analyses (PEAs) to look for regional trends. It is also feasible to look across contexts at a single issue, like what drives reluctance regarding cross-border cooperation. On state capture in particular, data have shown how foreign investors become part of the problem of state capture; a potential action to remedy this is to change their incentives and promote social responsibility by foreign-based corporations where they invest. Combining international actions with locally led measures to address capture economies might be particularly useful in shifting incentives. Similarly, the multiple uses – as well as risks – of technology, particularly in terms of the open sharing of data across borders and boundaries, are also well worth analyzing.

International Experience of Political Economy Analysis

PEA can be considered at numerous levels and has been used to inform international development interventions across sectors. Many international donors use PEA in their programming, often in conjunction with a risk-mitigation and -management approach. However, it is common for PEA to be commissioned by international organizations to help them choose from among predefined options for development assistance. More optimal is using PEA to determine “politically smart” overall development priorities, followed by more specific development problems. In this sense PEA remains underused.

Accordingly, the majority of analytical work undertaken when interventions are in the planning stage remains heavily technical. Reform proposals often do not identify whether a proposal threatens the interests of a certain group, or

unintentionally builds the political capital of another. In 2016 the World Bank’s Independent Evaluation Group conducted research on the role of PEA in improving the design of development policy operations. It found unequivocally that PEA improved such operations and, conversely, that “the lack of PEA to support politically sensitive and difficult actions tends to reduce the effectiveness of operations.” Yet, to establish many financial mechanisms, including trust funds and payment by results vehicles, the amount of technical analysis required at the design stage and the certainty on results expected over a multiyear period work against an adaptive, politically astute approach.

Moreover, PEA can also enhance dialogue between stakeholders. PEA shared between donors often enhances “politically smart” working and can contribute to important conversations on how

to make programming more adaptable to changing dynamics. A shared understanding of political economy factors can also enhance the likelihood that analysis will be updated, and that further dialogue based on political economy will take place. More sensitive, and more difficult to manage, is discussion on PEA with the government and other domestic stakeholders. PEA is often sensitive and should be considered so, in terms of both how it is managed and commissioned, and how it is disseminated. Commissioning should involve finding the right international and/or local consultants, developing clear and

realistic terms of reference, and working with the consultants to ensure that their initial outputs “speak” to the World Bank’s operational and policy engagement.⁴ Once analysis is ready for dissemination, it is important to use opportunities for discussion while also protecting sensitive information. In many cases PEA is produced for internal, closed-door discussion before a less sensitive version is then adapted, disseminated, and discussed with a range of stakeholders. These later steps are important to maximize the potential impacts of the insights gained, and to influence the debate.

Conclusions

The generic formulas to correct issues like transparency, accountability, and civil society participation in policymaking are well known and widely used. Yet the likelihood that these measures will have an impact is limited because underlying political economy factors influence whether any attempt at reform will be taken up and have the expected impacts. Even in the case of state capture – one of the most pernicious problems facing the realization of resilient and inclusive economies in ECA – the formulas to address this kind of corruption are well known. Fostering competition in markets and in politics seems crucial, as are measures to ensure that financial systems are transparent and accountable to the public. Yet interventions designed to enhance transparency or support competition often do not gain full traction because of political economy factors. Without first looking at the context, analyzing the various structural, institutional, and stakeholder factors, and formalizing a theory of change, it is very difficult to

design appropriate reform interventions. Adapted solutions, building on existing constituencies for change and promoting strategies that can navigate vested interests, are more likely to succeed. Combinations of interventions – potentially supporting domestic stakeholders who lose out as a result of state capture while also backing efforts on social responsibility in international firms – can be better routes forward. Evidence from around the world underlines that understanding and analyzing the political economy of a context, supporting locally owned development strategies, and taking on board politically smart approaches to reform can be more effective in the long run than pursuing “best practice” fixes to government departments, laws, and policies.

The case studies in this chapter explain how Azerbaijan, Ukraine, the Western Balkans, and Kosovo approached various aspects of policy effectiveness.

⁴ The internal SharePoint site: <https://worldbankgroup.sharepoint.com/sites/gge/peg/Pages/index.aspx> also has further useful information, including a roster of potential consultants.

CASE STUDY 5.1

Azerbaijan: Extractive Industries Transparency

FARID FARZALIYEV, HEAD OF THE EXTRACTIVE INDUSTRIES TRANSPARENCY COMMISSION'S SECRETARIAT, STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN (SOFAZ)

CONTEXT

The Extractive Industries Transparency Initiative (EITI) was launched at the World Summit for Sustainable Development in Johannesburg in September 2002 to promote the open and accountable management of oil, gas, and mineral resources. Guided by the belief that a country's natural resources belong to its citizens, the EITI established a global standard based on the "publish what you pay, publish what you receive" principle, which requires countries to publish timely and accurate information on key aspects of their natural resource management: how licenses are allocated; how much companies are paying in tax, royalties, and social contributions; and where this money ends up in the government at the national and local levels.⁵ Therefore, the EITI creates a coalition of governments, companies, investors, international organizations, and civil society. It is designed to ensure that all people see results from the extraction of their natural resources through transparent, efficient, and sustainable management of the resource incomes.⁶ By doing so, the EITI seeks to strengthen public and corporate governance, promote understanding of natural resource management, and provide the data to inform reforms for greater transparency and accountability in the extractives sector.

In Azerbaijan, recognizing the need for transparency and accountability in the extractives sector, and to stimulate foreign investment, bolster financial independence, and above all gain the trust of Azerbaijani society, the President of the Republic, Mr. Ilham Aliyev, declared the Government's decision to join EITI in 2003 at the International EITI Conference in London. In doing so, Azerbaijan volunteered to become a first pilot country in EITI implementation.

From the very beginning, Azerbaijan set itself an ambitious agenda and thus achieved a lot of "firsts" in EITI. It was the first country to join the EITI in 2003, the first to publish an EITI report in 2005, and the first "EITI compliant" country in 2009. Becoming EITI compliant is not the endpoint of good oil sector management, it is the beginning; Azerbaijan continued to make a difference by putting multi-stakeholder efforts together to advance the process as much as possible. In total 20 EITI reports were reconciled and published in Azerbaijan (covering 2003-2015, including semiannual reports for 2004-2010). The latest reports fully covered all extractive revenues in the country and addressed all disclosure requirements of the EITI Standard 2016. It is no coincidence that the EITI Board considered Azerbaijan's latest EITI report to be one of the best and acknowledged that Azerbaijan has made great progress and showed continuous leadership on regular and comprehensive EITI reporting.

Azerbaijan took steps to support a positive environment for the smooth implementation of the initiative in the country. These steps and achievements received high international appreciation, such that in 2007 the Azerbaijan State Oil Fund was granted the United Nations Public Service Award in the category of "improving transparency, accountability and responsiveness in the public service" for the successful implementation of EITI. Furthermore, to give strong backing to the EITI process and raise awareness at the international level the Government of Azerbaijan initiated and tabled the United Nations General Assembly Resolution on EITI, which was unanimously adopted by all members of the General Assembly on September 11, 2008.⁷

⁵ Extractive Industries Transparency Initiative (EITI), <https://eiti.org/who-we-are#aim-of-the-eiti>

⁶ <http://eiti.org/>

⁷ <http://www.eiti.az/index.php/en/the-un-public-service-award-handed-out-to-the-state-oil-fund-of-azerbaijan>

IMPLEMENTED ACTIONS

In 2013, the Azerbaijani Government made reforms to domestic legislation regulating grant operations and the activities of nongovernmental organizations (NGOs). These reforms can be seen as the starting point for disagreements between the EITI Board and the Government, and they led to concerns in the EITI community. While the Government considered legislative changes necessary to improve the grant registration process, local NGOs saw the changes as an addition to their workload. In April 2015 the EITI Board downgraded Azerbaijan from “EITI Compliant” to “EITI Candidate” status because of “poor civil society engagement in the implementation process” and determined corrective actions for Azerbaijan.⁸ The Government made substantial efforts during the “corrections period.” In 2016 the Board agreed that Azerbaijan had made meaningful progress in implementing the 2016 EITI Standard, with considerable improvements across several individual requirements compared to the first validation in 2015, and maintained its “Candidate” status. The Board assigned several new corrective actions that were to be implemented by the time of the subsequent EITI Board meeting. However, in 2017 the EITI Board – despite opposition from the Azerbaijani Government and some domestic NGOs – decided to suspend the country from the initiative, concluding that not all of the corrective actions were fully completed. The Government reluctantly accepted this decision, leaving the initiative, but announced its ongoing commitment to the principles and philosophy of EITI.

RESULTS

The Azerbaijani Government declared its support of all international efforts to ensure transparency and accountability in the extractives industry regardless of its membership in EITI, and its ongoing intention to uphold international standards. On April 5, 2017, the President signed a decree “On additional measures to increase accountability and transparency in the extractive industries” (the Decree), which stipulates that the following are disclosed in full and in accordance with international standards:

- information on all revenues generated by the Government from the use of natural resources, and
- payments made to the public budget by local and foreign companies operating in the Azerbaijan’s extractives industry and in other relevant areas related to the country’s extractives industries.

The Decree established the Commission on Transparency in Extractive Industries (Commission), which is responsible for coordinating the activities of state bodies and other entities in this field through participation in public policymaking to ensure transparency and accountability in the extractives industry.⁹ The role of Secretariat of the Commission for arranging the Commission’s daily activities and carrying out the secretariat function was assigned to the State Oil Fund of Azerbaijan.¹⁰

Since its inception, the Commission has prioritized the international transparency principles in the implementation of its routine activities set by the Decree. In this regard, from 2017 to the present (October 2019) it has accomplished the following:

- organized 11 meetings with the participation of civil society organizations (CSOs), extractive companies, and international organizations;
- created a new website to regularly inform the population about extractives industry data, raise awareness about the Commission’s activities, and reach out to the citizens easily with a view to fostering the public debate;
- prepared and disclosed three Extractive Industries Transparency (EIT) reports covering the years 2016-2018;
- signed an Agreement on Cooperation with extractive companies.

Engaging CSOs along with the other stakeholders in the process was one of the Commission’s priorities. Commission members, including the Chair, highlighted their position, reiterating (as per the Decree¹¹) that civil society will be unconditionally involved in the process, particularly at all stages of

⁸ <https://eiti.org/news/azerbaijan-downgraded-to-candidate-country>

⁹ http://files.hssk.gov.az/documents/Statute_Commission.pdf.

¹⁰ http://files.hssk.gov.az/documents/Decree_1315.pdf.

¹¹ **Article 1.8:** “Involvement of all relevant parties, including state bodies, extractive industry companies, international organizations, financial institutions, investors and non-governmental organisations into the process of implementation of transparency in this area must be ensured”, **Article 4.6:** “The Commission is tasked to work in partnership with non-governmental organizations, private sector and independent experts at all stages of the reporting.”

EIT reporting, and will play a major consultative role as it did before. Therefore, to allow CSOs to participate effectively in the EIT process, an open public registration was conducted through which 45 CSO members were registered to actively participate in the EIT process, meetings, and events. CSO members are also represented in the Working Group that was formed to improve EIT Reports during each reporting process and regulate EIT activities.

Azerbaijan's attempts to improve transparency and accountability in the extractives industries have been recognized by international funders; the Commission is currently working on two major projects covering beneficial ownership disclosure and EIT mainstreaming that are supported by international financial institutions.

In 2017, the Commission and the Asian Development Bank (ADB) developed terms of reference for support of a Roadmap for Beneficial Ownership Disclosure. The project is expected to be completed by mid-2020.¹² Beneficial ownership disclosure is an important step in building trust and confidence in the integrity of the extractive industries sector for citizens, government, industry players, and domestic and international providers of finance. Even though there is no single global standard of beneficial ownership disclosure, in general it refers to persons who directly or indirectly ultimately own and derive financial benefit from a company or commercial activity.¹³ Establishment of a beneficial ownership disclosure regime through implementation of the Roadmap will allow Azerbaijan to demonstrate continued leadership in the area of transparency concerning the extractives sector and to avoid corruption and tax evasion by unaccountable corporate entities. Moreover, by allowing stakeholders to gain access to information on who is investing in the extractives industries, it will enhance the governance of the sector and inevitably prevent undesired activities. The project focuses on the upstream and midstream extractive industries and covers at a minimum those companies that are involved in the exploration, development, extraction, and export of oil, gas, and other minerals, as well as companies that invest in, or enter into, engineering, procurement, and construction, operation and maintenance, or other long-term service contracts in relation to any of those activities.

¹² <http://hssk.gov.az/az/ownership>.

¹³ http://files.hssk.gov.az/beneficialownership/911-BO_inception_report.pdf

Demands for increased transparency from international investors and finance providers are growing. Thus, to provide additional transparency, the Commission is working on a second project called “mainstreaming”—a move toward meeting international standards and requirements through routine and publicly available company and Government reporting, rather than through outdated stand-alone reports. By moving EIT disclosures out of bulky annual EIT reports and into ongoing Government and company systems, mainstreaming could provide civil society and other stakeholders with information that is more timely, relevant, and useful. The process of moving away from reports, where data can be locked in printed or PDF tables, also provides opportunities to present EIT information in formats that are easier to access and use for analysis. The move toward mainstreaming in Azerbaijan began in 2016. At a roundtable held in February 2017, the Azerbaijani Government confirmed its position and announced its readiness for the launch of EITI mainstreaming with the technical support of the World Bank. However, as a result of the country's withdrawal from EITI in 2017, EITI mainstreaming project was temporarily suspended. Nevertheless, the Commission decided to initiate discussions of the relaunch of EIT mainstreaming project with the European Bank for Reconstruction and Development.

