

**Joint Double Diploma Master Program in Economics and Management of Public Sector  
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**Management of Public Sector**

**MASTER THESIS**

**Application of private sector standards, strategies  
and tools to the public sector in Bosnia and  
Herzegovina**

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**Sarajevo/Ljubljana, 05.12. 2011.**

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## **STATEMENT**

I, AIDA SOKO, do hereby certify to be the author of this Master's thesis written under the mentorship of Professor Dr. Jelena Zoric. In compliance with the Article 21, paragraph 1. of Law on author's and related rights, herewith, I agree with publishing this thesis on the web site of the Faculty of Economics, University of Ljubljana.

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# INTRODUCTION

## *Description of the problem*

As a result of many compromises, in 1995, Dayton peace agreement defined very complex and big administrative structure of Bosnia and Herzegovina (BiH). There were some symbolical efforts to make this structure efficient by harmonising legislation on different administrative levels (state, entity), but the results are very limited. The overall environment is unfavourable for growth and development, regardless of the sector and ownership type the same problems arise in public and private sector. The role of government becomes crucial as the process of privatisation is slow and inefficient, so the government is accountable for many areas besides the traditional role that shall be played. The basic principles, standards and tools are not introduced in carrying out activities neither in private nor in public sector. Lack of application of private sector standards, strategies and tools in overall economy led to further and fast deterioration of the financial and institutional capacity of companies and institutions. Unfortunately, this applies to many companies and institutions regardless the sector they operate and large number of companies and institutions are managed as social institutions driven by very short term goals and neglecting the need to run its activities on at least sustainable basis.

Such environment is in urgent need of modern and effective public administration to move on from the current situation and accelerate progress in the EU accession process. The main backbone of the thesis is to explore applicability of modern concepts in public administration in the complex environment of BiH. The main concept that deals with adoption of private sector standards into a public sector is known as *new public management* (NPM). This concept has been introduced in late 80's and since then, a lot of experience has been gained and lessons learnt, but with focus on the several countries like UK, Australia, and New Zealand which are considered to be core NPM countries. There is also some limited analysis of reforms in EU countries, but very little was done in terms of comparative research in other countries, in particular developing countries, the ones on the way to the EU accession.

Recent reports analysing the progress of public administration reform in BiH record very little progress. In particular, EU progress report 2011 is very critical in regard to the status of public administration reform. In order to ensure reliable analysis, it is important to take a broader view and make comparison with the SEE region, developing and developed countries in general. The research therefore compares the public sector reforms experiences using the standards defined by international organisations such as OECD, UN, etc. Furthermore, the research aims at providing thorough analysis of the current status of the public administration reform in BiH, the barriers for faster implementation of the reforms in BiH and applicability of best practices from developed countries and countries comparable to BiH.

## ***Purpose and objectives of the thesis***

The purpose of the thesis is to evaluate to which extent the public sector in BiH has been successful in implementing private sector tools, strategies and standards, and to provide suggestions for further reforms. The main focus of the research is on the public administration reforms which are analysed by using comparative analysis of the reforms path in public management in SEE region, developing countries in general as well as selected EU countries aiming to confirm that there are no structural barriers to implement modern concepts in BiH. As a basis for the research work the three hypotheses are set:

H1: The success of application of private sector standards, strategies and tools in public sector of BiH is a subject of appropriate customisation of the standards, strategies and tools, to the specific needs of public sector and specific needs of BiH.

H2: In comparison to other Balkan countries, BiH is slower in implementing public sector reforms.

H3: Accession process to the EU is an important push factor in implementing public sector reforms and enhancing public sector performance.

To test these hypotheses, three main questions shall be answered: 1) How may the private sector standards, strategies and tools be successfully applied in public sector of BiH? 2) How is BiH progressing in public sector administration reform in comparison to other Balkan countries? 3) What is the role of EU accession process in terms of accelerating public sector reforms?

In order to provide basis for comprehensive and thorough analysis it is important to set objectives to enable understanding of the context and relevance of different factors that may influence specific environment of BiH. For the purpose of research work, the following objectives are defined:

1. To assess the basic differences between public and private sector and their influence on the adoption of private sector standards, strategies and tools into public sector in BiH;
2. To understand the specific challenges of developing countries in adopting private sector standards, strategies and tools in public sector;
3. To analyse the current status and plans of BiH in terms of implementing reforms in public sector;
4. To compare the current status and plans of BiH in terms of public sector reform, with the countries in the region and developed countries;
5. To identify possible structural barriers in implementation of public sector reform and application of private sector standards, strategies and tools into public sector in BiH.



## ***Methods of the thesis***

The complexity of BiH reduces available methods for research work, in particular for qualitative analysis. The lack of publicly available data is a general problem and the process of obtaining data from public sector institutions is very slow and formal and usually without success. Some data are partially available, for example just for one part of BiH, or data are available under the same label but there are methodological differences in collection and presentation.

As a first step, the basis of the research work is established through analysis of the theoretical background on differences between public and private sector, to enable further analysis of specific challenges for BiH. This part of the work is based on review of relevant literature, articles and papers that explore differences between public and private sector management. One of the core concepts, new public management is discussed and analysed looking at the effects of its implementation, best practices and criticism, including opposite theories that have challenged the concept. Furthermore, the methods such as descriptive analysis, method of compilation, analysis and synthesis are used throughout the work on thesis.

In the second part of the thesis, comparative analysis is performed. To ensure reliability, the research is based primarily on the consistent secondary data such as: OECD SIGMA assessments of BiH and other countries in the region (Croatia, Albania, Serbia, FYR Macedonia, Kosovo (under UNSCR 1244/99), Montenegro), strategies of public sector reform, progress reports on public administration reform, EU accession progress reports etc.

## ***Structure of the thesis***

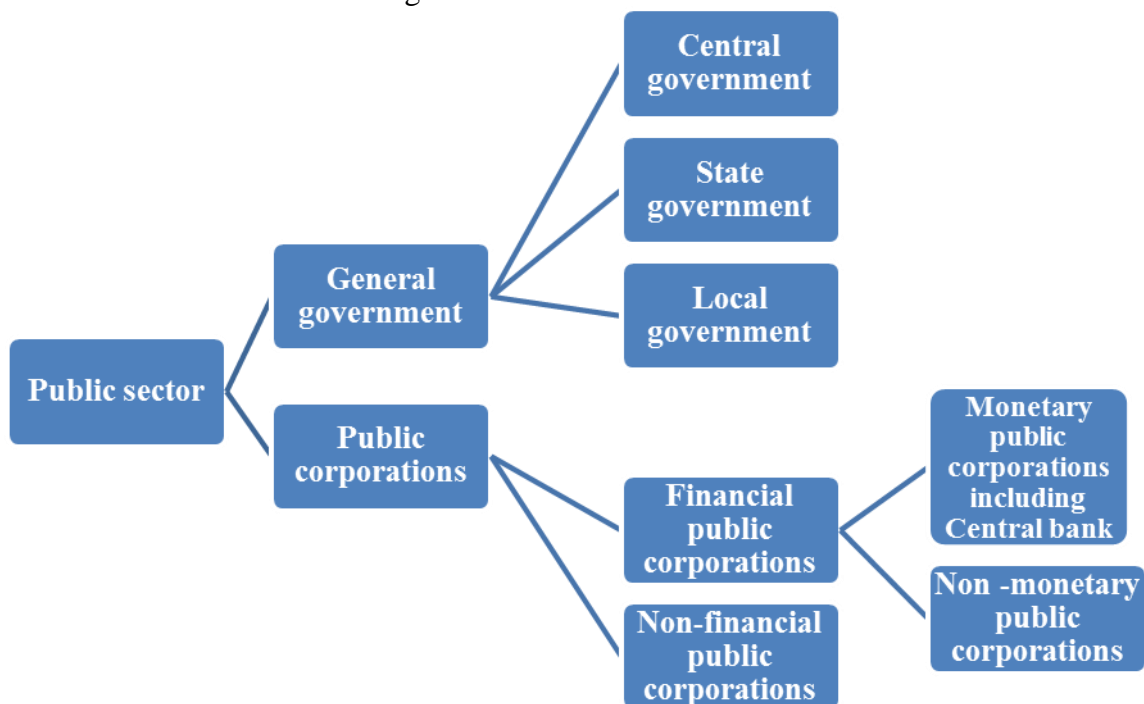
The thesis is consisted out of five main chapters, starting from the overview of public sector definition and role, latest trends in public sector and similarities and differences between public and private sector activities. The following chapter narrows down the discussion on public sector characteristics to the area of public administration and establishes a theoretical background on definition, role and evolution of public administration concept. There is a need to further narrow down the topic, which is done in the third chapter where the concept of NPM is discussed as a theoretical concept, but also as a matter of practical implementation experience. The fourth chapter is focused on BiH and discusses public sector and private sector in BiH as well as public administration and associated reforms in public administration. The major analysis is done in the fifth chapter where the research work focuses on investigation of applicability of private sector standards, strategies and tools into public sector in BiH, status of BiH public sector reform in comparison with neighbouring countries and importance of EU accession as a push factor for accelerating the reforms. At the end of the chapter five recommendations are presented followed by conclusions.