LESSONS LEARNED

The lessons from EIT implementation in Azerbaijan reveal that providing transparency in the extractive industry helps build multi-stakeholder dialogue. This lays the groundwork for the creation of a cooperation framework in which companies, interested parties, and civil society can work together with the Government to find mutually beneficial solutions. This is already a significant step forward, since such cooperation is substantially necessary not only to prepare annual EIT reports but also to bring significant political and economic advantages in the long term.

EIT implementation in Azerbaijan initially enhanced confidence building and trust in the Government by addressing doubts about payments and revenues. Resource-rich countries have significant socioeconomic potential, but large endowments of natural resources can also reduce pressure for transparency and can lead to conflicts. Constant disclosure of

payments and revenues can help to increase trust in the government about the allocation of revenues.

Finally, EIT implementation in Azerbaijan contributed strongly to a better investment climate. Investors regularly evaluate a number of risks—economic, financial, or, increasingly, political—that could affect their investments. The Commission aims to improve governance by verifying and publishing company

payments and Government revenues from oil, gas, and mining. This increased transparency sends a clear signal that a government is committed to high standards. It also strengthens accountability and can promote greater economic and political stability. All of these factors can enhance the prospect of investment returns from companies operating in participating countries.



Oil drilling platform in Caspian sea.
Photo: © iStock/ Sergey Burlov

CASE STUDY 5.2

Ukraine: The Process of Building Anti-Corruption Institutions

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CONTEXT

In Ukraine, corruption was seen as a way of life. The lack of effective punishment generated an atmosphere of impunity in society, and law enforcement agencies and courts did not provide a solution, but became part of the problem. At first, there was no sincere political will to fight corruption. Ukraine's former President Petro Poroshenko was publicly opposed to establishing a separate, independent High Anticorruption Court in Ukraine, even though he later sought to use it to boost his own political capital.

One of the aims of the "revolution of dignity" in Ukraine was to finally break the vicious cycle of corruption, making it not the rule but the exception. Success came when many different stakeholders come together to tackle the issue of rampant corruption in Ukrainian society.

IMPLEMENTED ACTIONS

Anticorruption advocates in Ukraine wanted to create an environment for officials and politicians in which corruption would not be profitable because of the high price of punishment. It was decided to focus on creating new agencies to fight grand corruption. Immediately after the revolution in 2014, a new infrastructure of anticorruption agencies was created, and it succeeded in addressing the problem.

Anticorruption advocates created a "sandwich effect"—that is, Ukrainian civil society and international partners came together to exert unprecedented pressure on both the presidential administration and Parliament. Ukraine's foreign partners—the World Bank, the International Monetary Fund, the European Union, and others—reinforced the anticorruption message.

During this time, nongovernmental organizations (NGOs) like the Anti-Corruption Action Center (ANTAC) continued to cooperate with different stakeholders, including parliamentarians and officials from Government departments. ANTAC members used their expertise, communicating with different target audiences, and organizing direct action campaigns. A variety of means were used to stem the tide of entrenched corruption: news agencies, the public "court of opinion," and investigative journalism. The interaction and strong will of civil society, the media, international partners, reformers, and others led to some positive results.

ANTAC sees its primary objective as the creation of an environment for officials and politicians in which corruption is not profitable because of the high material and reputational price of punishment. To achieve this goal, ANTAC employs various expertise, cooperates with different stakeholders from the Parliament and the government, and raises awareness for different target audiences through direct action campaigns. It also collaborates with international partners and pushes for the use of conditionalities. Core to its operation has been finding the right synergies among international partners, NGOs, the media, and reformers inside and outside the country. The ANTAC website can be viewed at <http://antac.org.ua/en>.

System of Asset Declarations. ANTAC championed the creation of independent anticorruption institutions, including an electronic system of asset declaration (e-declarations) for public officials. E-declarations showed the difference between public officials' incomes and wealth and gave rise to potential investigations. Two million open access e-declarations against Ukrainian public officials were logged. Ukrainian officials declared their modest Government salaries and millions

of dollars in cash, gold bars, and luxury watches, dozens of offshore companies, or expensive wine collections.

National Anti-Corruption Bureau of Ukraine (NABU). NABU, created in 2015, is a Ukrainian law enforcement agency that investigates corruption in Ukraine and prepares cases for prosecution. It has investigatory powers but cannot indict suspects. It employs 700 people. So far, NABU has brought 200 cases to the courts, leading to the indictment of more than 300 people, including Members of Parliament, Ministers, Heads of State, the Fiscal Service of Ukraine, the Accounting Chamber, the State Audit Service of Ukraine, state-owned enterprises, and judges. However, NABU operates in a difficult environment that is characterized by court sabotage, resistance by other law enforcement agencies, attempts to limit its institutional and functional independence, and decriminalization of illegal enrichment. In this environment, careful public relations has become an extremely important tool to foster trust, transparency, and cooperation (see Figure 5.2-1).

Students Against Corruption. Campaigns focused on society's younger members help to create a change in perception among the next generation of citizens, some of whom will form the next group of leaders. It sends the message that the future is one of little or no corruption (see Figure 5.2-2).

Investigative journalism. In addition to the challenges and problems discussed above, society's faith in positive change, enabled by the media, has been low. The historical position of the media in Ukraine was not an easy one – they faced a number of challenges that were strongly rooted in society and are still evident today, such as the fear of retaliation. Figure 5.2-3 presents the “baseline” from which new efforts to change began.

Despite the challenges, a number of actions have been taken not only to change the public's negative perception of the media as an enabler of the oligarchy, but also to reinforce their role as a denouncer of corruption and state capture. Teams that conduct journalistic investigations have been expanded, and journalists take part in the public councils of state agencies, including the vetting of candidates for state authorities. Investigative journalists work on making the data in state registers public, and on the basis of these data, services have been created for journalists and NGOs.

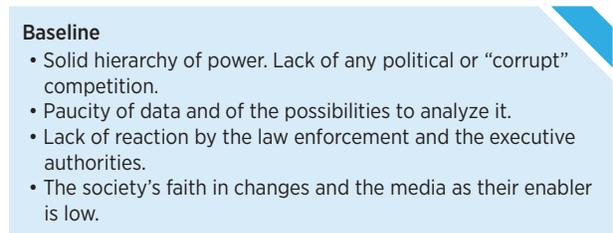
FIGURE 5.2-1.
Examples of NABU's public outreach



FIGURE 5.2-2.
Awareness campaign “Students Against Corruption”



FIGURE 5.2-3.
Historical challenges faced by the media



Another important effort has been to work with public opinion, eradicating the term budget money (*no one's money*) and introducing the notion of taxpayers' money (*your money*).

This has included engaging citizens to participate in analytical or investigative projects. Law groups have been created to act as an intermediary (translator or liaison) between journalists and law enforcement to facilitate a more effective reaction to the investigations.

These projects have included the participation of specialized investigative journalists, IT experts (in development, systematization, and data analysis), lawyers, representatives of state agencies (unofficially), and experts in various aspects of the economy.

Thanks to the work of the journalistic teams, 192 proceedings have been initiated by various agencies over 18 months. There has been constant reaction by state agencies, even without the commencement of criminal proceedings. More than 30,000 people are taking part in volunteer projects; the most popular open data projects were undertaken by NGOs. The estimated amount of taxpayers' money saved exceeds 1 billion hryvnias. The journalistic investigations triggered the commencement of proceedings against the head of the National Guard, the head of NACP, deputy head of Foreign Intelligence, deputy head of SBU, and several Members of Parliament, including heads of committees, and so on.

RESULTS

After five years of action on corruption, how has Ukraine changed? There are new anticorruption agencies, a new anticorruption court, a number of open registries, and a system of asset declarations. Efforts led by ANTAC have generated significant results. More than 196 court cases against top officials have led to 31 convictions, and 2 million e-declarations against public officials have been submitted. After NABU and the Special Anticorruption Prosecutor's Office were launched, 224 corruption cases against top officials reached court.

Ukraine's previously untouchable corrupt politicians are now being charged. For instance, Ukraine's tax agency chief and a key ally of the ex-prime minister found themselves in court after NABU investigated corruption schemes in which they were involved. While the new institutions could still be improved, they are much better than the other Ukrainian law enforcement agencies. And the process is ongoing; in time,

anticorruption advocates want to reboot all the criminal justice agencies in Ukraine.

After the adoption of new laws, ANTAC, along with other organizations and media, started following the implementation of reforms and the selection procedures at new agencies. Alongside the already working instruments, there is still a need to look for new ones. ANTAC sees the resistance to positive changes and the need to relaunch part of the institutions as the new challenges in the anticorruption agenda in Ukraine.

For two years, Ukrainian civil society and international partners were fighting to promote the essential role of the Public Council of International Experts in the process of selecting the High Anticorruption Court judge. In the end, six well-recognized international experts worked in Ukraine, analyzing and banning notorious candidates. As a result, 40 percent of the candidates withdrew from the competition for the High Anticorruption Court.

On September 5, 2019, Ukraine's High Anticorruption Court finally started its work and began considering cases of Ukrainian top officials. Ukrainian society expects that the new court will follow the rule of law and not carry out "business-as-usual." Ukrainians demand that judges deliver fair sentences to people who are convicted of corruption.

LESSONS LEARNED

Anticorruption advocates in Ukraine learned that cooperation between domestic and international stakeholders is crucially important. It is also important to control the process of reform implementation and test new approaches.

The new anticorruption institutions are small agencies, and they do not replace the entire prosecution, police, and judiciary. But they serve as an oasis for change in criminal justice in Ukraine.

The new institutions are not ideal, but still much better than all other Ukrainian law enforcement agencies. And reform is an ongoing process; these agencies have people who are independent professionals ready to deliver justice – they are Ukraine's future law enforcement elite. And with time, they will reboot all criminal justice agencies in Ukraine.

Case Study 5.3

Western Balkans: Public Administration Reform (PAR) in the Context of EU Integration

MILENA LAZAREVIĆ, PROGRAM DIRECTOR, EUROPEAN POLICY CENTRE

CONTEXT

At the Thessaloniki Summit in 2003, the EU reiterated the European perspective of the Western Balkans region, based on its satisfying accession criteria, including institution-building and rule-of-law reforms. Since then, despite a common mantra that reforms need to be implemented for the sake of the citizens and not the EU, the integration process has remained the main driver of reforms directed at increased openness, transparency, and accountability of the governments and public administrations in the region. Considering that effective and efficient public administration is a prerequisite for proper implementation of EU policies at the national level, this area has become increasingly prioritized as part of the accession dialogue with the Western Balkan countries. The increased focus has come partly as a consequence of lessons learned from the 2004–2013 enlargements, which revealed the weaknesses of internal governance mechanisms in former communist/socialist countries.

Consequently, the European Commission (EC) has promoted public administration reform (PAR) as a fundamental area of reform on any country's path to EU membership (along with rule of law and economic governance). Countries of the Western Balkan region have been conducting PAR

for several years now, but since 2014 these reforms have proceeded under a new framework developed by the EC, with the support of SIGMA/OECD:¹⁴ *The Principles of Public Administration*.¹⁵ These principles are now the main framework guiding and monitoring administrative reforms in the Western Balkan countries and Turkey,¹⁶ guiding them in the direction of successful transformation into EU members.¹⁷ The principles define the scope of PAR through six key areas (see Figure 5.3-1).

Against this background of EU standards and guiding principles, six Western Balkan think tanks, gathered within the regional Think for Europe Network, have started an initiative for independent, external, civil society monitoring of PAR in the region. The rationale for this initiative, called WeBER, is that only by empowering local nongovernmental actors and strengthening participatory democracy at all levels can the same pressure on the governments to continue implementing the often painful and inconvenient administrative reforms be maintained post-accession. The overall objective of the WeBER project has been to increase the relevance, participation, and capacity of civil society organizations (CSOs) and media in the Western Balkans to advocate for and influence the design and implementation of PAR. Besides monitoring

¹⁴ SIGMA (Support for Improvement in Governance and Management) is a joint initiative of the OECD and the European Union. Its key objective is to strengthen the foundations for improved public governance, and hence support socioeconomic development through building the capacities of the public sector, enhancing horizontal governance and improving the design and implementation of public administration reforms, including proper prioritization, sequencing and budgeting. More information is available at: <http://www.sigmaweb.org/>

¹⁵ *Principles of Public Administration*, SIGMA/OECD, <http://www.sigmaweb.org/>.

¹⁶ A separate document, *The Principles of Public Administration: A Framework for ENP Countries*, has been developed for the countries encompassed by the European Neighborhood Policy (ENP): <http://bit.ly/2fsCaZM>.

¹⁷ SIGMA conducts regular assessments of the progress made by the Western Balkan countries' governments in fulfilling the principles. Across-the-board assessments (for all six key areas) are conducted once every two years, and in between smaller-scale assessments are done for specific chapters evaluated as critical by SIGMA. For more information on SIGMA assessments, visit www.sigmaweb.org.

FIGURE 5.3-1.

Public administration reform – key areas



PAR, WeBER has also developed a regional civil society platform for consultations on PAR—the WeBER Platform—gathering over 130 CSOs from across the Western Balkans. The platform has fostered evidence-informed policy discussions between civil society, governments, and international and regional organizations. Additionally, a region-wide WeBER Small Grant Facility has enabled 33 locally based and grassroots organizations to monitor and engage in PAR in their local communities.

The European Commission's independent evaluation recognized WeBER as one example of good practice in “long-haul efforts to bring in structural changes in an institutional environment that has recently become fairly acute and difficult (deterioration of the effectiveness of public administration, etc.).”¹⁸

IMPLEMENTED ACTIONS

Civil Society Monitoring of PAR – the PAR Monitor

The purpose of PAR monitoring by WeBER is to help guide the governments in the region toward successful EU accession and membership. The monitoring approach has been devised around the PAR requirements defined under the EU's enlargement policy, *Principles of Public Administration*, as the common denominator of PAR reforms in the region, which have therefore been used as the building blocks of the PAR Monitor Methodology. Pre-accession, WeBER's monitoring serves to support the nongovernmental sector in supplying complementary evidence to SIGMA/OECD, relying

on specific knowledge and experience accumulated in the region's civil society. Simultaneously, the WeBER exercise aims at building CSOs' capacities for and skills in conducting external reform monitoring based on combinations of quantitative and qualitative data, gradually allowing for widening the scope of monitoring, as the countries' EU integration process proceeds. Post-accession, the objective is for the CSOs to continue their external monitoring in a more holistic way, considering that SIGMA's mandate is expected to expire in the Western Balkans once the countries accede to the EU. In such a changed environment, comprehensive civil society monitoring of PAR will serve to maintain the pressure and momentum for EU-compliant reforms of the region's administrations.

The monitoring approach developed by WeBER is fully quantified, based on 23 compound indicators, and specifically designed to measure the transparency, openness, accountability, and citizen-friendliness of the public administration. In other words, through a set of indicators, WeBER measures the citizen-facing aspects of the EU's *Principles of Public Administration*. The monitoring approach is also based in local knowledge, strongly relying on information provided by CSOs and on citizens' perceptions and the views of civil servants employed in the region's administrations. Rather than taking a holistic view of each of the principles, the PAR Monitor is based on the selection of principles that are most relevant to the purpose of the project, and its indicators are designed to focus on the citizen-facing aspects of the selected principles. The first round of monitoring, conducted in 2017/2018, included the following data sources:

¹⁸ European Commission, Mid-term Evaluation of the Civil Society Facility for the Western Balkans and Turkey, 1 December 2017, https://ec.europa.eu/neighborhood-enlargement/sites/near/files/csf_evaluation_report_wbt_dig.pdf

- Public perception survey, conducted between October 15 and November 30, 2017
- Survey of civil servants, conducted March-April 2018
- Survey of CSOs, implemented April-June 2018
- Desk analysis, including analysis of the institutions' websites
- Information obtained based on freedom of information requests made to the institutions
- Semi-structured interviews and focus groups with CSOs

RESULTS

A Selection of Indicator Results

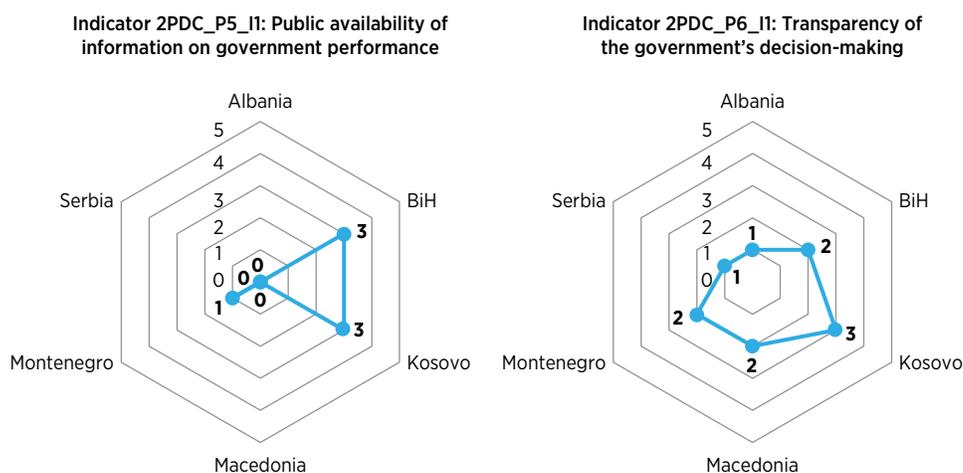
The PAR Monitor 2017/2018 package comprises six national monitoring reports and one regional, comparative report.¹⁹ Its results have been widely promoted through the Regional WeBER Platform, as well as through individual advocacy meetings targeting specific institutions at the national, regional, and EU levels. The reports contain an abundance of data and information about the 23 indicators in the six areas

of PAR; however, this chapter provides only a short summary of the results for a selection of indicators from the five substantive areas.²⁰

All indicators are expressed on a scale from 0 to 5 (integers only)—the same measurement scale that the SIGMA/OECD monitoring methodology applies, to facilitate comparing the findings of these two monitoring systems. Behind the final indicator values, for each indicator there is a total point score that represents the sum of points awarded for each of its elements (i.e., subindicators). The final value for an indicator is determined using a conversion table. The individual elements are based on either qualitative or quantitative data, but all have assigned numerical values, which allows for quantifying all indicators.²¹

The PAR Monitor reports offer detailed interpretations of the indicator results and provide recommendations based on the identified deficiencies in each of the national monitoring reports. The governments' implementation of these recommendations would lead to improved indicator values in subsequent monitoring rounds.

FIGURE 5.3-2.
Indicators for “policy development and coordination”

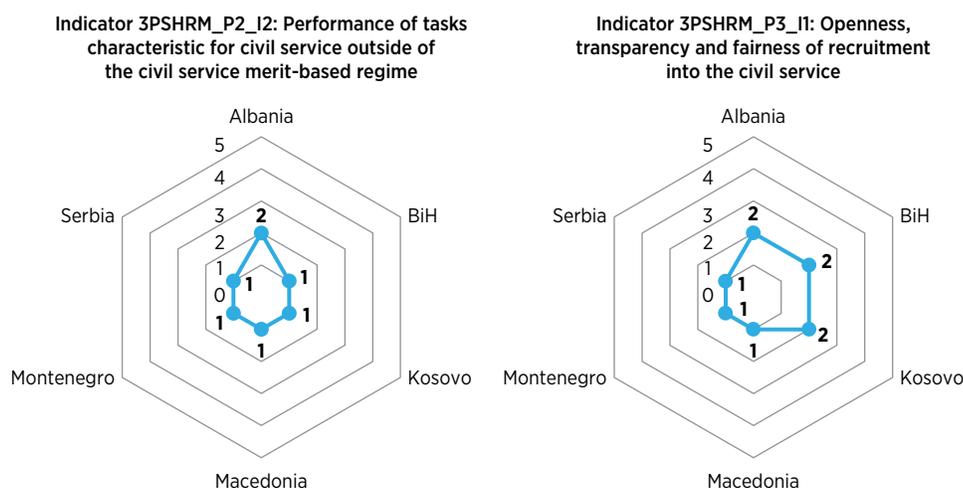


¹⁹ PAR Monitor 2017/2018, www.par-monitor.org.

²⁰ The results of the two indicators in the area “Strategic Framework of PAR” are not presented here. Moreover, for the other five areas, only a selection of indicator results is offered. The full monitoring reports are available at www.par-monitor.org. The website also features an interactive PAR Scoreboard, visualizing both the WeBER data and the data from the 2017 SIGMA/OECD monitoring reports.

²¹ The detailed methodology is available on the WeBER website: www.par-monitor.org.

FIGURE 5.3-3.
Indicators for “public service and human resource management”



1. *Policy Development and Coordination*

The two indicators selected for this area (see Figure 5.3-2) focus on reporting practices and decision-making transparency at the top government level (i.e., council of ministers/cabinet level). The first indicator (2PDC_P5_I1) looks at the extent to which information about the government’s performance is open and available to the public, through seven individual elements (subindicators). It relies on the analysis of the most comprehensive websites through which the government communicates externally and covers a period of two annual reporting cycles. Other aspects analysed include the understandability of communication practices, and whether communications contain specific types of information and data; descriptions of concrete results; and the online availability of reports on key whole-of-government planning documents.

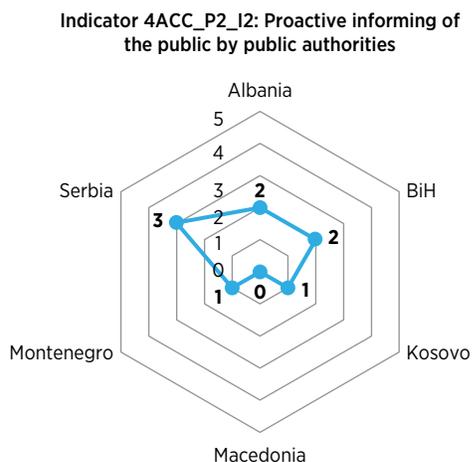
The second indicator selected for this chapter (2PDC_P6_I1) measures the transparency of decision-making by the government through a combination of the perception information and the analysis of relevant government websites. Its five elements examine the completeness, citizen-friendliness, timeliness, and consistency of information on the decisions taken by the cabinets, as provided by the government websites (monitoring covering each government session in the last quarter of 2017).

2. *Public Service and Human Resource Management*

The monitoring of the first indicator (3PSHRM_P2_I2) in this area (see Figure 5.3-3) focuses on the extent to which widely applied temporary engagement procedures in central state administrations undermine the general, merit-based civil service regime. Through 10 individual elements, this indicator combines WeBER’s expert review of legislation, documents, and websites with its analysis of government administrative data and the results of semi-structured interviews with relevant stakeholders and representatives of governmental institutions in charge of the human resource management policy. It also includes the measurement of civil servants’ perceptions through the online survey of civil servants.

The second indicator (3PSHRM_P3_I1) measures the openness, transparency, and fairness of recruitment into the civil service through public competitions, a particularly critical aspect of human resource management in the public administration because of its public-facing character. This indicator, composed of 11 subindicators, examines both the extent to which merit is taken into account in these competitions and how attractive or burdensome they are to people outside of the administration. The analysis of recruitment documentation and information on websites is balanced with perceptions of civil servants and the public gained from perception surveys.

FIGURE 5.3-4.
Accountability indicator



3. Accountability

This indicator (Figure 5.3-4) focuses on how administration bodies inform the public, by monitoring the comprehensiveness, timeliness, and clarity of the information disseminated through the official websites of seven sample institutions. Information is assessed against two groups of criteria – basic criteria, looking at whether the information is complete and up to date, and advanced criteria, analysing accessibility and citizen-friendliness (except for the open data element). The sample of seven administration bodies consists of three line

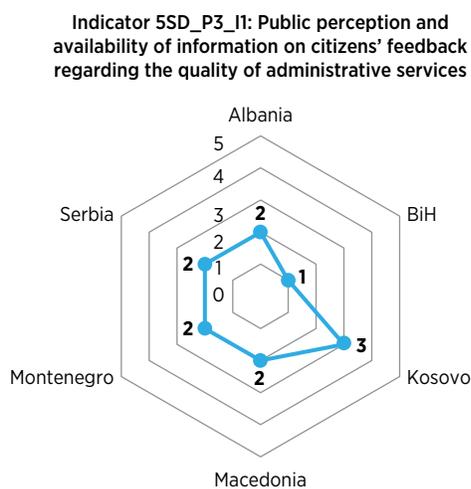
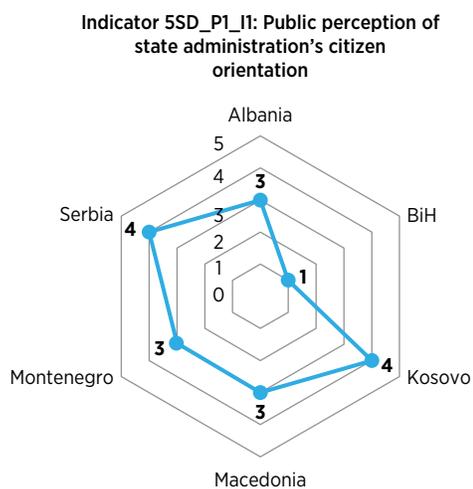
ministries, a ministry with a general planning and coordination function, a government office with a center-of-government function, a subordinate body to a minister/ministry, and a government office in charge of delivering services. The individual types of information assessed in the indicator are analysed through 18 subindicators, with the last indicator looking at the pursuit of an open data policy by the public authorities.

4. Service Delivery

The first indicator (5SD_P1_I1) in this area (see Figure 5.3-5) is fully perception-based and is measured by using a public perception survey in all Western Balkan countries. Through 11 subindicators, it focuses on how citizens perceive service delivery in practice. It includes questions on various aspects of importance to service users, such as awareness of service and knowledge about how to use them, efficiency in delivery, digitization, and feedback mechanisms.

The second indicator (5SD_P3_I1) measures the availability of citizen feedback by combining results of a public perception survey with the analysis of websites of service providers. In the public perception survey, citizens were asked about the possibilities they have to provide feedback on the quality of services, about the ease of use of the channels for providing feedback, about their and civil society’s role in monitoring service delivery, and about whether such efforts result in improved service delivery. The indicator comprises six elements.

FIGURE 5.3-5.
Indicators for “service delivery”



5. Public Financial Management

The first selected indicator (6PFM_P5_I1) in this area (see Figure 5.3-6) measures the extent to which key budgetary documents are transparent and accessible to citizens, based on seven individual subindicators (elements). It looks also at the scope of budgetary information available in these documents and at how this information is presented and adapted to audiences such as civil society or the interested, non-expert public. Primary sources are the Internet portals of the ministries in charge of finance and the data available on these websites, but also official governmental portals (including open data portals where they exist).