# 1. PUBLIC SECTOR

## 1.1. Definition of the public sector

With recent developments and changes of the role of state in general, it becomes more and more complex to make a single definition of public sector. In broad sense the public sector is consisted out of the institutions and organisations that are controlled and/or owned by government. This is broader consensus, since beginning of the 20<sup>th</sup> century, when public sector has been defined as all activities which has to be provided, regulated and controlled by the state (Duguit, 1921), till nowadays where public sector is defined as sector that comprises of the general government sector and all public corporations including the central bank (OECD n.d., IMF, 2001).

Figure 1. Public sector structure



Source: *IMF Governance statistics manual, 2001*, p. 15

As Figure 1 shows public sector is divided into two main parts: general government and public corporations. General government includes central, regional and local institutional units that have legislative, judicial or executive authority over other institutional units in carrying out government activities.

While it is clear what we consider under the term of general government, the definition of “public corporation” becomes more complex. In general the public corporations are divided to financial, which include Central bank, and non financial ones, which may include wide range of

corporations. The trend of increasing use of market mechanisms by governments and enabling private sector provision of public services, make the distinction between public and private harder. The usual distinction by ownership and/or control by government as precondition for a corporation to belong to private or public sector have to be revisited. The term “economic ownership” is introduced aiming to make the meaning of “control” more clear. The control in that sense may be a policy control or a financial control (Leinert, 2009). Policy control means that government has the ability to determine the general corporate policy. For financial control two basic elements are important: power and benefit. The government may exercise the control over an entity through majority of voting interests, power to appoint or remove members, majority vote, veto powers, legal mandates etc., while benefit condition represent government ability to benefit from the activities of other entity such as: power to dissolve, control over asset distribution or liabilities, holding direct or indirect title to net assets/equity etc. (IFAC, 2011)

## ***1.2. Role of the public sector***

Unlike to definition of the public sector, which is more or less consistent over the time, the role, mechanisms and function of the public sector has been a subject of dramatic changes, in particular during last 30 years.

Almost one century ago it was considered that citizens as a matter of fact shall obey the state and the state is simply an apparatus for performing certain functions (Duguit, 1921), while today on the contrary, the set of the standards and the concept of serving citizens as a client is applied and the main role of the modern state is to provide fair and equal conditions and standards to daily life of citizens and businesses (OECD, 1999).

The public sector today definitely has no role of apparatus neither is a simple set of institutions and organisations that perform certain activities. The societies become more demanding and more public sector accountability is required by tax payers. In general, it is common approach by majority of economists to favour a minimal role of the public sector in market economy. This raised a lot of discussions on the role of the state in a market economy, but some common agreement is still found about the three main roles as defined by Musgrave 50 years ago: allocation, distribution and stabilisation. Allocation refers to the interventions in case of market failures to provide public goods or implementing the market where the classical market mechanisms fail. Re-distribution of income occurs in case of deteriorated market mechanisms to protect socially disadvantaged groups. The third role of stabilisation refers to controlling economic growth, unemployment and inflation by demand and money management (Musgrave, 1959). More recent authors add a fourth role – regulation - which refers to the establishing rules and institutions to expand role of the market such as protection of property rights, enforcement of contracts, extraction and use of public revenue etc. (Tanzi, 2000).

### ***1.3. Similarities and differences between public and private sector***

The most common way on establishing boundaries between private and public sector is based on the ownership. But in practice it is not so simple. We do have different types of cooperation between private and public sector like joint ventures, public private partnerships, as well as mechanisms of regulation such as regulatory agencies, for example. However, if we make differentiation on the ownership principle, applying also economic ownership, we may draw some parallels, but also some critical differences between private and public sector.

To begin with similarities, regardless the ownership and the sector, managers have to cope with a number of standard issues. Managers have to organise available resources and allocate them to specific tasks. This process requires previous planning of all needed inputs, defining of time schedules and assigning responsibilities. Human resource management is one of the most complex areas in both, public and private sector, and it requires specific set of skills to promote sustainability and impact of implemented activities. Accountability of managers is required to meet the goals and ensure efficiency in expenditure of organisational resources. Several authors agree on this core similarities (Denhart & Denhart, 2009, Milakovich & Gordon, 2009), but it is also important to mention that while some authors recognise some issues as similarities, others recognise the same issues as core differences. For example, Starling (2010) recognises four main differences: structure, incentives, settings and purposes. Some other authors also agree more or less around these four groups of differences (Denhart & Denhart, 2009, Milakovich & Gordon, 2009), but many of their statements have to be challenged, which is done in what follows:

On different structures following arguments are used (Denhart & Denhart, 2009, Milakovich & Gordon, 2009, Starling 2010):

- responsibility in public sector is not clear;
- private sector has more freedom in terms of decision making;
- public service requires agreement of wider interest groups;
- private sector operates with much less visibility than public sector.

Responsibility is more than blurred in BiH public sector, not because it is public sector, but because of public sector setup which is “irresponsible”. Responsibility is in essence the same for any manager: to spend resources in efficient way and be accountable for outcomes. There is no such a thing as absolute freedom in private sector in terms of decision making. State moved its role from managing to regulate; so many private sector activities have to be implemented within defined regulatory framework: electricity, telecommunications, media, and financial sector. Private sector is not an isolated island and often agreement of wider interest groups is required as well. Typical examples are unions. Visibility also may be questioned. So-called red tape that was

symbolical name for differentiation between public sector and the rest of community illustrates that the activities of public sector are not always so “visible”. In particular in developing countries access to information by citizens on public sector activities is one of the core issues. At the other side, some private sector activities are called for transparency and are obliged to publish their results and respect consumers’ rights.

Arguments on different incentives are (Denhart & Denhart, 2009, Milakovich & Gordon, 2009, Starling 2010):

- the incentive is to satisfy those who provide resources and these are different in private and public sector;
- private sector deliverables are tailored to individual needs;
- public sector provides services on collective basis.

Resources to public sector are provided by citizens, taxpayers and their expectations are always the same regardless where they “invest” their money: they want to get a proper value for the money. In private sector it is a profit and in public sector it is a service provided by public administration. In both cases it is important that “investor” is satisfied and gets return on his/her investment. It is not a case that public sector always provides service on collective basis, many individual needs are served by public sector and economy of scale does not allow that all private sector deliverables are individualised. To illustrate both, need to get a birth certificate and need to repair your washing machine are individual needs. In both cases you have to look for a service and you measure satisfaction by speed of service or politeness and competence of service staff.

Different settings are explained by (Denhart & Denhart, 2009, Milakovich & Gordon, 2009, Starling 2010):

- external forces and continuity;
- private organisations define their markets and set their own goals;
- public organisations are obligated to pursue legislative defined goals;
- public managers have little freedom to alter basic organisational goals;
- some public organisations hold a virtual monopoly on providing certain essential public services.

All the statements are true, but from the point of management represent just different challenges that have to be addressed. The same differences may be found if we compare for example production sector and services. Maybe the last statement is best to argue about different settings. There is no alternative for public services; a citizen cannot just switch to another service provider. That’s why legislation has to protect citizens and define legislative goals and ensure stable organisation. Continuity may be recognised as an issue, but to be fair the change after

election is rarely dramatic, if we exclude extreme cases. It is usually only rhetorical change, used as a tool in political campaign. For example, in BiH, a mandate of top managers in banking sector, most developed part of economy, usually matches with election cycle duration – 4 years. The investments in activities, such as R&D for example, do not have immediate outputs, so commitment costs occur in private sector as well. The freedom to define markets is not really unlimited to private sector – it is not so easy to switch from one market to another. It is true that public sector has a legislative defined goals and less freedom to alter organisational goals, but it is also true that public sector defines these goals by itself. The freedom of managers in big networks in private sector is also altered by network rules and bounded by regulations and consumer protection rights.

The forth argument is different purposes (Denhart & Denhart, 2009, Milakovich & Gordon, 2009, Starling 2010):

- it is hard to find a single, broad measure of performance in public sector;
- private sector is primarily concerned with making a profit;
- profit/loss is not always a measure of success in public services.

It is true that it is much harder to define responsibility without outputs that may be objectively measured. But this is not a case only in public sector, in many private sector activities is not possible to quantify performance. It is not efficient to establish both a high number of individualised measures or single broad measure and that is applicable in both private and public sector. As discussed earlier, in the nature of any “investor” is to make a “profit”, or in simpler words, to get value for its money. This value may be tangible as money or intangible as a right, service or simply satisfaction, feeling of safety or similar. Profit/loss is not always success in private sector as well. The recent crisis is a clear example. Also, in investment phase, the measure of success is not a profit but capability to establish organisational structure to set functional teams, to manage scarce resources etc.

In conclusion, there are much more similarities than differences between public and private sector. Usually differences are a matter of proper interpretation. Also, it is not possible to do simple equitation between two sectors. Specifics of the public sector have to be acknowledged and taken into consideration, but it is far from arguing that there are strong structural barriers between the two sectors that prevent any attempt of making knowledge and tools transfer.

#### ***1.4. Latest trends in public sector development***

The recent global financial crisis again put the role of the state at a central place. Governments are put into a tough position to respond to the needs of maintaining stability and serving citizens

and at the same time to do it with less money at effective and transparent way. The reforms undertaken in last 30 years resulted with increased efficiency and accountability of governments in many countries. Now, these governments are under pressure to find new efficiency gains while playing strong stabilisation role in economy.

This pressure creates new challenge and requests a new approach. It is actually a call for innovation in service delivery to create public value. Again, here the experience of private sector is valuable input in defining specific approaches for public sector, the principles are similar but the incentives are different. The essential ingredients of creativity in public sector include curiosity and motivation, long-term vision and commitment, continuous learning, competence and ability to understand challenges and implement ideas (Steel & Hampton, 2005, Drucker, 1994, Friedman, 2007).

Here we shall recognise the specifics of motivation in public and private sector. In private sector usually innovation comes as a regular course of work, as a matter of ensuring prestige, secure leading position in the market, do some savings or increase revenue. At the end, it relates to competitive behaviour to met business objectives.

The specifics of innovation in public sector relate to the specific motives and usually come as a different kind of pressures. These pressures may be external, like globalisation and technology development or internal as a result of country specific economic and social developments. The most present pressure is election pressure that triggers changes in political process and system through leadership change. Economical pressure may arise as external, like effects of recent global crisis, or internal through budget deficits. More advanced societies make a pressure on innovative solutions to overcome lack of resources (like renewable energy sources) and make use of opportunities created by technology. Beside motivation or pressure to take an action the crucial precondition is competence and ability to transform ideas into successful action. In public sector this has a twofold meaning: tools and approaches for the assessment and transfer of innovation have to be developed and environments which encourage and maintain the innovation capacity of public service institutions have to be created (Patel, 2006).

The main challenges to today's governments are to "do more with less" while working on "build and keep trust" and engaging the public and stakeholders to foster sustainable reform (OECD, 2011). Such a complex task definitely calls for systematic and innovative approaches based on sustainability. Success of individual governments depends on their capacity to create and implement measures and programmes. It also raises the need for different skills of public managers to successfully run and implement innovations.

## **2. PUBLIC ADMINISTRATION**

### ***2.1. Definition of public administration***

The broad meaning of public administration is quite consistent over the years and refers to the actions undertaken by government in implementing public policy (Wilson, 1887). It ranges from very simple activities in health laboratory to highly technical and specialised activities such as issuing of banknotes (Pfiffner, 1946), but refers in general to activities of government executive branches (legislative, executive and judicial) in exercising authority by government through management of public programs (Shafritz & Russel, 1999, Denhart & Denhart, 2009, Starling, 2010). The essence of definition remain more or less the same over the years, but more recent papers offer more comprehensive definitions which include results of the reforms undertaken in previous decades. This refers to extending definition to include newly created features such as agencies, specialised institutions, independent boards and commissions etc (Simon et al, 2010).

However, as it can be seen from the previous chapter, nothing is so simple when it comes to the definition of any “public” activity, but to summarise, public administration is the “action part” of the government, the part which carries out activities on behalf of the government. For the sake of clarity, public administration is also considered to be a field of study, science or discipline, but for the purpose of this thesis, these areas are not further elaborated.

For the research work on this thesis it is useful to make remarks on structural differences between public and private administration and principles that drive their activities. The usual perception is that efficiency, responsibility and flexibility are terms which are associated with private administration, while the public administration usually holds opposite characteristics. Some of the activities in public administration are a result of intervention in areas where traditional market mechanisms fail, so certain level of efficiency losses has to be tolerated. In terms of responsibility, the main difference between private and public will always arise from the complexities in measuring performance. The issue of measuring performance which is not based on quantitative results is present in private sector as well, but is tackled on the way to provide incentives to long term goals. In public administration which is an action part of government it is not easy to ensure the commitment to long term goals taking into consideration election cycles and aim of the government to have visible results during the mandate. It is clear that the changes cannot be as quickly implemented in public administration as it can be the case in private, as well as that public administration has to establish common rules to serve variety of its clients, so some flexibility gains will be always present in public administration. At the other side there are many similarities between private and public administration and it is important to take into



consideration structural differences that prevent blend application of private sector standards and principles.

## ***2.2. Role of public administration***

The role of public administration can be recognised as carrying out or executing public law through the process of organization and management (Waldo, 1988, White 1955). A number of authors refer to the public administration role as executive branch of government (Dimock, 1937, Marx, 1964). Both options are narrowing role of public administration, while the number of authors also recognize the public administration as more comprehensive activity. In that sense the role of the public administration refers to undertaking of all governmental actions within all three branches of public settings: legislative, executive and judicial (Rosenbloom, 1993, Nigro, 1965). The legislative branch relates to enactment of legislation, executive branch is focused on execution or implementation of policy, while judicial branch relates to the law interpretation, in particular in area of constitutional guarantees.

Contemporary definitions include “soft” part of the activities underlining that public administration is not just a number of activities and processes but that assumes more complex skills to establish policies and implement activities in modern society on efficient and accountable way (Henry, 1989).

For implementation of any activity it is important to define the scope, the resources and responsibility. Following the role of public sector and taking the view of public administration as execution part of government, the tasks under public administration in broader sense include implementation of measures on executing policy and maintaining stability, institutionalisation of socioeconomic change, managing activities related to market protection, implementing social programs and protecting society (Caiden, 1971). These tasks require resources which will implement activities and as well require clear alignment of responsibility for their implementation. The resources refer to the public administrators and overall responsibility for tasks implementation is not just narrowed down to the execution of tasks. Maybe the most illustrative example of difference between those two is given by Osborne and Gaebler: “those who steer the boat have far more power over its destination than those who row it” (Osborne & Gabler, 1992, p.32). This analogy with the boat reflects the crucial question of the public administration role: is this just a service that shall be organized on most efficient way to implement assigned tasks – by rowing the boat to the already given route; or it is a process of managing public organizations and implementing public policy – by steering the journey to the given destination. The most correct conclusion is that both areas shall be covered, i.e. the services shall be organized and managed in most efficient and effective way and public administrators shall put an emphasis on building capacity (public institutions) which will manage the whole process in accountable way.

If we position the role of public administrators to the three branches of public settings as mentioned above: legislative, executive and judiciary than three approaches may be recognized (Rosenbloom, 1993):

- political approach is related to legislative branch of public administration and is concerned by constitutional safeguards;
- managerial approach is related to executive branch of public administration and this approach is focused on the managerial and organizational aspects of public institutions;
- legal approach is related to judicial branch of public administration and this approach is focused on administrator's role in applying and enforcing law in specific situations.

The role of public administration becomes more and more complex as the above mentioned tasks include international and global elements and are less and less country specific issues. The process of internationalisation and globalisation of economies "import" also some problems into public management and the governments are now faced with hard choices. At the one side they have to at least maintain, if not extend its current role, while the pressure on savings is strong and selective. The citizens require more and are not ready to lose any of their rights. The politicians have to make a hard choice or be very inventive in finding a way to resolve this puzzle. Often, the political decision is to cut the public administration to make savings, rather than to undertake unpopular measures on tackling any of social contributions and rights to citizens. This political bargain is reasonable if based on the thorough analysis of different options effects and not on the political popularism. Unfortunately, the later is usually the main reason for making a decision on budget structure. The result is less resources to perform the roles assigned to public administration or at least less money available to retain or attract the resources which are able to cope with increasing requirements of society. At the end this resolves financial part of the puzzle (at least for some time), but does not provide solutions as lack of resources will further produce lack of quality in serving citizen needs and will create more pressure on the government.