The second indicator (6PFM_P16_I1) is used for monitoring the supreme audit institution's practices of external communication and cooperation with the public. It looks at whether there is a strategic approach, and it analyzes the means of communication and the application of citizen-friendly tools and approaches to audit work. The measurement of the complete indicator combines the analysis of SAI documents and websites and interviews with supreme audit institution staff through six subindicators.

LESSONS LEARNED

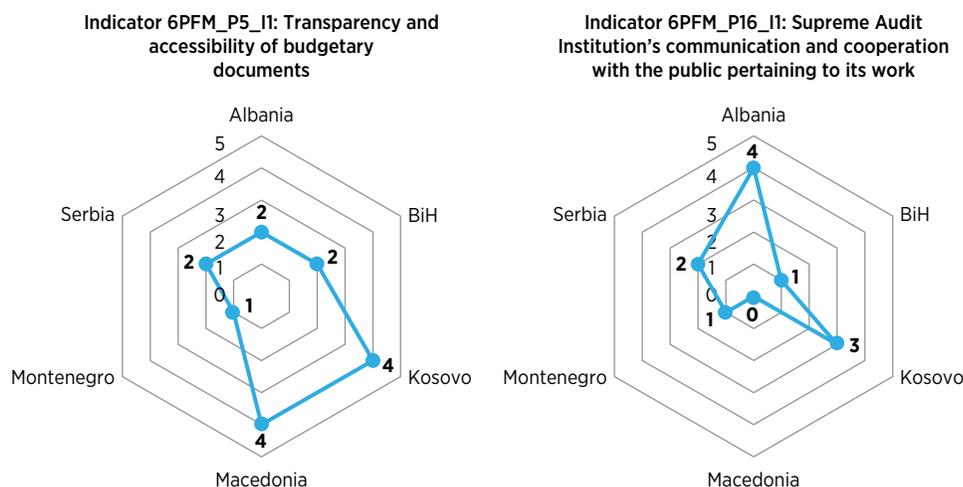
The monitoring results across the six PAR areas have revealed surprising trends, with important implications for both the EU aspirants and the European Commission's reporting on the

countries' progress. Although the accession process is promoted as a merit-based one, the Western Balkan countries' practices with regard to the openness, transparency, accountability, and citizen-friendliness of their administrations do not necessarily support that claim. The countries that are the front-runners in the EU integration process (Montenegro and Serbia) have not emerged as the front-runners in specific PAR reforms measured by the WeBER.

Another lesson learned from the monitoring exercise relates to the importance of identifying and promoting individual reform champions, which can indeed be found in each country. With civil servants often working in difficult environments, with little political support, recognition of efforts to bring about tangible change and improvement in the systems, even if it concerns a single institution, does a great deal to support the efforts to reform the administrations.

Concerning challenges that the monitoring exercise encountered, a major one was to assure regional comparability of data. To address this challenge up front, throughout the research and analysis process, the researchers from the six think tanks collaborated intensively, holding weekly quality assurance meetings to facilitate unified approaches in the application of the monitoring methodology. As an additional measure of regional quality assurance, a senior expert conducted regional cross-checking of all results. Moreover, individual indicator results in each country were sent to the contact points in the administration for fact checking. In

FIGURE 5.3-6.
Indicators for “public financial management”



addition to the challenges associated with ensuring maximum regional comparability of findings, in some cases there were challenges with data collection, particularly with data obtained from the administrations. For example, in some cases ministries of public administration were reluctant to disseminate the online survey to civil servants across the administration (Montenegro), or the response rate by civil servants was very low despite the responsible ministry's genuine efforts to spread the survey invitation (North Macedonia). Finally, in some cases, monitoring results were disputed by the relevant ministries in cases where they showed backsliding or lagged behind the region's nominal EU accession front-runners (Montenegro and Serbia, in particular). At the same time, in Bosnia and Herzegovina, for example, the WeBER monitoring results have been frequently quoted as an important source of information and recommendations for the state administration's efforts to improve transparency, citizen-friendliness, accountability, and so on.

A second monitoring round is planned for 2020, and fundraising for the continuation of this exercise is ongoing. In terms of what could (or should) be done differently the second time around, a key conclusion was that some indicators would need to be revised to better balance hard data

analysis and survey data. All partners agreed that indicators relying exclusively on survey/perception data were not informative enough.

Finally, the overall lesson learned from this exercise is that domestic, bottom-up pressure for reform can indeed be stimulated through external reform monitoring by civil society. Even when disputing monitoring results and expressing dissatisfaction with the results, governments still reacted and, in some cases, have already taken measures to address some of the specific recommendations (offered in the six national PAR Monitor reports). The comparative results showed above stimulated discussions among the governments, particularly during the final regional project conference, and there is already some evidence that peer pressure was created. The expectation is that for the second round of monitoring the governments will attempt to do more to address the weaknesses identified in the first round of PAR Monitor reports and improve their scores on the indicator scales. Combined with the top-down monitoring and conditionality by SIGMA/OECD and the EU, these domestic efforts to call governments to account for the quality of the administration can in the long run yield important results in terms of the sustainability of reforms.

CASE STUDY 5.4

Kosovo: Political Will: A Precondition for Success

BESNIK TAHIRI, FIRST DEPUTY PRIME MINISTER OF THE REPUBLIC OF KOSOVO

CONTEXT

Kosovo, which became independent in 2008, is one of the youngest countries in the world. It has a population of 1,920,079 and a territory of 10,889 square kilometers. Kosovo's story of building institutions and establishing an efficient civil service is instructive. In the 1990s, when principles of good governance were introduced—accountability, transparency, and efficiency—Kosovo had no established system. At that time, the Serbian regime had dismissed the majority of the population from public institutions, leaving Kosovo adrift, without an administration.

After the war concluded in 1999, Kosovo operated under the administration of the United Nations Mission in Kosovo. During this time, international bodies helped establish democratic institutions and election processes; however, given the presence of numerous perspectives and voices, this was a confusing time. When Kosovo declared its independence in 2008, public administration reforms were not a priority; instead, Kosovo's agenda was focused on political issues such as recognition and membership in the United Nations, World Bank, and so on.

More recently, the signing of Kosovo's EU Stabilization and Association Agreement in 2016, and the subsequent introduction of the European Reform Agenda (ERA) and the Economic Reform Program, have laid the path for transformative processes and a change of objectives. EU integration, as an overarching priority, is supported by all major political parties in Kosovo and has been one of Kosovo's key development drivers. This endeavor is in accord with the National Development Strategy (NDS) 2016-2021, the Government's commitment to implement the EU Stabilization and Association Agreement, and its priorities as set by the ERA and other accession-related processes.

The Agenda 2030, a global action plan anchored around five P's – People, Planet, Prosperity, Peace, and Partnership – seeks to strengthen sustainable peace by advocating for the bold and transformative steps that are needed to achieve the Sustainable Development Goals (SDGs). Fully embracing the concept, Kosovo has expressed a voluntary commitment to achieve the SDGs by adopting a resolution in the Kosovo Assembly and establishing the Council for Sustainable Development within the Assembly. The political commitment to the implementation of the SDGs also lies in the executive branch, as the establishment of the Council for Sustainable Development was supported by the Prime Minister's Strategic Planning Office. Furthermore, the NDS includes a range of interventions that are closely aligned with the European agenda and the SDGs; this is also mentioned in the first report on the implementation and results of the NDS.

Currently, one of the Government's main priorities is public administration reforms and improvement of the civil service. The civil service in Kosovo is composed of 80,988 workers, 37,551 at the central level and 43,437 at the local level. Not having a regulatory framework has for many years had a negative effect on the public sector. Today, through the reform agenda, the Government has introduced an advanced structure and legal framework that not only improves civil service but also adheres to good governance principles. Facilitated by the National Coordinator for State Reforms (NCSR) Office, the Government has introduced three major reform interventions: (a) a package of laws on public administration reform, which includes the *Law on Organization and Functioning of State Administration and Independent Agencies*, the *Law on Public Officials*, and the *Law on Salaries*, (b) the *Law on Government*, and (c) the *Law on Inspections*.

IMPLEMENTED ACTIONS

Reform Process

The Government's objective is to introduce reform processes that develop sustainable policies to be implemented by a neutral, rational, professional, and functional public administration. The reforms take into consideration a number of models and organizational structures, which, in principle, establish a necessary link with political power. Reform processes establish a balance between the quality of policymaking and the professionalism of the public administration for the implementation of public policies, with a focus on sustainable development. Reforms in the policymaking process set a particular tone of interaction with development partners. The roles of actors involved in the process are related to each other as they intervene in a consolidated way in the process of making public policies.

Through reform processes, Kosovo has created a structure of institutional functioning with high standards of governance. This structure includes parameters that guarantee efficient and functional governance, full independence of the administration based on hierarchy and merit-based salaries, high standards of meritocracy and competition in recruitment, and well-structured agencies that are in the process of being fully operational. The key pillars of the reform process are Public Administration Reform; Effective Functioning of the Government and Executive Agencies; Functional Reforms in Local Government; and Inter-Institutional Coordination and Harmonization of the Agenda with Developing Partners. These pillars are described below.

Public Administration Reform

The first pillar consists of the actions that come from ERA and Agenda 2030, specifically good governance and the rule of law. The NCSR has supported the process of drafting the package of laws on public administration reform (*Law on Salaries, Law on Public Officials, and Law on Organization and Functioning of State Administration and Independent Agencies*). In the same action plan that derives from ERA, the NCSR has supported the process of completing the *Law on Financing Political Parties*. It is of paramount importance that the legislation and related policy reform processes are

adopted in timely manner. The roles of the central and local government departments, donors, and all development partners are crucial to ensure that institutions have sufficient capacity for a coherent approach to implementation.

Package of Laws on Public Administration Reform. The key reforms of the public administration reform are related to the package of legislation on state administration, public officials, and salaries, and rationalization of agencies under the Government and Assembly. The package of public administration laws opens a new chapter on state administration by clearly establishing the hierarchy, structure, and organization of the public administration. With the support of international experts and a wide stakeholder consultation process, public administration reform laws lay the foundations for a stable and effective form of public administration.

- The *Law on Organization and Functioning of State Administration and Independent Agencies* defines the rules for the organizing and functioning of the state administration and independent agencies established by the Assembly. More specifically, this law sets clear rules for the entire ministerial system and public service administrations by defining their role in the ministerial system. Furthermore, it provides an appropriate institutional organization by setting the criteria for the establishment, management, and accountability lines for independent agencies.
- The *Law on Public Officials* creates a legal framework for the employment of public officials based on principles of meritocracy, moral integrity, impartiality, and consistency. The law outlines general rules for the admission of public officials, administration, personnel planning, personnel files, and an integrated system for managing human resources. One of the most beneficial aspects of this law is that it prevents the occurrence of three major issues in the recruitment process in Kosovo – political favoritism, nepotism, and clientelism. To avoid corrupt behavior during recruitment, the *Law on Public Officials* has introduced a new form of test-based examination, introduced a new evaluation format that is 70 percent based on unseen material, and eliminated traditional one-on-one interviews.

- The *Law on Salaries* determines the system of salaries and awards for functionaries and public officials. The law establishes a homogeneous payroll system for all employees in the public sector by defining rules to determine salaries and their components. The *Law on Salaries* is based on a set of new rules that establish a transparent and equal pay system by implementing the principle of the same wage for the same work. The law classifies civil servants by positions, pay grades, and grades, clustering salaries into coefficients 1 to 12 distributed to 54 levels and salary groups. As a result of this law, the public sector has been downsized from 8,000 to less than 1,700 titles, for which the lowest salary is €322 and the highest is €2390.
- With the aim of addressing key challenges of the present and future Governments, the *Law on Government* aims at restructuring the government, setting and limiting the number of ministers and deputy ministers, standardizing decision-making and policymaking procedures, and preventing potential misuse of official mandate. As Table 5.4-1 shows, there has been a constant increase in the number of ministries in Kosovo through different governing periods. This growth of the structures of government and governmental officials has resulted in the duplication of portfolios, overlapping of responsibility, lack of accountability, negative budgetary implications, and inefficient use of resources.
- The *Law on Government* addresses these issues by defining the governing principles of the Government as the executive branch, guided by the principles of transparency, efficiency, and effectiveness. It also defines the mandate and composition of the Government, the appointment and termination of members of the Government, and the Government's powers in resignation. The purpose of this law is to create a proper legal system that provides for (a) more effective and efficient institutional coordination, (b) more efficient public spending, and (c) enhanced accountability and work efficiency in the public administration. After broad internal and public consultations, the working group on this law, chaired by the National Coordinator for State Reform, has proposed a cap on the number of ministries—or more specifically, two potential

formats of government, one with 12 ministries and the other with 15.

- Recognizing the importance of addressing the business inspections regime, the *Law on Inspections* aims at improving coordination and establishing a set of unified procedures on business inspections that must be applied by all inspection bodies. This law has four major objectives: (a) defining principles and unique rules that should be followed in the inspections procedures, (b) establishing the Inspector General's Office to coordinate the inspections, (c) reducing the number of inspection authorities, and (d) improving training and establishing clear inspections procedures.

Government and Executive Agencies Functioning Reform

This second pillar of the reform process is related to the reform in the inspections field, and the reduction of the number of permits and licenses from 480 in 2015 to 456 in 2018. More specifically, with this law 52 percent of the permits and licenses have changed their legal form, 22 percent have been changed in the deadline for response, 15 have been changed in the application form, 35 have been changed in the required documentation during the application, and 74 permits and licenses have been removed to be substituted with 50 other permits and licenses. While strengthening the simplification and efficiency of institutional structures in service, the law has managed to improve the climate for investment and doing business. The Government aims to approve and implement the program to reduce the permits and licenses further by 10 percent.

Functional Reforms in Local Government

The third pillar in the reform process includes a functional review of local governance that arose out of ERA and the SDGs. Kosovo accelerated its implementation of the Strategy for Local Self-Government (2016-2026) and has taken steps regarding sustainable financing and local economic development based on another strategy, the Strategy for Local Economic Development (2019-2023). During this period, the NCSR has supported the completion of changes on the *Law on Local Government Finance* and the process of drafting and consultation on the *Law on Allocation for Use and Exchange*

of *Immovable Property of Municipalities*, and has analyzed policy changes and basic and sectorial legislation that affect local governance. In this area, the Office of the NCSR has consolidated and led dialogue and consultation through the Government-Municipality Consultative Forum. Accompanied by the Prime Ministers, the NCSR has coordinated meetings and visits to municipalities where they have discussed municipalities' requests. The role of NCSR was also vital in communicating these requests to line ministries and the cabinet and proposing solutions to the issues.

Inter-Institutional Dialogue and Harmonization of the Agenda with Development Partners

The fourth pillar encompasses the dialogue and cooperation between institutional actors (e.g., Office of the Prime Minister and NCSR) and development partners (including civil society organizations, or CSOs) toward achieving the common development goals. As key institutional bodies, they have advocated for a policymaking process that is comprehensive, transparent, and open, to ensure that the reform process finds broad political and public consensus. The NCSR has overseen the reform process and facilitated legislative changes with the support of decision-makers, professional teams, and local and international experts. The agenda between institutional actors and development partners was harmonized and further complemented by the recent initiative undertaken between the Ministry of European Integration and the UN Kosovo Team (UNKT). The expected establishment of the Kosovo Sustainable Development Coherence Fund, with the contribution of multilateral development partners and the Government, will have a multiplier effect of aligning policy and programmatic support for Kosovo's EU accession and simultaneous achievement of the SDGs. This would be achieved under the framework of the NDS (2016-2021), and in light of the Government's commitments to implement the EU Stabilization and Association Agreement and other accession-related processes.

RESULTS

See Table 5.4-2 on page 137.

LESSONS LEARNED

Through the process of introducing vital state reforms, Kosovo learned two main lessons: first, political will is a precondition for reforms, and second, a consultative process is the key to success. Kosovo has seen many attempts from previous Governments to address problems in state administration; however, in the absence of political will, none of these was successful. The willingness of political actors to push these agendas forward during the mandate of the present Government immensely helped the development of the reform processes in Kosovo (Figure 5.4-1 captures some of the key stakeholders of the consultation process).

The second lesson is that a broad consultation process is one of the main drivers of success. Consultations are delicate and must be taken seriously. Initially, as Government representatives, it is important to consult internally. For the author's team, this meant numerous meetings with ministries, representatives of the office of the Prime Minister, heads of departments, even international organizations such as EU, UNDP, World Bank, and others. These stakeholders brought to the table different perspectives and ideas that complemented our reform processes. Public consultation is also essential in developing reform agendas. During this form of consultation, it is of paramount importance to incorporate civil society, given their research capacities and expertise in societal problems. For instance, in Kosovo's case, CSOs played a vital role in providing research on specific articles, such as those on gender balance and participation. Before introducing a law in the parliament, government representatives should also consult members of parliament to make sure their viewpoints are carefully scrutinized and that they are supporting the process of reforms. Throughout the whole process of reform, it is important to stay focused, be positive, and trust yourself. Having these qualities will help you pave the way toward change and success.

FIGURE 5.4-1.
Key stakeholder groups of the consultation process



Image 1. Internal Consultation; Image 2. Consultation with civil society organization; Image 3. Consultation with legal experts ; Image 4. Consultation with development partners. Source: Government of Kosovo, 2019.

TABLE 5.4-1.
Composition of the Government of Kosovo, 2002-2019

GOVERNING PERIOD	NUMBER OF MINISTERS	NUMBER OF DEPUTY PRIME MINISTERS	NUMBER OF DEPUTY MINISTERS
2002 - 2004	12	0	0
2004 - 2007	14	1	30
2007 - 2010	15	2	42
2010 - 2014	18	5	52
2014 - 2017	19	3	57
2017 - Current	21	5	75

TABLE 5.4-2.
Results Framework

FIELD	RESULTS ACHIEVED	IN PROCESS RESULTS
Public Administration Reform	<p>Approval of the Law Package for Public Administration Reform:</p> <ul style="list-style-type: none"> - Law on Organization and Functioning of Public Administration and Independent Agencies - Law on Public Officials - Law on Salaries. <p>Approval in the first reading of the Law for Financing the Political Parties</p>	<p>Efficient implementation of the Law Package of the Public Administration Reform:</p> <ul style="list-style-type: none"> - Drafting of the package of the administrative instructions. <p>Consultation on the Law with Parliamentary Commission Law Approval</p>
Government and Executive Agencies Functioning Reform	<p>Leading the interministerial group for the Law on Government:</p> <ul style="list-style-type: none"> - Working group meetings, including the Agency for Gender Equality, to ensure alignment with the Law on Gender Equality and international human rights standards and best practices - Meetings with CSOs including women CSOs and networks - Public discussion <p>Leading the reform group in the inspections field ;</p> <ul style="list-style-type: none"> - Working group meetings, including the Agency for Gender Equality, to ensure alignment with the Law on Gender Equality and international human rights standards and best practices - Coordination with Ministry of Trade and Industry and World Bank - Professional analysis of the reform process - Draft-law process 	<p>Drafting of the Draft Law on Government:</p> <ul style="list-style-type: none"> - Rationalization of the executive structures - Efficiency of the executive <p>Drafting of the Draft Law on Inspection Field:</p> <ul style="list-style-type: none"> - Improvement of climate for doing business - Rationalization of inspections
Functional Reforms in Local Government	<p>Approval of the Law on Prishtina</p> <p>Law on Allocation for Use and Exchange of Immovable Property of Municipality</p> <p>Approval of concept-document for Local Government Finances</p> <p>Agenda coordination in efficient coordination of implementing the Local Self-Government Strategy (2016-2026)</p>	<p>Support of Government for Implementation of the Law on Prishtina</p> <p>Consultative meetings with municipalities and other government actors, including municipal gender officers</p> <p>Drafting of the Law on Local Government Finances:</p> <ul style="list-style-type: none"> - Defining the financing competencies - Firefighters; some fields of inspections - Sustainable financing of social services and domestic violence shelters - Measures that derive from Kosovo Report by European Commission <p>Government decisions related:</p> <ul style="list-style-type: none"> - Economic zones - Transfer of properties for use to municipalities - Specific request from municipalities
Inter-institutional coordination and harmonization of the agenda with development partners	<p>Agenda coordination for good governance and sustainable economic development</p>	<p>Drafting of the concept document "Policy Development Dialogue with Partners - PDDP"</p> <p>Drafting the action agenda</p>



Youth Resource Hubs in Pristina and Mitrovica offer training facilities and free internet access and provide information for students and youth organizations in the areas of education reform, conflict management, community service, and human rights. Republic of Kosovo.
Photo: ©Lundrim Aliu / World Bank



CHAPTER 6

The Promise of GovTech

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Today, political, global, and—increasingly—technological forces are advancing government reforms. As a primary driver of reforms, technology is satisfying increasing demands for accountability, efficiency, and permanence in all aspects of government, offering new opportunities but also presenting new challenges.

Technology affords nations the promise of automation, acceleration, and authority by accountability. Undeniably, nations investing in Govtech are at the forefront of commerce and trade—for example, the UK, Estonia, Canada, Singapore, and Malaysia. Their citizens enjoy the benefits of accountability and authenticity, while their government policy impact extends far beyond their respective borders. In the coming decade, nations with a focus on accountability and authenticity will emerge as the backbone of global stability.

Revenue

Governments are accounting for corruption and improving the general management of financial resources through novel technological reforms. Traditionally, accounting ledgers track the flow of government revenue into pensions, subsidies, and investments. International standards subsidized in part by the World Bank Group assist with guidelines and best practices for government accounting. Yet traditional revenue systems continue to rely on manual processes of planning, accounting, and reconciliation. Manual resource planning has a critical flaw: human error. Manual ledgers prevent the accurate and timely audit of transactions between parties operating on different timescales with different technologies. Today these challenges are being addressed with blockchain technologies and a focus on accountability, authenticity, and security.

While not a panacea, distributed ledger technologies (DLTs) provide systems of account at unprecedented scale. DLT provides participants a “chain” of transactions in a ledger authenticated by consensus. DLT’s transaction management protocols operate smoothly by consensus among widely independent untrusted stakeholders. Public, private, and hybrid ledgers operate well across distributed computing networks in a variety of physical environments. Accounting transactions on government DLT systems are therefore

Govtech reform nurtures stability and abundance. Nations must account for their resource use with increasing efficiency if they are to grow and achieve equilibrium. Emerging Govtech solutions enable electronic government (eGovernment) systems to scale beyond geopolitical boundaries through unity and interdependence. This is evident today among the nations that specialize in trade, finance, and energy resource production at a global scale.

Nations can no longer wonder whether Govtech *will* or *won’t* transform their role in the global economy. The choice is only a matter of *when* and *how*. This chapter discusses five primary reform groups that affect all aspects of civic systems: Revenue, Procurement, Governance, Commerce, and Security.

entirely redundant, persistent, and archival across geographies. Built well, DLTs are very useful, durable, and resilient. For example, Estonian government tax systems use a unified ledger allowing citizens and businesses to reconcile income taxes owed with push-button simplicity. The Estonian eGovernment infrastructure operates their DLT system for revenue management. Estonia’s entire Govtech accounting system is digital and unified.

To fully capitalize on eGovernment methodologies, nations must unify their internal systems and processes at immense scale. Big data systems capable of managing exabyte scale [1 billion gigabytes] are enabling reforms in nations with large populations, saving billions of dollars and countless lives in the process. Cloud and hybrid computing environments are replacing mainframes and other fragmented data storage systems that require mainframe computing systems, which secure long-term revenues for providers at the expense of long-term flexibility for governments. Today’s on-demand cloud server systems offer governments computing services commoditized to offer low total cost of ownership per unit of storage and computation. Furthermore, open source software systems now automate manually intensive processes at immense scale on commodity hardware. By automating

and unifying manual processes, accounting systems can now manage departmental data uniformly throughout a nation. These systems are called “data fabrics.”

Data fabrics offer unity and uniformity in process over a distributed geography by sharing common access to data. They allow globally distributed applications to crunch big numbers. Such is the case for Aadhaar in India, which is providing identity management to citizens. Using biometrics unique to the individual rather than paper documents that can be forged, citizens of India may claim government benefits to ensure fully accountable distribution of government revenues.

Procurement

International trade reforms are restructuring supply chains for governments, producers, and consumers worldwide. Procurement is a common target for corruption, denying countries and their people the value they need. All too often among developing nations, a lack of procurement accountability brings foreign investment to a halt, stifling aid that has the potential to develop life-improving infrastructure. Oversight from global aid organizations is partially responsible for reform. On the opposite end of the spectrum, more affluent nations rely on accountable systems to procure resources for GDP growth.

Accountable supply chains offer the benefits of transparency across markets. Emerging agricultural supply chains allow farming operations to monitor resources and production at incredible levels of detail. The advent of the Internet-of-Things (IoT) has revolutionized supply chain management most of all. IoT systems enable interdependent computing devices to collect, aggregate, monitor, and report logistics data into massive streams of information. Data scientists with access to this information “fire-hose” train artificially intelligent machine learning systems. AI systems allow for comprehensive analysis of immensely complex systems that are far too large for manual computation, facilitating procurement of equipment and resources with a zero-waste goal. Minimizing waste correlates with a gain in domestic production yields relative to the expense of production. In addition, it protects the environment. Moreover, IoT information pipelines provide accountability for the sourcing

Overall, revenue system reforms offer measurable benefits to governments that are willing to unify today’s fragmented systems. The undeniable benefits of unity come at a cost, however: many such systems require several years of assessment, prototypical implementation, and iterative rollouts to properly encompass the full scope of governance in revenue systems management. Most importantly, they require cooperation. However, once deployed, their development continues indefinitely over many cycles.

and management of resources to the end consumer, with clear gains in value. As an example, today’s industrial agriculture operations monitor equipment, fertilizer, water, climate, and soil yields for nearly every industrial crop. Farmers can anticipate yields and restrict the application of costly materials using statistical analysis with a high degree of precision.

Accountable procurement leads to better value. DLT systems provide a backbone for collecting archival transaction data within advanced supply chain systems. Producers that provide stakeholders with transparent information see gains in the value of their goods in global markets that are directly correlated with accountability. Consumers are especially sensitive to value-added perception when producers provide access to food supply chain data. For example, government-subsidized commodities that make use of Quick Response codes allow consumers to scan and discover the product history—for example, facts about origin, transport, and handling from the source to the market shelf. Soon it may no longer be sufficient to identify origin alone with a “made in” label. Products with traceable histories will continue to replace those with black-box origins. The data generated in commodity production and distribution will serve as the ledger for added value on the market shelf. An organic fruit will be distinguished by its historic ledger rather than by brand alone. Although this may sound like an expensive undertaking, it is not. The technology is already in use today and it scales horizontally across products (that is, it does not need to

be reinvented for every type of product on the market); only the labelling changes at the end point for consumers.

The ability to access information in real time is another important aspect of Govtech procurement system reform. Resource procurement extends well beyond commodity goods. Military, infrastructure, humanitarian, and health services will capitalize on the same patterns in commodity supply chain management as DLT matures and proliferates

across sectors. DLT affords aid organizations and governments alike the ability to monitor transaction data in real time and make decisions based on present states, accessed with push-button convenience from Internet-connected devices. Real-time accountability will replace delayed audit and reconciliation. Bad actors will face barriers to corruption that will effectively make corrupt practices a thing of the past.