### ***2.3. Evolution of public administration***

The public administration practically exist since human beings have organised themselves in the first society form. The traditional doctrine of public administration is established through the work of Wilson and Weber. Wilson was a pioneer in advocating on scientist approach to public administration and use of comparative methods in study of public administration. He underlined the need of administrative efficiency and separation of politics from administration having in mind that public administration is most visible part of government (Wilson, 1887). The contribution of Max Weber is introduction of the term bureaucracy that is today perceived as something negative although originally Weber assigned this term to the principles of rationality and efficiency. The system of bureaucracy is based on a set of rules incorporated in the law

which may be controlled in rational and legal way, following hierarchy from the top (Weber, 1946).

During 20<sup>th</sup> century significant changes happened in almost all areas: political, social and economic. At the beginning of century the focus of different authors was mainly on supplementing the basic system of bureaucracy by improving administration efficiency using standardised and strictly defined managerial techniques.

In terms of public administration development, the beginning of 20<sup>th</sup> century was marked with focus on clear distinction between politics and administration. The main concern at the time was how to limit political influence to administration as the political influence was foreseen as the feature which harms efficiency. This led to the further development of tools which will improve the efficiency of public administration. One of the models is known as POSDCORB which stands for planning, organising, staffing, directing, coordinating, reporting and budgeting. The model was based on a belief that all activities shall be systematically grouped and assigned to individuals in impersonal way in order to achieve organisational goals (Gullick & Urwick, 1937). The acronym POSDCORB is used to describe seven functional elements of any work, which in principle shall be executed by managers:

- P stands for planning and refers to the need to know and define in advance the scope of work along with time schedule and resources needed for implementation;
- O stands for organising and refers to establishment of organisational structure which is needed to implement planned activities;
- S stands for staffing and refers to all activities around human resource management;
- D stands for directing and refers to establishment of clear lines of subordination and responsibilities;
- CO stands for coordinating and addresses the need to ensure proper relations and communication between different parts of organisation;
- R stands for reporting and indicates flow of information based on organised way of data recording and keeping;
- B stands for budgeting and refers to all aspects of financial management during implementation of activities.

We may consider the concept of POSDCORB to label the first attempt of applying the private sector features into public administration. Although the rationale behind POSDCORB may be criticised from today's perspective, it should be also respected as an important input, having in mind that at the point of time it was quite revolutionary approach.

The decades after Second World War are marked with reaffirmation of government role being a golden age of public sector interventions in response to some private sector inefficiencies (in

railways and mining, for example). Government became monopoly provider in many areas taking the role from the private sector based on believes that the judgment of government may replace market mechanisms (Tanzi, 1997, OECD, 2005). In parallel many authors tried to integrate business and management theories into public administration, by exploring different topics and testing them from efficiency perspective. During 70's the role of government has been questioned again and the efforts to increase government efficiency have been re-instated by advocating for use of private sector tools to resolve administrative problems in public sector.

The major milestone, however, is related to late 80's and the introduction of NPM concept as a reaction to the traditional public administration theories. NPM shifts the focus from leading to serving role of the state and argues on improving governmental performance by emphasizing customer service, decentralisation, market mechanisms, cross-functional collaboration and accountability for results. The NPM concept is explained in details in the next chapter.

Most recent papers, based on the analysis of lessons learnt from NPM reforms suggest some new approaches, but the brief analysis of the core arguments of these concepts does not provide enough evidence to consider them as completely new concepts, structurally different than NPM. Still, it could be more recognised as NPM concept customised to less developed countries as suggested by neo-Weberian state or a development of more detailed agenda for some of NPM features: government-governance theory emphasising co-operation, democracy and citizen participation and the glocalisation theory (combination of globalisation and localisation), both being recognised in early days of development of NPM concept.

Similarly, new public service concept argues that government cannot be run as a business, but as democracy (Denhart & Denhart, 2007). However, this also may be interpreted as over-simplification of NPM concept. The core message by Denhart & Denhart is that the public administration is serving citizens, not customers. This is one of the fundamental discussions in area of differences between private and public sector. It is clear that we cannot make equitation between customer which is buying a juice and customer which is "buying" services from public administration. But the principle is the same, the person, being named citizen or customer, has the same expectations. The parallel between citizen – customer may be drawn on the basis that citizen is a customer because he/she pays for service – being it a juice or a birth certificate, for example.

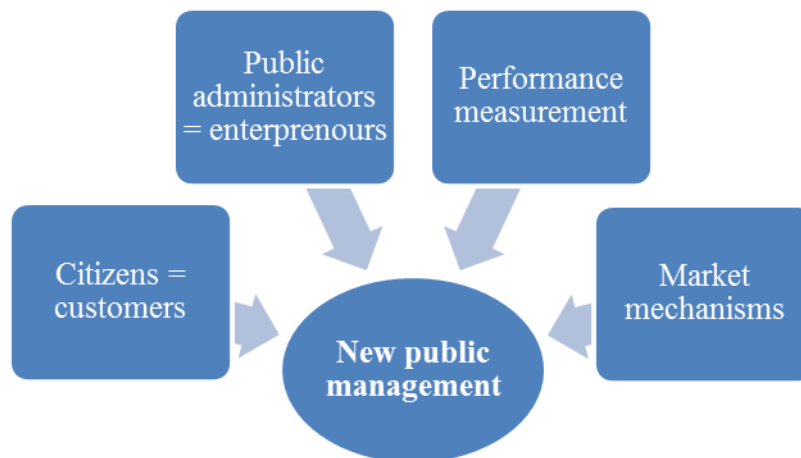
### 3. NEW PUBLIC MANAGEMENT

#### 3.1. *New public management concept*

The traditional doctrine of public administration is focused on organisation of work, structure design and establishment of hierarchy with several attempts to apply principles of efficiency and separation from politics. As a contrary approach, the new public management calls for introduction of new dimension and radical change in public administration through shift from traditional public policy to private sector norms. The concept assumes a transfer of business principles and management techniques from private into public sector through universal, apolitical framework to address shortcomings of traditional public organisation in efficiency and service delivery (Hood, 1991, Hood, 2000, Drechler, 2005).

The concept put into a focus market orientation, customer focused service, performance-based accountability, introduction of competitive mechanisms, downsizing and privatization, decentralization and corporatization (Polidano, 1999, Raadschelders & Lee, 2011, OECD 2010a).

Figure 2. New public management concept



These concepts are summarised in Figure 2, showing the new influential elements of NPM. One of the main features is related to shift in treatment of users of public administration services, which according to NPM shall be treated as customers, with all attributes usually associated with meaning of “customer”. As discussed earlier, the role of the state was very different at the beginning of 20<sup>th</sup> century and it was actually expected that citizens obey the state. The second major shift that follows the treatment of citizens as customers is introduction of entrepreneurial spirit into public administration asking for the behaviour of public administrators as entrepreneurs which look for most effective and efficient ways to serve its customers. Performance measurement is the third main feature of NPM and requires clear standards and

metrics to be introduced to assess the performance of public administrators. In line with other private sector features to be transferred into public sector, NPM promotes use of market mechanisms as a feature that contributes to efficiency of public sector.

Last but not least, the main trend to notice is a shift from term “administration” to “management” as a response to a number of challenges that Hood (1991) recognises as “megatrends”. These megatrends include need to slow down or reverse government growth, shift towards privatisation and quasi privatisation, technology development and internationalisation.

### ***3.2. Characteristics of new public management***

The concept of new public management assumes the number of radical changes in the system of public administration based on private sector experience. These changes are presented in Table 1 in terms of doctrines that shall drive the process.