Governance

Legislative reforms are coupling technology with enforcement and consequently surfacing conversations around ethics reform. As Govtech reforms spawn a new generation of innovation, we must think carefully about the role that we want emerging technologies to play among citizens and governments, taking into consideration degrees of accountability, data usage, privacy, and ethics. Private innovation of Govtech systems requires oversight to ensure the development of accountable systems through accountable means. At the same time, the rapid innovation in private tech is a cornerstone of high-growth potential and profits. We will need to seek an equilibrium between growth and governance.

More money does not necessarily mean more advanced technologies and better results. Private corporations have an obligation to shareholders to advance returns on investment. As governments face pressure to direct funding into innovation, they risk spawning a generation of powerful start-ups whose thirst for revenue exceeds their desire for introspection and oversight. To address this issue, governments are forming Data Ethics and Innovation committees that engage in regulatory discourse, establish independent oversight, formulate Govtech policy, and design systems for sandboxing potentially disruptive technological advances. Responsible

systems of oversight enable responsible spending on investments.

There is no denying the value of the Govtech market to private corporations. Estimates of the total value of the global Govtech sector fall between \$502 billion and \$1.2 trillion annually. Such valuations attract large budgets for ambitious projects at a massive scale. However, smaller investments can yield effective improvements to public sector technologies. Governments can take advantage of small private firms for experimental developments and expand over a longer period. This creates a small- to mid-size business marketplace for innovators at the fringes of big-tech giants. It also diversifies the market for innovation, leading to a healthier ecosystem of standards and best practices as common trends emerge through many successful development cycles.

Overall, good governance of Govtech has a ripple effect with global impact. Sound, small-scale technology investments yield knowledge that is also applicable to large-scale systems. As governments establish trust with citizens and private sector innovators, the impact will expand across borders as nations share common solutions to problems around the world.

Commerce

Governments are aiming reforms at legacy banking systems that suffer from fragmentation. Central bank regulation reforms are enforcing more accountable commercial transactions as cross-border payments grow steadily. Cross-border payments demand costly verification and settlement periods, which causes delays and reduces the overall value of transactions. Data standards, protocols, and manual processes require costly data conversions that often require further manual intervention. Moreover, governments are feeling added pressure to invent novel solutions for global capital markets because of varying regulations in anti-money-laundering, counter-terrorist financing, know-your-customer, and reforming capital financing requirements. Thus, the long-standing fundamental “correspondent banking” model for high-value payments in cross-border commerce is being replaced by more unified tokenization models common to DLT.

Banking systems are evolving through advances in technology standards adopted by many countries and managed within a sophisticated international governance framework. Central banks are reforming legacy real-time gross settlement (RTGS) infrastructures that are at the core of the global central banking system. By using International Organization for Standardization (IOS) messaging standards, the SWIFT global payment initiative delivers harmonization in cross-border payments systems. However, standardized messaging is limited to specific jurisdictions, and these standards are focused only on specific aspects of cross-border payments.

Therefore, a consortium of international banks uniting under the Monetary Authority of Singapore and the Association of Banks in Singapore is developing a decentralized token-based platform for cross-border exchange. This includes a more comprehensive network of standards that conform to the Principles for Financial Market Infrastructures. This system is designed to protect the integrity of commerce between not only nations, but also the citizens of participating nations, leading to better use of financial resources.

Currency is a medium of exchange for goods and services. At least three primary models of cross-border exchange under

consideration since 2018 use a form of wholesale central bank digital currency (W-CBDC). The first entails common messaging protocols and ISO standards between central banks within countries—the current standard. The second requires that foreign governments open “nostro” accounts that reconcile via their home currencies within domestic banks and share a common digital ledger worldwide. Commercial operators may opt to implement DLT. However, here conventional payment and settlement remain vulnerable to the changing demands and operating constraints common to current systems (i.e., human working hours, validation, and policy consensus). The third model incorporates W-CBDCs as tokens for interoperable exchange between banks within and between jurisdictions. This evolution in commerce allows improvements that alleviate many of the issues that plague commercial transactions across all banking systems worldwide. In particular, transactions may settle on a peer-to-peer basis 24-7 and operate in parallel with existing RTGS platforms. Because the operating standard requires that Nostro W-CBDC accounts share a common ledger, accountability by consensus is enforced. Despite the clear benefits, however, the implications are unprecedented and therefore require impact analysis.

The future of a digital, universal, and national central banking currency is hopeful despite the inherent challenges. However, the idea that a tokenized currency may facilitate trading for purposes other than transactions concerns regulators deeply. For example, speculation and hoarding could affect price, and thus the utility of the token. Therefore, there will need to be intrinsic protections within the operating infrastructure. This is the cutting edge being implemented by the creators of Jasper-Ubin, an open source project in the UK, Canada, Singapore, and Malaysia.

Reforms are also introducing positive changes for citizens. Microfinancing reforms that leverage big data systems are helping support access to finance, particularly for women and those outside the formal banking sector. The Grameen Banking System provides access to micro-loans via mobile phones connected through software applications. The

Grameen system will inevitably turn to DLT for accountability and authentication of transactions over the long run, borrowing lessons learned from central banking systems. The

benefits of accountability and authenticity within all these systems cannot be understated.

Security

Security reforms are paramount in an increasingly connected world where political interests are fragmented. Whether or not nations decide to unite to confront mutual interests, the security of information remains a top priority. Today computers and people are more connected by the Internet than ever before. Humanity is navigating unprecedented levels of misinformation as our connectivity indiscriminately gives everyone a voice. It is estimated that the Internet generates over 2 exabytes of data per day (approximately 1 billion gigabytes), and 90 percent of all data in existence today were created since 2016. All aspects of human operations are exposed to influence by anyone with Internet access, regardless of their motive. Security extends beyond lock and key in this age; it is important for governments to be able to protect classified intelligence, election systems, and free speech. At the same time, it is no longer sufficient to think of security as data encryption behind firewalls; security now means authenticating data from their inception to ensure full integrity at their consumption.

Authenticity is the pinnacle of security. Historically, government records were stored in vaults where only those with clearance could access archived data. With digitization, vaults evolved into computing systems commonly stored in government offices, under desks, and inside utility closets at worst, and at best in dedicated server farms—refrigerated data centers with thousands of hardware servers. Today's governments can easily encrypt data in short order, but attackers still manage to decipher encrypted archives. Governments such as Estonia capitalize on DLT, which links one block of encrypted transactional data with the next in a blockchain. To sabotage any block of data, an attacker must also change all the blocks linked after the compromised block. And because every participating computer has a copy of all the linked blocks—called a ledger—any attack on the government blockchain fails for lack of consensus. Thus, the blockchain can serve as a structure of authenticity for government record-keeping. The

promise of DLT and blockchain in classical computing terms may advance significantly with the advent of quantum computing. Recently, Google—with validation and support from the US Energy Department National Laboratories, NSF, NASA, NIST, Defense Department, and many other US federal agencies—announced proof of quantum supremacy: that is, engineers asserted that a quantum machine will compute in 300 seconds what a classical machine takes 10,000 years to do. Quantum supremacy also means that large quantum machines will eventually decipher our current encryption models in seconds. This is just evolution at work; inevitably new quantum encryption standards will emerge to protect information.

For the near future, quantum will remain expensive and highly specialized. Although the US and China are leading the efforts toward a quantum future, the countries are not working together. The US is providing public funding in cooperation with private entities to encourage innovation while leaving bureaucratic oversight and assurances in the hands of private entities. In contrast, China maintains that innovation is the result of government funding, public mandates, and bureaucratic plans. The US Government maintains that it will not determine how to apply the newfound knowledge through administrative committees, but this does not prevent governments from leveraging this technology for the advancement of their international influence among developing nations.

Security in big data also requires significant consideration. Governments are unifying departments and provisioning computing resources across large geographic regions and municipal boundaries using big data systems. Whether data are stored in-cloud or on-premises, access control to data is a large part of the security puzzle. In big data operations, enterprise resource planning plays a major part in the daily

operations. The widely distributed networks of account and the archives that accompany them are secured with access control policies that must allow for a variety of individual and group roles. Many of these systems may operate behind government firewalls, sheltered from the Internet. Therefore, access control and encryption protect data from unauthorized internal sources.

Historically, every disruptive technology ever invented began with simple proofs that escalated exponentially. Fear and resistance to change stifled initial adoption as new

technologies were sometimes used nefariously. Resistance then gave way to acceptance. This pattern may be considered inevitable with any new way of doing things. For Govtech, security is at the cusp of a reformation. It is inevitable that DLT will take advantage of quantum computing across large scale geographies, potentially enabling the ability to authenticate the origin and consistency of information at an unprecedented scale and with unparalleled accountability. This will allow data proliferation at a global scale for the benefit of all.

Conclusions

Govtech reform must embrace the ongoing technological evolution. New forms of thinking and broader unifying perspectives are emerging in government and commerce, and advances in technology are improving man-made systems. Technology is helping humans to stabilize our global economy despite ongoing struggles with climate and our human planetary impact. Rather than label technology as something superior to and separate from humanity, we may embrace it as a consequential stage of development in a mutually beneficial relationship between humans and computers. Governments are realizing the importance of managing technology responsibly: with integrity, authenticity, and accountability.

Forward-thinking governments face many disruptive forces to their traditional governance systems. Although the underlying economic mechanics remain relatively unchanged—trust, trade, competition—the mechanisms evolving out of the technology sector (AI, quantum computing, DLT) are changing the playing field significantly. Artificial intelligence will transform our ability to process copious amounts of information and will assist human decision-making while reforming mundane and manual processes with decision automation. Quantum systems will change our understanding of information as

existential reality and carry out computation at unprecedented speed and scale. Distributed Ledger Technology is providing two channels of transformation: enabling alternative markets for currency that acts as a hedge against fiat in unstable economies, while in parallel providing distributed accounting systems that are revolutionizing central banking, health care, procurement, agriculture, and logistics in both the private and public sectors.

There are no aspects of governance that will remain untouched by the unfolding impact of these technological advances. If governments are to remain fully qualified to apply these advances in a practical and pragmatic way, policy reform and commitment must be at the forefront of the discussion. In considering evolving governance practices, governments must act with an open mind, a keen eye on the private sector, expansive long-term thinking, and a growth-oriented mindset. In all cases, considerations of authenticity and accountability lie at the heart of Govtech reforms.

The case studies in this chapter explain how Turkey, the UK, and Moldova have applied technical solutions to some of today's service-delivery challenges.

CASE STUDY 6.1

Turkey: Electronic Public Procurement

AHU MERYEM ERDOGAN, PUBLIC PROCUREMENT AUTHORITY OF TURKEY

CONTEXT

The establishment of an electronic public procurement system in Turkey and the operation of the procurement platform are carried out by the Public Procurement Authority (PPA), established by the Public Procurement Law (No. 4734) in 2002. The PPA has administrative and financial autonomy. It is a public authority with legal personality, and a regulatory and supervisory body in the public procurement area. Besides being responsible for the regulation and review of procurement procedures, the PPA has other duties such as providing training to stakeholders, compiling and publishing statistics on public procurement, running the e-procurement system, and publishing public procurement bulletins.

One of the reasons for preparing this new law was to adapt to international instruments on public procurement such as *EU Public Procurement Directives* and *WTO Agreement on Government Procurement*. The law establishes the principles and procedures to be applied in procurements by all public entities and institutions governed by public law or under public control or using public funds. The basic principles of the law are transparency, competition, equal treatment, efficient use of resources, reliability, public supervision, confidentiality, and fulfilment of needs appropriately and on time. Among the main objectives of the PPA are to have an effective and efficient public procurement system and to ensure the sustainability of this system. To improve the public procurement system, electronic procurement tools are used at various stages, from the preparation of the tender documents to the evaluation of the tenders.

Work to establish an electronic public procurement system began with the “e-Transformation Turkey Project,” published in 2003. The PPA, as one of the public institutions that use

information technology, started working on electronic tools to facilitate the correct implementation of procurement transactions, which led to the establishment of the Tender Information System in 2003.

IMPLEMENTED ACTIONS

With the aim of better utilizing electronic tools in public procurement, the legal and technical infrastructure for establishing an electronic public procurement platform (EPPP) was initiated in 2009. In 2010, the platform became operational and began to fulfill its core activities, particularly the preparation and publication of tender documents and tender notices. In 2013, electronic submission and evaluation of bids was made possible for some contracts. In 2015, it became compulsory for domestic vendors to register on the platform to participate in public procurements, and notifications to vendors began to be sent through the EPPP. The contracting authorities, natural persons who are citizens of the Republic of Turkey, and legal entities established under the laws of the Republic of Turkey must register with the EPPP. In 2016 electronic submission of tenders and vendors’ self-declarations about their qualifications started. E-auction was included in 2018, and the scope of electronic tender submission was expanded in 2019.

Transactions conducted on the EPPP. A wide range of procedures and transactions are carried out on the EPPP. The contracting authorities conduct or register all transactions, from the beginning of the procurement to the announcement of contract award results.

Tenders must be registered on the platform, and a separate tender registration number is assigned to each one. Any transaction related to the tender uses this number. Once the tender is registered, tender documents—specifications, a

draft contract, and other standard documents—are prepared. Then a tender notice is prepared and published in the Public Procurement Bulletin via EPPP. The tender document is accessible on the EPPP, as are addenda and clarifications to tender documents. A tender commission that is responsible for carrying out all the processes in the tender is established and registered on the EPPP.

The applications or tenders received from vendors are recorded on the platform, and necessary records are prepared for the evaluation of the tenders. To facilitate the thorough evaluation of tenderers, the platform is designed to obtain information about their qualifications from other relevant electronic systems. The PPA has established cooperation with relevant institutions and organizations to obtain information related to the participation and qualifications of the tenderers directly from them; protocols on integration have been signed with such relevant institutions as the Social Security Institution, Ministry of Finance, banks, Council of Higher Education, Union of Notaries, and so on.

Contracting authorities must also use EPPP to inquire whether vendors are on the blacklist (a list of those who are prohibited from participating in tenders). Contracting authorities' notifications to tenderers are made through the EPPP. Finally, information about cancelled public procurement procedures and the results of contract award decisions are also recorded on this platform. Access is provided free of charge.

RESULTS

In 2016, electronic submission of bids, together with tenderers' self-declarations about their qualifications, was allowed for public contracts below a certain threshold. This improvement made it much easier to submit tenders, which are formed, signed, and sent via EPPP. At the beginning, e-tendering was limited to certain procurement procedures and to contracts below a certain value. Because the contracting authorities and the tenderers appreciated the new system, other useful amendments were made in the following years. One such improvement was the elimination of the contract value limit and procurement method, making it possible

for the contracting authorities to use e-tendering on all public procurements.

In 2018 the electronic auction was introduced to the public procurement system. This e-procurement tool may be used, at the discretion of the contracting authorities, after the initial evaluation of tenders. In e-auction, the tenderers who submitted valid tenders are allowed to compete in the electronic environment over the new tender prices or new non-price elements. All matters related to the application of e-auction must be specified in the tender notices and the tender documents. E-auction can be used in the procurement of goods, services, and works when an open procedure or a restricted procedure is applied. At every stage of the e-auction, information about current rankings is instantly communicated to the tenderers; however, the identities of the tenderers are not disclosed during the auction.

Various pieces of information about the performance of contracts is recorded on EPPP to facilitate good management, and to provide data for later analysis. In this regard, EPPP captures information such as additional/deducted works/services/goods, price adjustments, termination of contracts, and contract transfers. Inquiries about contract transfers and preparation and recording of work experience certificates can also be processed through EPPP.

LESSONS LEARNED

With the establishment and operation of the EPPP, Turkey saw significant benefits. Conducting public procurement processes through the EPPP accelerates the procurements compared to traditional procurement procedures carried out through printed documents. It reduces the risk of making a technical mistake and improves legal compliance. It also improves competition and transparency, as it facilitates vendors' access to information on public procurement procedures.

E-procurement generates important savings for both the contracting authorities and the tenderers. The contracting authorities are no longer obliged to prepare the tender documents in paper, so they avoid printing costs. Communication with tenderers in an electronic environment saves time and money for contracting authorities. Important savings

in contract prices are achieved, too. In addition, managing procurement procedures on EPPP simplifies the tasks of the contracting authorities. For tenderers, use of the EPPP reduces the cost of tendering; they can submit their tenders in electronic form, saving time and transportation costs compared to paper-based procurement.

One last lesson: in the process of introducing e-procurement, comprehensive training should be provided to stakeholders and training content should be continuously updated to ensure the effective use of e-procurement. Information and communications technologies advance quickly, so the technical infrastructure should be modernized regularly.



Photo: © World Bank.

CASE STUDY 6.2

United Kingdom - Digital Transformation in the UK Public Sector

ALEX SEGROVE, HEAD OF INTERNATIONAL DELIVERY, GOVERNMENT DIGITAL SERVICE

CONTEXT

In 2010 the UK government had over 1,800 websites, and the government's annual IT costs were £16 billion – *1 percent of the country's total economy*. Citizens found it hard to interact with the government online, to find the information they needed, and it was unclear that value for money was being delivered. Politicians on all sides recognized that the UK needed to make a change.

The then-Minister for the Cabinet Office, Francis Maude, asked Baroness Martha Lane Fox, in her role as UK Digital Champion, to conduct a review of the main Government website of the time, Directgov. A “Strategic Review of Directgov” was later published as a four-page letter titled “Revolution not evolution.”

Fox had higher ambitions for the UK, saying, “You asked me to oversee a strategic review of Directgov...I have not reviewed Directgov in isolation, but as part of how the government can use the Internet both to communicate and interact better with citizens and to deliver significant efficiency savings from channel shift.”

The UK Government Digital Service (GDS) was created and given responsibility for digital in government. GDS now helps the government work better for everyone by leading the digital transformation of public services. “Everyone” means citizens, departments, and civil servants. GDS is accelerating the development of a culture of digital transformation right across the government, taking digital further than just individual transactions. By harnessing the power of technology and doing things digitally, the government has already produced services that are simpler, clearer, and faster for users and significantly cheaper to run.

A Single Government Website

The first thing GDS did was build what eventually became GOV.UK, the single website for all of government. GDS formed a core team and in just 12 weeks delivered an “alpha” or minimum viable product of a new, single website for government.

To deliver what was included in the first iteration, the team put user needs first, and focused the alpha on the top 100 user needs. If it didn't meet a need, it wasn't on GOV.UK. The UK was able to close all ministerial and agency websites and move the most useful and used content onto GOV.UK, and traffic was redirected to the single website. GOV.UK and GDS's mandate to close the old websites catalyzed organizational change and transformation throughout the government.

IMPLEMENTED ACTIONS

25 Exemplars, User Needs, and Design Principles

After the success of GOV.UK, GDS began to focus on digitizing services. It gave itself 400 working days to transform the first 25 major public services, building digital “exemplars” so good that people would prefer to use them. Some of the early transformed services were *Register to Vote*, *Your tax account*, *View your license information*, and *Renew a patent online*.

GDS worked directly with teams in departments to do this, building the skills of civil servants and educating service teams about user needs and design principles. Again, the first and most important focus for this work was putting users first. The team developed the Design Principles to provide clear, consistent design, user experience, and brand clarity for those developing sites for the single GOV.UK domain to ensure that

everyone across government understood what putting user needs first really meant.

The Design Principles were the start, and continue to be the foundation, of GDS's effort to design digital services so well that users prefer to use them. The Service Manual made it easy for service teams to find, use, and share the styles, components, and patterns they need to design and build user interfaces.

GDS's best-known work on standards is the Government Service Standard, a set of 18 criteria that services have to meet to go live on GOV.UK. The standard means that a cross-government agreement on what good services look like is in place, and the quality of services on GOV.UK remains high.

Government as a Platform

While preparing the exemplar program, GDS worked with departments from across the government, gaining insights into certain things that were common across government. It became overwhelmingly apparent that the government faced certain challenges: there was repeated need for updating people on the status of their application/passport, taking and making payments, proving someone's identity, and hosting canonical data.

The team realized that fixing digital services one by one was not going to be fast enough; they had to give departments the tools to transform their own services. Along with the service standard, GDS decided to create digital components that addressed these common problems to make things run more easily and quickly. GDS developed several common tools—called Common Platforms—that are available for the whole public sector.

- GOV.UK Pay, a common payments platform, is a secure way to pay for government services online, making it easier and more efficient for the government to process payments and saving time and effort for service teams across government.
- GOV.UK Verify is the safe and secure way for citizens to prove their identity to government online. It also supports the wider opportunity for digital identity to

grow the digital economy, prevent cybercrime and identity fraud, and enable digital transformation in government.

- A dedicated team within GDS manages the GOV.UK Platform as a service-cloud-hosted infrastructure, including networking, storage and compute resources, and services like platform-level logging, monitoring, and alerting. They are built to be shared across government. The toolkit of components aims to make services easier and cheaper to run, minimize supplier lock-in, and minimize impact on operational processes. They help departments meet the Service Standard by testing them with users time and time again on their behalf.

Reforming Spending on IT and the Market

Meanwhile, government technology suppliers were all big companies based overwhelmingly in southeast England. Fewer than 20 companies controlled over 90 percent of all contracts. Buying technology or digital services in government was hard and time-consuming, and historically some suppliers were able to take advantage of overlong contracts with government, to the disadvantage of smaller suppliers.

The solution was to establish the Digital Marketplace, a set of frameworks with common terms and conditions that make procurement simpler, for buyers and for sellers. Digital Data and technology spending controls were established to help the government stop unnecessary expenditure, deliver value for money, and deliver sustainable reform.

RESULTS

After seven years, GOV.UK remains the single government website for the UK. Successive Ministers for the Cabinet Office have said the ambition for digital government is “to transform the relationship between citizens and state.” GOV.UK is where the relationship actually happens; it is the interface between citizens and state. GOV.UK helps people to understand government by making content simple and user journeys intuitive. It helps users to self-serve, which of course helps government to avoid costly contact and casework. GOV.UK also helps government understand people. Serving millions of users every

day, GOV.UK gives GDS teams and departments valuable insights on what people need to do and how their needs can be better served.

By 2020, the UK government will have delivered at least 86 digital services, including a new digital mortgage service and an online divorce service. These services are designed to improve the interaction between government and the people it serves. Each of these services has been developed putting user needs first by using the Design Standards and following the GDS Technical Code of Practice.

The Digital Marketplace has transformed the government technology supplier landscape. From as few as two dozen

suppliers in 2009 there are now over 4,000 suppliers across the UK, over 90 percent of which are small and medium-sized enterprises (SMEs). GDS's user-centered, design-led, data-driven, and open approaches created commercial routes to market for digital, data, and technology products and services. This has allowed GDS to:

- Lower the barriers to entry to encourage a more diverse range of suppliers.
- Design out as many points of friction as possible, by understanding and meeting the needs of buyers and suppliers.
- Democratize procurement and contracting by engaging with civil society early and often.



Photo: © iStock/ anandaBGD

Spending controls have helped the UK government stop unnecessary expenditure and build a smarter, cross-government approach by leveraging central expertise and transparency, generating crown insight, identifying duplicative spending, and identifying potential for re-use. This helps organizations deliver (a) value for money—for example, supporting an organization to deliver an IT project for less cost, without reducing its scope; and (b) sustainable government reform, such as ensuring the alignment of a new digital service to the government's Digital Strategy.

GDS recognized that digital skills were not widespread among UK civil servants. Since the launch of GOV.UK, GDS has developed the Digital, Data and Technology Profession Capability Framework, which defines the roles in government and the skills needed to do them, from data science to content design. Today there are 17,000 digital, data, and technology professionals working in government across different departments; 800 of them work at GDS. GDS Academies have trained over 10,000 civil servants with courses on agile, product management, delivery management, and user-centered design.

GDS estimates that it has enabled departments to realize over £1 billion in benefits—including over £350 million in 2018/2019 alone—by scrutinizing government's digital and IT spending requests, through the application of cross-government spending controls.

The UK has over 6000 suppliers for digital in government, located around the country. Over 91 percent of them are SMEs. The G11 Framework has 4201 successful suppliers, 91 percent of which are SMEs. The Digital Outcome and Specialist 4 Framework has 3475 suppliers, 94 percent of them SMEs.

GOV.UK Notify has sent nearly 600 million notifications (letters, texts, emails) for 1,400 services in central and local government and the National Health Service. GOV.UK Pay has processed 4.27 million payments worth over £182 million on behalf of 430 public sector organization. GOV.UK Verify has over 5 million users registered to access services securely and is stopping fraud across government.

The UK is a world leader in digital government, and since 2016 has consistently ranked in the Top 5 of the UN E-Participation Index, the OECD Digital Government Index, and the E-Government Development Index. The Digital Service Standard is seen as an exemplar of best practice worldwide, and countries such as Australia and the USA, and local government digital, have chosen to base their standards on it.

LESSONS LEARNED

- Start with user needs, not government needs. Services designed around users and their needs:
 - are more likely to be used.
 - help more people get the right outcome for them – and so achieve their policy intent.
 - cost less to operate by reducing time and money spent on resolving problems.
- Make things open, it makes things better. Open source, open data, open standards, open communities, open markets, open culture. An open approach means that things are easier to share across government, are easier to maintain and to scale for future use, are less dependent on single third-party suppliers, and provide better value for money.
- Build teams, capabilities, and products – not projects. Build skilled, multidisciplinary teams and allow them to approach problems in a way that meets users' real needs. Resource these teams to continue to work on their products.
- Solve problems once – allow service teams to solve unique problems. Shared components make it easy for government organizations to assemble services. Ongoing iteration of these tools based on user research will ensure that systems do not fall into a legacy state.
- Transform procurement to make the playing field level. The GDS Digital Marketplace has made becoming a supplier simpler and faster, so that businesses of all sizes can work across the public sector.
- Checks, balances, standards, and guidance allow transformation efforts to scale across government. These tools enable consistency of user experience and keep content and service quality high.

CASE STUDY 6.3

Moldova: GovTech and Modernization of Public Services

IURIE ȚURCANU, CHIEF INFORMATION OFFICER, GOVERNMENT OF MOLDOVA

CONTEXT

The history of electronic governance in the Republic of Moldova began in 2010 when the Government became aware that it was behind in the use of modern technologies and decided to implement a comprehensive program of technological modernization of the public administration. The Government sought the World Bank's help in financing this process. In late 2010 the Government set up the e-Government Center, the main information office for the country. In September 2011 the Strategic Program for Government Technological Modernization was approved and given the name *e-Transformation*.

e-Transformation has several priority directions: promotion of open governance principles, digitalization of public services, reengineering of public services, improvement of operational

processes, delivery of multichannel public service, a common government technology platform, consolidation of data centers, implementation of digital governance enterprise architecture, implementation of the interoperability framework, provision of information security, provision of IT capacity building in the public sector, selection of smart investments in IT in the public sector, and, of course, the creation of a favorable regulatory framework.