*Table 1. Doctrinal components of new public management*

|   |  |
|---|--|
| 1 | “Hands on professional management”                         |
| 2 | Explicit standards and measures of performance             |
| 3 | Greater emphasis on output controls                        |
| 4 | Shift to disaggregation of units in the public sector      |
| 5 | Shift to greater competition in public sector              |
| 6 | Stress on private-sector styles of management practice     |
| 7 | Stress on greater discipline and parsimony in resource use |

Source: Hood, C. (1991) *A Public Management for all seasons?* *Public Administration* Vol.69 p.4

The first doctrine refers to the earlier mentioned shift of public administrators to the entrepreneurial way of implementing its activities. The meaning of professional management is related to the need for active and visible discretionary control of organisations from named persons at the top, “free to manage” and is typically justified through clear assignment of responsibility for action, not diffusion of power. Explicit standards that enable measurement of performance are second doctrine which is related to the need to have clear definition of goals, targets and key performance indicators which preferably shall be expressed in quantitative terms, wherever possible, to enable objective assessment. The third doctrine is raising the awareness of the need of output controls and focusing on results rather than procedures. This shall be done by creating clear links between resource allocation and rewards linked to measured performance. Shift to disaggregation of units in the public sector is fourth doctrine of NPM and calls for breaking up of “monolithic” units, unbundling of U-form management systems into corporatized units around products, operating on decentralised “one-line” budgets and dealing with one another on an “arms-lengths” basis. The next doctrine emphasis is on the increase of competition

by applying transparent tender procedure and rivalry as a tool to lower the costs. Promotion of use of private sector management styles is recognised as sixth doctrine and it refers in particular to “proven” private sector tools, like move away from military-style “public service ethic”, greater flexibility in hiring and rewards, greater use of PR techniques. The last, seventh doctrine deals with efficiency in resource use, addressing requirement of “do more with less” by measures like cutting direct costs, raising labour discipline, resisting union demands, limiting “compliance costs” to business.

Hood (1991) differentiates between three sets of administrative values: sigma, theta and lambda. Sigma values relate to economy and parsimony, assigning priority of matching resources to defined tasks and setting fixed and checkable goals on the basis of which the outputs will be measured. Theta-type values have honesty and fairness as primary goal and focus is on process rather than output. Lambda values relate to security and resilience and central concern is to avoid system failure, “down time” paralysis of threat or challenge. NPM can be understood as primarily an expression of sigma-type values assuming that a culture of public service honesty is given (Hood, 1991).

### ***3.3. Adoption of new public management concept***

#### **3.3.1. Experiences of developed countries**

The most advanced in implementing modern managerial concepts are so-called “NPM countries”: Australia, New Zealand and the UK while another group of countries is also considered to be leading in terms of public governance reform (OECD, 2010a) including in addition to those three also Canada, Denmark, Finland, Ireland, the Netherlands and Sweden.

Application of new public management in developed countries is characterized by different approaches and different motives that triggered changes and adoption of NPM features.

*Privatisation* is definitely the most explored area from NPM menu. Privatization trend has been accompanied by changing the role of the state from being competitor to private sector to becoming a regulator of businesses, making sure that open competition is in place. But, privatization processes did not have the same motives and strategies. In Britain, for example, government sold profitable public enterprises to citizens, while in Italy they were sold to large private sector companies. British government established regulation to control monopolies and in principle did not retain ownership interest, while in Italy and France veto powers through golden shares were retained, but today they are rarely in place. Motives for privatization range from public pressure in Britain to alleviation a huge burden of public debt in Italy (Chandler, 2000). Many governments have privatised state monopolies, mainly in utility areas and instead have created regulatory bodies, switching from managing to regulatory role.

*Decentralisation* is another trend which was commonly present. Before 1990, governments usually had centralised support services (human resources, internal audit, procurement). As result of NPM influence in the last 20 years the central control was gradually loosened. However, in some countries the results were not as expected and another path has been undertaken: re-concentration of support services, ad hoc downsizing and shared services. This has been inspired by efficiency gains and savings and required willingness of ministries and agencies to transfer tasks to newly established units or rebuilt share centres (OECD, 2010a). Decentralization also had a different meaning in different countries: in Britain it meant creation of quasi commercial agencies, in Sweden it meant greater power to local government, while Germany has decentralized system at the end of Second World War to avoid over-centralization. Swedish model for example is characterized by one of the most open systems of public administration, while France traditionally has been seen as very centralized state with unified administrative machine which was pushed by EU accession to relax and modernize such approach (Chandler, 2000).

*Corporatisation* is very “popular” feature of public administration reforms, as a clear demonstration that public sector may adopt private sector behaviour. As a result the high number of agencies is established either as independent, governed by laws or decrees or arm’s-length agencies based on statutes in ministerial decrees. For example, in Sweden there are approximately 250 agencies, in the Netherlands 700 and in Denmark about 2,000 (OECD, 2010a). The main problem that appeared with this trend was related to the issues of steering and control of these agencies. The NPM doctrine of steering and control on the basis of outputs had not always led to the efficiency gains as outputs are difficult to measure and politicians are more interested in outcomes than outputs. This led to re-orientation in this area, including: more emphasis on careful definition of outputs and less emphasis on annual budget process as a tool; more transparency on input use by agencies and the elimination of price versus output distinction in budget negotiations (OECD, 2010a). In addition, in some countries there is a tendency to separate steering and control.

*Introduction of market-type mechanisms* in reform agenda had important place in improving efficiency of public activities. Outsourcing, public private partnerships (PPP) and voucher systems are most used mechanisms. Outsourcing becomes an unavoidable element of modern public administration in many countries, in particular in the UK, USA, Australia, New Zealand and Nordic countries and refers to the arrangement where certain functions are performed outside of public sector organisations rather than being performed inside i.e. by employees of the organisation. Outsourcing may range from big contracts for certain projects, to small, individual contracts, some of examples may be payroll, accounting, IT services etc. Public private partnerships are specific models of cooperation between public and private sector and are mainly used for large scale projects. The main issue around PPP is distribution of risk between private



and public partner and this is fundamental for success of PPP arrangement. The PPP arrangements include whole range of options which may include arrangements in which private partner only finances the project to arrangements where private partner builds, owns and operates certain infrastructure, usually in certain period of time. Vouchers issued by public authorities become increasingly used in particular in OECD countries and they are proven to be useful in allocating social services, but raised certain concerns as well, like upward pressure on public expenditure, consumer choice at the expense of equity and risk that suppliers will focus only on high-yield customers. There is substantial evidence that these mechanisms led to efficiency gains, but it is important to underline that each of these mechanisms have to be properly tailored and prepared in order to be efficient (OECD, 2005).

*Performance based accountability* required major cultural shift to get a proper place in reform process. Experience shows that many of governments benefited by giving public managers “freedom to manage”. It turned to be strong motivational factor. The key challenge is still to find fine balance between flexibility needed to respond to challenges at one side and accountability and control requirements at another side. In many countries, employment conditions for public servants have significantly changed and get closer to private sector standards in terms of decentralisation, downsizing, performance-related pay and individually tailored contracts (OECD, 2005).

In general, the impact of NPM doctrine is visible in developed countries, being it called as NPM reform or in any other way. The most important results of reforms are related to the adoption of market oriented approaches and performance based accountability. Both terms become universal standards. Quite a number of lessons are learnt during implementation of private sector standards and tools which in developed countries are used to realign goals and objectives, revisit strategy and tactics for implementation, while for developing countries they are useful inputs in designing their own strategy. In particular, the most difficult reform areas are proved to be around measurement, efficiency and productivity.

### **3.3.2. Experiences of developing countries**

The experience of developed countries clearly shows that reforms are demanding and resource-consuming process which usually arise out of some kind of pressure. The logical question is then, could it at all work in developing countries and how it may be properly customised. Although majority of authors examining this topic will immediately conclude that NPM is not really applicable for developing world, there are some positive examples that shall be acknowledged. Some of well known examples are: Malaysia’s experiments with total quality management, the result oriented management initiative in Uganda and wholesale restructuring of education system in Chile. However, it would be fair to say that these are rather exceptions in developing countries.

The most frequently implemented reforms from NPM menu in developing countries are: privatisation, downsizing and corporatisation, while other, more demanding reforms are lagging behind (performance based accountability, decentralisation, market type mechanisms). Corporatisation, for example, became a main path of reforms in Africa and reached positive results in many countries helping out in increasing performance and also increasing income for the countries. On another side, introduction of organisational performance targets had a little success, for example in Ghana, India, Pakistan and Bolivia. It is fair to say that implementation of performance based systems is one of the hardest components of NPM reforms. Only few countries actually dare to start with these reforms seriously, like Uganda, Ghana and Malta, but with very mixed results (Polidano, 1999).

There are a number of preconditions to be met before starting reforms; some are to be implemented in parallel with NPM menu or to be done before starting reforms. These activities are usually related to capacity building, corruption fighting and political decentralisation which is in industrialised countries separated from NPM initiatives, but in developing countries it is not a case (Polidano, 1999). The core problem, in particular in CEE countries, is not related to structures, which may be easily replaced, but to people, who are not (Drechsler, 2005).