The program that produced e-Transformation was more concise and pragmatic than its predecessors. At the time of the earlier program the state's information resources contained insufficient information about public services. No one knew exactly how many public services the state provided, and most of the available information was full of errors and inconsistencies. Only a few simple electronic services were available online. Information about public services was scattered through several so-called portals, each with its own style and manner of presenting information. For example, it was not possible for consumers to pay for services online; the only way to pay was at the bank's counter and then to present the receipt at the service provider's counter. The possibility of requesting public services online was very limited

IMPLEMENTED ACTIONS

One of the first e-governance components developed as part of e-Transformation was the Public Service Portal, conceived as the main point of convergence for access to public services online. Initially it contained information about more than 580 public services. Service providers keep the information on the portal updated, and along with service information the portal contains links so users can make requests online for electronic services.

As part of the e-Transformation project, the e-Governance Agency developed and put into operation a set of centralized





government microservices, which are provided to public authorities as Software-as-a-Service (SaaS) services to help develop sectoral e-services.

Each of these microservices performs a specific functionality necessary for the operation of electronic services. For example, government MPass authentication service is used to authenticate and authorize users in information systems. MPass replaces all authentication pages based on username and password authentication of connected e-services, thus upgrading them with strong authentication based on electronic identity with digital certificates.

The MSign signature government service upgrades connect e-services with the possibility of applying digital signatures to electronic documents and electronic transactions. Each time a public e-service needs to accept a signed document, it passes the control to Msign which makes sure that the user signs the document appropriately with any available signing device.

Thus, used for authentication and digital signing, the electronic identity is the key to providing consistent and reliable e-services. To make it more accessible, in 2012 the Republic of Moldova became one of the first countries in the world to implement Mobile eID, for which it used the innovative public-private partnership (PPP) model. In recognition of Moldova's embracing technologies as an opportunity to tap the potential of mobile phones to improve government initiatives, the Government of Moldova was awarded the Best m-Government Award by the GSMA during the 2013 Mobile World Congress in Barcelona.

Like MPass and MSign, the government payment service MPay is a centralized service that can collect payments for e-services from their users with any means of payment—bank cards, e-money, i-banking, cash, and others. Using MPay, public service providers can collect fees, taxes, and other types of

payment without having to deal with the complexity of banking and payment card infrastructure.

Another useful microservice is the journaling service, MLog. MLog records all important business events occurring in various information systems in a separate centralized event log for non-repudiation and for further analysis of data. Also, MLog is used to inform citizens who accesses their personal data.

The implementation of centralized government services in the form of microservices has several benefits. First, the reuse of services increases the overall reliability of the e-government infrastructure, as fixing functionality or security problems in a centralized service directly fixes it in all sectoral services connected to the microservice. Second, the provision of centralized services is more economically efficient, as it leads to much lower management and maintenance costs, especially when using application virtualization technologies for deployment automation and granular scalability. Third, and this is a very important issue, the centralized implementation of services contributes to an efficient functional extensibility – sectoral services must not change every time we introduce new functionalities into centralized services. For example, to add new ways to pay for public services, there is no need to modify all sectoral services integrated with the MPay service.

At the same time, to be able to host efficient and secure electronic services, the Government has implemented the shared government technology platform MCloud based on cloud computing paradigms and technologies. MCloud is a full-fledged cloud that has all the characteristics and most of the core features of a typical cloud, implemented on the scale and for the needs of public administration in Moldova. To leverage the potential and cost-efficiency of public clouds, Mcloud is being hybridized.

In 2014 the Government launched the interoperability platform MConnect. This platform is the core of the technology

layer of the national data exchange framework, built on the principles of the European Interoperability Framework.¹ MConnect is based on an intelligent service bus that is highly configurable and can effectively exchange data between connected institutions. Following the implementation of the data exchange platform and drawing on the results of a dedicated pilot, Parliament adopted a law on data exchange and interoperability, setting out a clear and simple institutional model for data exchange.

One of the key success factors for the sustainability of digital transformation in Moldova was the ability of the e-Governance Agency to balance between implementing services that are visible to citizens and businesses and those that are equally or even more important but are not directly visible to end-users. Focusing exclusively on politically attractive services leads to a symptomatic and siloed approach to e-governance, incurring high sustainability risks on the long run. Thus, along with the microservices and centralized platforms, during the e-Transformation project several sectoral e-services were implemented in close partnership with relevant public authorities. Some of the implemented e-services can be considered quick wins that have a high degree of impact, have many users, already have the business processes defined, and have all the infrastructure needed for service provision.

Since the provision of electronic services cannot be conceived without data in electronic format, two important data sources were digitized: the archive of civil status documents with more than 14 million paper documents, and the archive of cadastral documents with more than 20 million documents. Digitization was not limited to scanning documents, but also included indexing to make them searchable and available upon request.

Increased attention has been paid to creating ICT capacity in the public sector. During the e-Transformation project more than 5000 civil servants from all state authorities were trained in various digital transformation topics, such as the development of software products for the public sector, project management, and cybersecurity.

Implemented digital platforms and services, digitized administrative data sources, and trained public servants make the

Government more prepared to provide high-quality electronic public services. In consideration of the progress already made, in 2018 the Government requested the assistance of the World Bank in implementing a comprehensive Modernization of Government Services Project.

Modernization of Government Services Project

2Modernizing public services means rethinking them to make them citizen-centric and remotely accessible. The Government decided to stop investing in digitization of inefficient public services which just transposes paper-based processes into digital. Before digitization, the services must undergo a complex reengineering exercise. Broadly speaking, the modernization process consists of four stages (Figure 6.3-1).

The first stage is the rationalization of public services. At this stage, all outdated services are discontinued and similar services are consolidated.

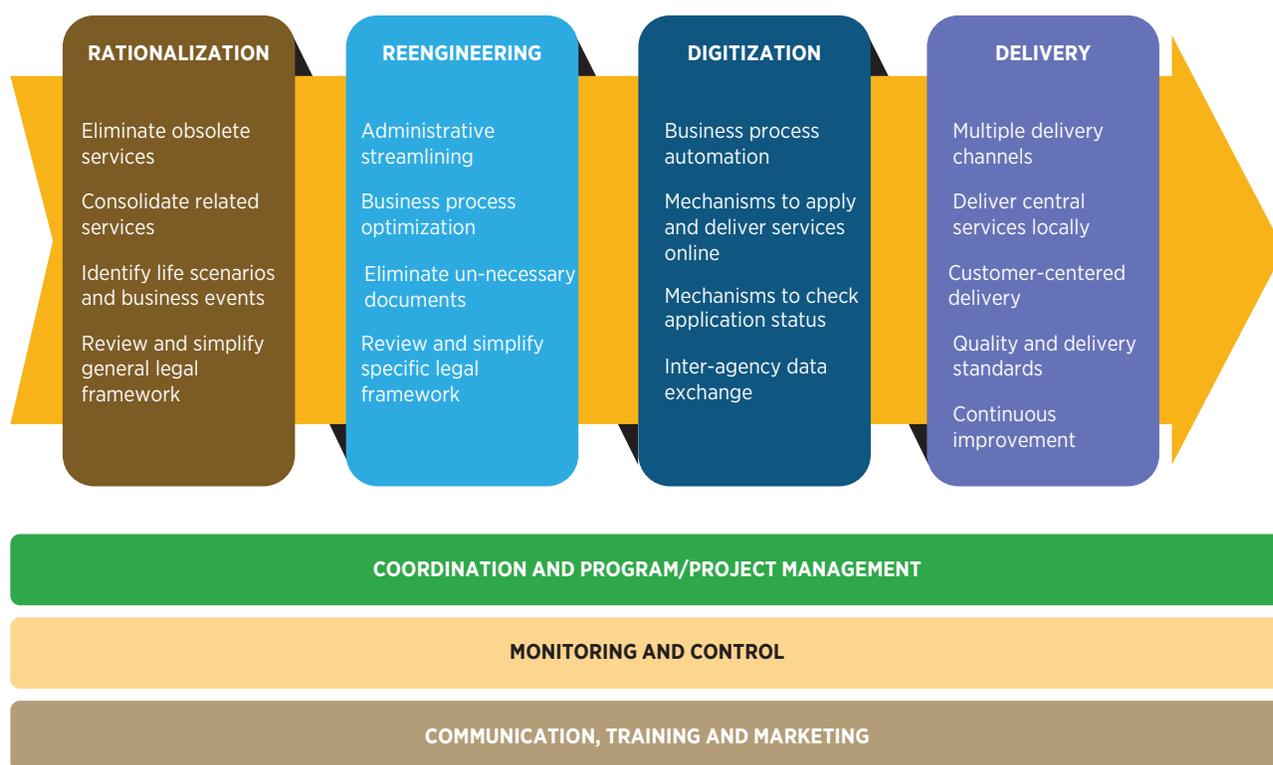
The second stage is the *reengineering of services*—that is, fundamentally rethinking and radically reshaping processes to significantly improve service performance indicators, including cost, accessibility, and speed of provision. At this stage, a service is taken from the list of services remaining after the *rationalization stage* and remodeled according to a government-approved reengineering methodology. As part of reengineering, the underlying business processes are streamlined and optimized, and unnecessary documents are eliminated. The process begins with a multilateral analysis of the current service model that covers functional aspects (value to citizen), technological aspects (technology components used to provide the service), legal aspects (the regulatory framework for the service), operational aspects (resources involved in daily provision of the service), and other related aspects. This model is known as the *AS-IS model*. Then, using special techniques, the *TO-BE model* of the service with streamlined and optimized business processes is developed. The TO-BE model also describes the functional, technological, legal, operational, and economic aspects.

Service reengineering is based on the following five principles: citizen-centricity, omnichannel service delivery, simplification

¹ Manoil, Vlad; Turcanu, Iurie; Bujoreanu, Luda. 2018. *Moldova Mobile ID Case Study (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/279851545919735993/Moldova-Mobile-ID-Case-Study>

² European Interoperability Framework (EIF). 2017. https://ec.europa.eu/isa2/eif_en

FIGURE 6.3-1.
Key stages of the modernization of Government Services Project



and standardization, minimum documents required for the provision of the service, and use of IT solutions.

After reengineering, the service moves into the third stage, *digitization* (see previous figure). Digitization involves automating business processes, developing mechanisms for online service request and delivery, checking the status of service requests, and automating data exchange with relevant administrative data sources.

The fourth and the last stage in the process of service modernization is *service delivery*. Delivery of the modernized service relies on the use of multiple delivery channels of the citizen's choice, high accessibility to the service, compliance with the service level agreement (SLA), and continuous improvement of the service.

Since the service modernization process is a complex one, it requires efficient coordination and change management at all stages. Also, it relies on efficient monitoring and control mechanisms as well as communication, promotion, and capacity development.

RESULTS

The efficient use of platforms and services developed in the e-Transformation project, as well as techniques for service enhancement applied as part of the Modernization of Government Services Project, contribute to highly satisfactory results in the development, the provision, and especially the use of electronic public services. The development of sectoral services has become simpler and faster, and citizens' confidence in online services has significantly increased. Thus, the adoption rate is over 75 percent for all electronic services developed in projects. At the same time, because of the automated data exchange between state organizations, the number of permit acts has gradually decreased from about 470 in 2015 to about 130 in 2019.

Some state institutions have completely excluded paper in their service provision. For example, business reporting to the tax authority is exclusively electronic, and the number of electronic signatures is about 2.2 million each month.

Most public services can be paid for with any payment instrument available in the country—bank cards, online banking,

electronic money, and cash. The fees collection costs for public services have decreased by 83 percent, from about MDL 23 million in 2013 to about MDL 4 million in 2019.

Because of the development of electronic services and the diversification of digital electronic identity tools, the cost for the digital signature kit decreased from about US\$100 in 2010 to about US\$10 in 2019, and the number of e-identity subscribers increased from 50 in 2010 to about 200,000 in 2019. At the same time, the transaction cost for mobile signature (which is a legally qualified advanced signature) starts at about US\$0.01.

Since 2014 the government's MCloud platform has generated savings of more than US\$10 million. The electricity cost for data centers and server equipment has been reduced by about 40 percent.

LESSONS LEARNED

Enterprise architecture plays a very important role in implementing digital transformation. The lack of a comprehensive view of electronic governance leads to inconsistency problems in the implementation of electronic services and information systems, and subsequently to poor quality of services, with high maintenance costs.

Use of open standards. One of the mistakes governments make is to develop their own standards for different technological components, such as their own cryptography for digital signature, their own data exchange protocols, data retention formats, and so on. This approach appears to offer a security advantage, but it can easily lead to technical incompatibilities and technological isolation, and subsequently to high costs of developing and maintaining digital solutions.

Reuse of services, platforms, and infrastructures. For the efficient development of digital services, it is necessary to reuse existing infrastructures, platforms, and services. For example, in Moldova, the implementation of the Mobile eID was possible because of the reuse of existing public key infrastructure, while the implementation of MPay relied extensively on existing inter-banking data exchange. Ignoring these existing infrastructures would have made the development of those services very difficult or even impossible.

Leverage the power of partnerships. The digital agenda of the public administration is complex, and its implementation requires a great deal of effort and time. A good practice is to publish the agenda and let other partners follow in digitizing services. The e-Governance Agency established trusted relationships with many nongovernment and private organizations that were willing to contribute to the process in the areas of their expertise.

FIGURE 6.3-2.
Service reengineering principles



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