For CEE countries, the main challenges are setting reliable, neutral and professional civil service, improving managerial capacity, efficiency and effectiveness and strengthening transparency, openness and accountability. With the strong impact of EU accession pressure, many CEE countries undertook the activities on preparing and enacting modern civil service law and acts that refer to ethics, introducing new budgeting, accounting and auditing systems and reorganisation of institutional capacity (Engel, 2003).

The EU accession and the attempts to comply with EU standards push many of the countries to try to jump to the final position, trying to find shortcuts and escape some of steps that shall be undertaken. But, NPM reforms require an environment of a well-functioning democratic tradition where accountability and transparency combined with well educated public service and administrative ethics values are already embedded into a system (Hesse, 1998, Peters, 2001, Konig & Adam, 2001). There is a wide agreement between many authors that the main issue within developing countries is related to the capacity to manage reforms. The key decision is about human resources policy. It is not useful to simply copy successful models from developed countries. Developing countries have to decide carefully on the reform approach. For example, centralised civil service management models provide better starting point for developing countries due to their weak capacity to manage agency approach. Some de-concentration is desirable but ensuring that relevant technological and human resources skills are in place. The recruitment standards shall be a highest priority in developing country's reforms where even some aspects of mandarin systems may be useful (Nunberg, 1992). The mandarin system and open recruitment are two broad approaches to merit-based recruitment. Open recruitment system

is more market driven approach and most advanced application may be found in core NPM countries, in New Zealand for example, where the public sector staff may be recruited at market salaries. Mandarin system traditionally is referred to an elite group of civil servants in certain East Asian countries, but it has been complemented and modernised, like in France, Japan and Germany. Mandarin system recruitment is highly centralised and very rigorous system where successful candidates are placed on fast track into most demanding jobs in public sector. Use of mandarin system in developing countries may successfully address critical shortage of well-qualified human resources (World Bank, 1997).

To conclude, there are many failures within developing countries in implementing reforms, but also a number of positive cases. There is no evidence that failure is due to the unsuitability of NPM. Not surprisingly, majority of failures are arising from lack of capacity, implementation of too complex systems for the stage of development of particular country, but not least important due to the lack of real support of political leadership to structural reforms. In this regard, the key is to acknowledge different reform driving forces in developed and developing countries. Motivation and commitment are crucial words. Also, clear distinction shall be made between rhetorical reforms driven by pure political objectives and real commitment to sustainable reforms.

### ***3.4. Critics of new public management concept***

Since its inception, the new public management has been a subject of criticism, in particular over the past decade. Some of the authors go so far to claim that the concept is outdated and “dead” (Dunleavy et al, 2006, Drechsler, 2005), while others find the concept highly challenged and in trouble, but not really dead (Vries, 2010). The strongest opposing statements include that NPM is “the cruellest invention of the human spirit” (Lapsley, 2009, name of the article), or that NPM cannot be dead as it never existed as a concept, but rather as invented term which was at the right time on proper place (Hughes, 2008).

To major extent the critics are actually not critics of the concept, but more critics related to understanding and implementing the concept in practice. But to get focused on more constructive critics of the concept, we may find that there is an agreement of number of authors about some common deficiencies of new public management concept:

- *oversimplification*: Public organisations are simply equated with private ones without taking into consideration political dimension, legislative and judicial constraints. (Raadschelders & Lee, 2011, Dunleavy et al, 2006, Vries, 2010). The concept led even to extreme cases of creation of quasi markets within administrative units just to be aligned with private sector principles and actually produced counter effects.

- *misuse*: It became rhetorical and fashionable concept and easy way out for politicians to engage experts and make them responsible for unpopular measures (Drechsler, 2005) and even creating reliance on management consultants (Lapsley, 2009). Hood recognises this effect as NPM clone diffused by public management “consultocrats” (Hood, 1991).
- *trade off between transparency and efficiency*: The major role of the state to ensure regularity, protection, transparency, shall not be undermined for the sake of low costs and speed (Drechsler, 2005). This is actually in conflict with NPM doctrine that put at central place accountability to citizens and civil society.
- *decentralisation and corporatisation for the sake of change*: Creation of agencies and decentralisation creates another role for state – need to steer and control. It has created an audit society where compliance has primacy and risk management becomes response to social entrepreneurship (Lapsley, 2009).
- *universality*: NPM suggest unity of ideas, but in practice there is great variety in implementation (Raadschelders & Lee, 2011; Dunleavy et al, 2006). Technological change and e-government were pushed as main devices of modernization, but they are not always the right solution (Lapsley, 2009). On the same topic other authors suggest the opposite: introduction of a new concept digital era governance (Dunleavy et al, 2006), which is also by others considered as an integral part of NPM doctrine (Vries, 2010).

Furthermore, Hood identified three main paradoxes which arose during NPM implementation (Hood, 2000):

- *paradox of globalisation or internationalisation*: The imperatives for public sector reforms are arising from international competitiveness and represent an international/global set of standards on institutional and managerial best practice. In spite of that, different interpretations are done by different countries and in practice we do not experience common paths in public reforms, but rather substantial elements of diversity.
- *paradox of winners’ course*: NPM is primarily understood as recipe for addressing the failures of traditional public bureaucracy over efficiency, quality, customer responsiveness and effective leadership. The paradox is that the great pressure for reforms and their implementation was actually in public service systems with good reputation in this regard, while countries where radical reforms were desperately needed, either did not undertake reforms or started them quite later.
- *paradox of managerialism*: The NPM calls for more managerial discretion in order to detach politics from operational management and implement business-like approach to public sector services. However, due to politicians’ fear of losing control, the reforms resulted with opposite effect and substantial increase in new process rules and additional controls which actually have tightened the space for managerial approach.

## **4. PUBLIC SECTOR AND PUBLIC ADMINISTRATION IN BIH**

### ***4.1. The structure of public sector in Bosnia and Herzegovina***

Bosnia Herzegovina is consisted out of the state (Bosnia and Herzegovina), two entities (Federation BiH and Republika Srpska) and one district (Brčko). The power of state is weakened and the entities and the district are quite autonomous. At the state level executive power is held by the Presidency (3 members, president rotation on a six-monthly basis) and the Council of ministers (Prime Minister and 9 ministers), and judiciary power is held by the Constitutional court and the court system. The bi-cameral parliament is made up of the House of representatives (42 delegates) and the House of people (15 delegates).

The Federation of Bosnia and Herzegovina (FBiH) has a highly fragmented decentralized system, based upon four different levels of government: entity, cantons (10) that enjoy wide-ranging administrative responsibilities, cities and municipalities (69). FBiH parliament holds legislative power and has House of representatives (98 delegates) and House of peoples (58 delegates). The executive power at the FBiH level is made up of a president and the government with 16 ministries while at cantonal level there are the single-chamber cantonal parliaments and government with a Prime minister and up to 12 ministries. At the municipal level, there is a mayor who is directly elected and municipal councils.

In Republika Srpska (RS) the legislative power is with National assembly (83 delegates) and there is also Council of people (28 delegates). President is directly elected by citizens and the government is made up of a Prime minister and 16 ministers. There are no intermediary bodies between the central administration and local units - municipalities (64) and cities (2). Municipalities are governed by municipal councils and a mayor.

Brčko district has special status and is a unit of local government. Legislative power is with assembly (31 delegates), judiciary power with district courts and the executive power is with government that is consisted out of a mayor, deputy mayor, main coordinator of government and chiefs of departments (maximum 12).

The three-part structure of BiH and especially the considerable autonomy granted to the two entities, led to an asymmetric development of the administrative system, which is highly centralized in the RS but strongly decentralized in FBiH.

Central bank BiH has no classical role, but its role is limited to maintenance of monetary stability, while the regulatory oversight of the financial sector, for example, is with entity agencies. The number of organisations where different government levels have ownership, legal or economical, is relatively high and includes not only state institutions, education, health and

similar, but also a significant number of corporations which are in other industries. Namely, as Table 2 shows, there are about 750 legal entities in traditionally business sectors where state has majority ownership. It is mainly result of slow and inefficient privatization process.

*Table 2. Number of entities in state ownership in Bosnia and Herzegovina as of 31 December 2009*

|  | <b>FBiH</b>   | <b>RS</b>    | <b>Total</b>  |
|--|---------------|--------------|---------------|
| Public administration, defence, compulsory social security | 1,887         | 585          | 2,472         |
| Education  | 833           | 381          | 1,214         |
| Health and social work                                     | 1,185         | 183          | 1,368         |
| Other community, social and personal service activities    | 9,208         | 4,746        | 13,954        |
| Other industries   | 403           | 348          | 751           |
| <b>TOTAL</b>   | <b>13,516</b> | <b>6,243</b> | <b>19,759</b> |

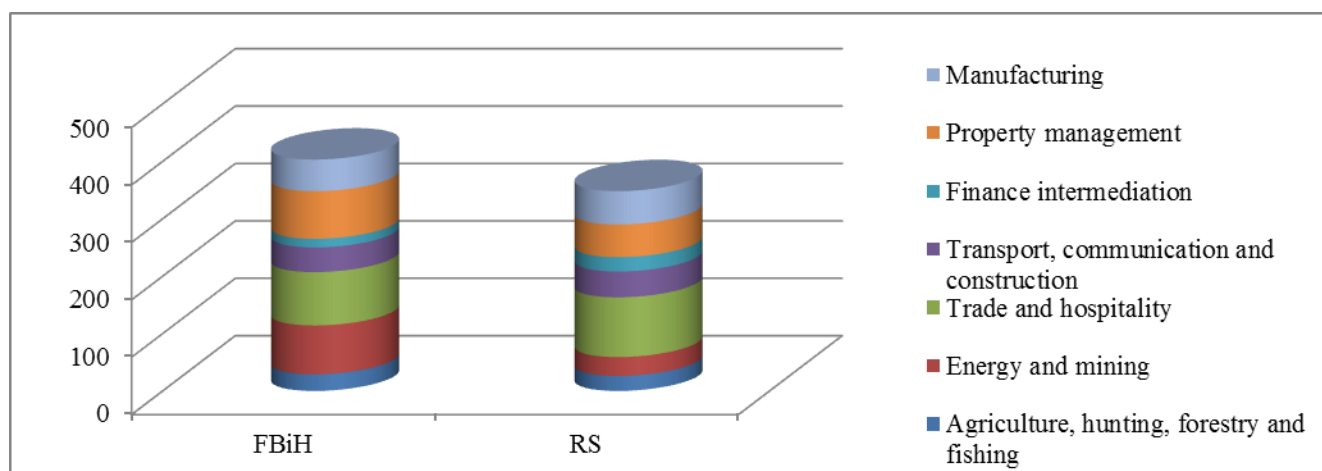
Source: Federal office of statistics, 2010; RS institute of statistics, 2010

Category of public administration, defence and compulsory social security as of 31 December 2009 employs 68,935 people, out of those two thirds in FBiH. Average monthly net salary of persons employed in this category in 2009 was about 40% higher than average net monthly salary in BiH in general and was close to the average salaries in financial sector, which are the highest among sectors of economy in BiH. If we include education (55,332 employees), health and social work (44,991 employees) and other public services (26,422 employees) than the total number of employees in public sector increases to 195,680 or 28.5% of total employed persons. Public administration by itself employs 10% of total employed persons (Federal office of statistics, 2010, RS Institute of statistics, 2010).

This picture has to be complemented by the number of employees in state controlled entities in other sectors as state has significant presence in almost all sectors of economy. As presented in Table 2, there are over 750 entities in other sectors that are in majority state ownership. Before taking a look at these numbers it is also interesting to observe the structure of other industries where the state is present through majority ownership.

The structure of state owned legal entities in other industries presented in Figure 3 shows that the largest share of state-owned legal entities belongs to trade and hospitality, and it is followed by manufacturing and property management.

Figure 3. Structure of state-owned legal entities in “other industries,, as of 31 December 2009



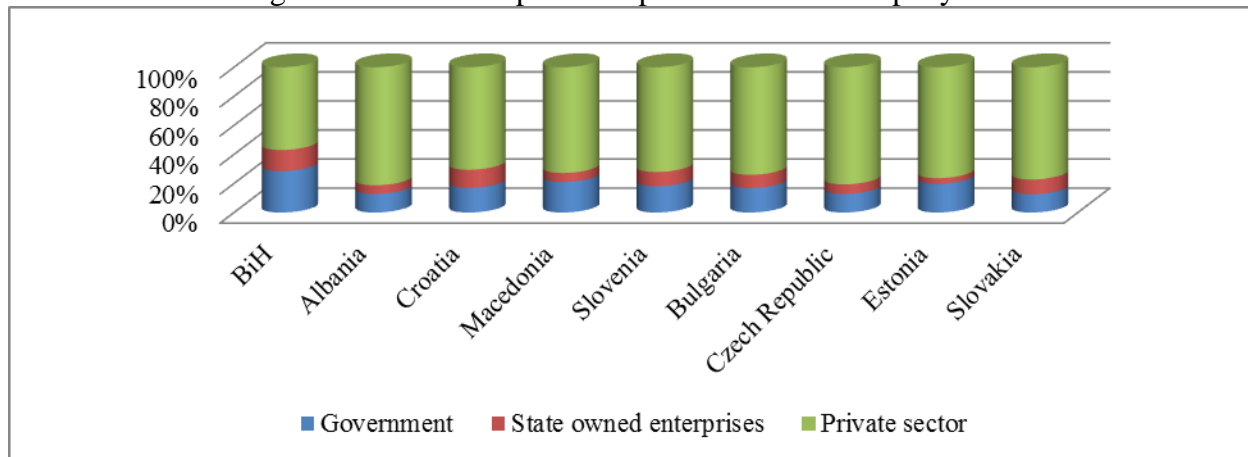
Source: *Federal office of statistics, 2010; RS institute of statistics, 2010*

The number of state owned entities outside of public administration, education, health and other public services is high, which assumes also that they employ significant number of employees. However, there is no separate data about employees in the state owned companies for BiH. Some data are available on entity level but not presented in the way useful for this analysis. The available data on largest companies in BiH (Poslovne novine, 2011) shows that 20 largest state owned companies employ over 30,000 people. This number does not provide a complete picture as it represents only small part of almost 750 companies with state ownership.

As it is important to see the full picture of the state influence outside of the traditional public sector role, at least we have to try to assess the number of the employees in state owned enterprises. If we take into consideration that 20 largest enterprises employ 30,000 people, we may be at safe side assuming that remaining 730 enterprises employs at least 70,000 people, so that total number of employees in state owned companies is about 100,000. This number is probably higher, but for the purpose of the comparison this conservative assessment would be useful.

To be able to understand these numbers in a proper context, it is useful to compare data on public/private employment ratios in the region. The selected countries are neighbouring countries and CEE countries, members of the EU. Figure 4 shows the ratio of public/private sector employment in the region. It is also important to underline that data are not available for all countries for same period; majority of data refers to 2008 figures. For BiH there is no data in ILO labour statistics and for Serbia only partial data were available, so it is not included.

Figure 4. Share of public / private sector employment



Source: ILO LABOURSTA, n.d; Federal office of statistics, 2010; RS institute of statistics, 2010

The presented data in Figure 4 clearly shows that BiH has the highest share of public sector employment among the countries in the region. It refers to both, employment in government institutions and enterprises.

#### 4.2. Public administration in Bosnia and Herzegovina

The public administration in BiH refers to state, entity, cantonal, municipal and district administration. Public administration is conducted by different institutions: ministries, other public administration bodies and administrative departments of local government units.

The figures on structure of public administration are not easily available, so for the purpose of this research own calculation is done. Data are collected from different sources including Central election commission official statistics on elected persons and web sites of different administrative units. For the sake of correctness, these numbers may be slightly higher due to the quality of available data as some web sites are not updated regularly or are not informative.

Table 3. Public administration: top officials at different levels

|                      | Total        | State      | Entity     | District  | Canton     | Municipality |
|----------------------|--------------|------------|------------|-----------|------------|--------------|
| Prime Minister       | 13           | 1          | 2          | 0         | 10         | 0            |
| Minister             | 137          | 9          | 32         | 0         | 96         | 0            |
| Director             | 210          | 49         | 66         | 21        | 74         | 0            |
| Mayor                | 134          | 0          | 0          | 1         | 0          | 133          |
| Parliament delegates | 3,774        | 57         | 266        | 31        | 289        | 3,131        |
| <b>Total</b>         | <b>4,268</b> | <b>116</b> | <b>366</b> | <b>53</b> | <b>469</b> | <b>3,264</b> |

Source: own calculation based on the publicly available data from web sites of Central election commission and governments on different levels.

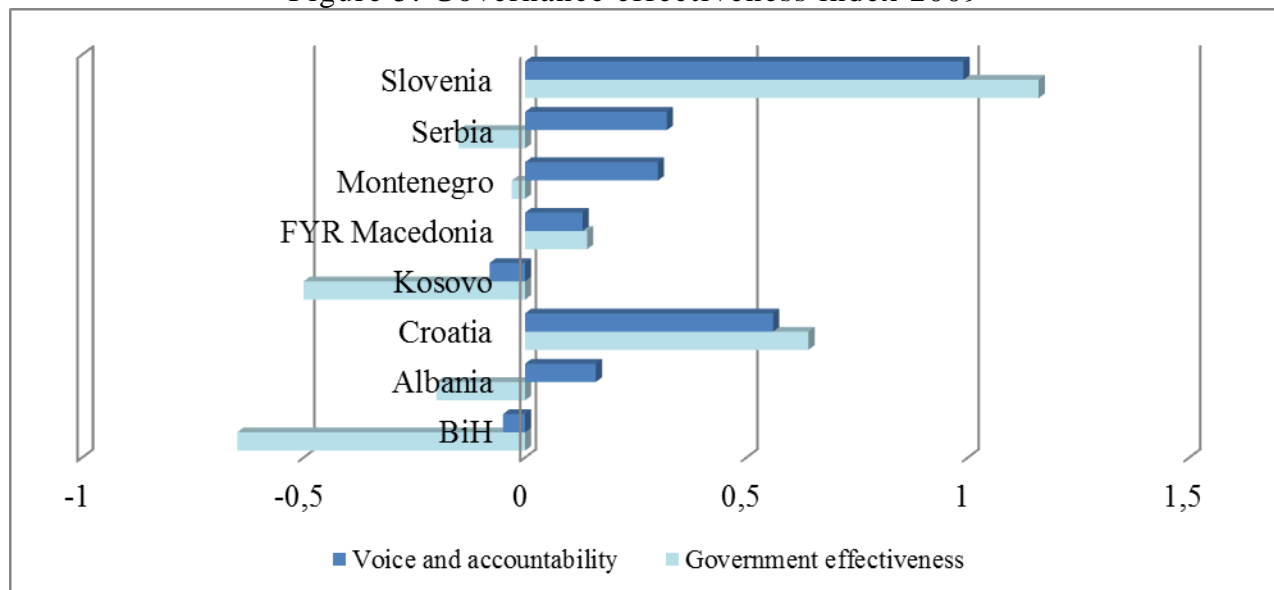


As Table 3 shows, there are 13 Prime ministers, 137 ministers, 134 mayors, 210 directors of public institutions and offices and over 3,700 delegates in parliamentary assemblies, which in total means over 4,200 top officials. If we calculate this number against number of inhabitants in Bosnia and Herzegovina, than we can see that we have one top official per each 1,000 citizens.

Any further analysis of the public administration structure is limited due to data availability. As pointed out earlier, the statistical data are quite inconsistent and differently presented, so it is hard to do any kind of reliable comprehensive analysis. For example, the statistics about FBiH provide data on public administration in terms of age of responsible persons-managers in public administration entities. The statistics show that as of 31 December 2009, more than two thirds of managers are older than 45 years (74%) and there is 9% of managers older than 65 years (Federal office of statistics, 2010). There is no such data available for another entity – RS, so we cannot do any analysis on the level of BiH.

Despite of such big public administration and government structure, or actually thanks to that, not surprisingly, BiH has the worst score in the region in terms of government effectiveness and only Kosovo (under UNSCR 1244/99) has worse score in voice and accountability. Figure 5 shows governance effectiveness index in neighbouring countries. Government effectiveness index is an index based on 17 component sources which measure quality of public services, the quality of civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies. The index values range from -2.5 which indicates very poor performance to +2.5 for excellent performance.

Figure 5. Governance effectiveness index 2009



Source: Kaufmann *et al.*, 2010.

### ***4.3. Private sector development in Bosnia and Herzegovina***

After dissolution of ex Yugoslavia, the private sector has started to develop in all newly established countries. It is true that there was some private sector present even in “Yugoslavian time”, but its size and features cannot be taken as typical private sector at that point of time. Unfortunate events on the territory of BiH have resulted with development of private sector on the grounds of completely deteriorated basic market and economic principles. Early nineties were characterised by relatively high number of new companies that operated in extremely tough environment and were able to generate enormous margins over goods they were trading. Just to illustrate the growth at that point of time, BiH, a country with 4 million inhabitants, had 90 commercial banks, to majority privately owned.

Privatisation process is characterised by a lack of government strategy and very few positive examples. The system of vouchers has been introduced and all citizens have received a certain amount of funds to be used in privatisation process. However, citizens were not used to hold securities and they mainly sold their vouchers in the black market, usually at 1-2% of their original value. Such “privatisation without money” resulted with the lack of the sufficient capital to re-start business operations of privatised companies.

There is no available data on the private sector in BiH in terms of adoption of best practice in conducting business operations. There is a positive influence of international companies that have entered the BiH market and brought its standards, tools and strategies. However, still the largest part of private sector lagging behind adopting the best practices in its activities, or even adopting basic market economy principles. In turn, that results with low level of expectations from the government and public sector in general, which should have been the main driver of public sector reforms and modernisation of public services.

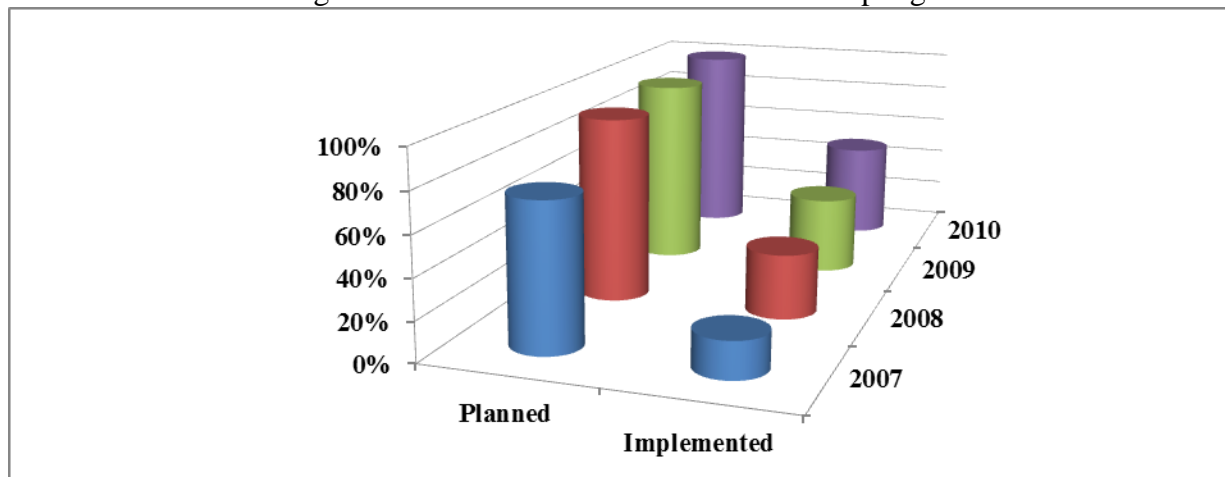
As illustrated earlier, state is the largest employer in the country. Besides usual institutions of public administration, education, health and social contributions, there is a high number of employees in “traditional” business sector where state still holds majority ownership. Among ten largest companies in BiH, five are state owned and one is owned by another state. This fact complicates the inflow of private sector standards and tools and disables any meaningful analysis based on the adoption of BiH private sector tools into BiH public sector. Therefore, in this thesis, the focus is on world-wide accepted best practices in terms of private sector tools, standards and strategies, rather than references to the BiH private sector achievements and their implementation and integration into public sector management in BiH.

#### 4.4. Public administration reform in Bosnia and Herzegovina

Public administration reform (PAR) came into agenda of Bosnian government about ten years ago, with a strong pressure of international community and European delegation to BiH. This is reflected in the fact that some of the core legislation has been forced by the Office of the high representative (OHR) – Law on civil service FBiH, for example.

Very first activities undertaken in the area of public administration reform were back in 2000 when RS has signed a memo of institutional support with the UK government. Three years later, following the initiative of OHR the document named “Public administration reform - our program” was adopted. In October 2004 Council of ministers established the Public administration reform in BiH coordinator’s office (PARCO). Based on findings of EU-funded “System review of public administration institutions” that took place during 2005, a year later, Council of ministers BiH has adopted public administration reform strategy. The strategy has been co-signed by state and entity representatives aiming to reflect consensus of different administrative levels on importance of public administration reform. However, in practice the reform did not go so smoothly and a lack of political will and support turned to be the main reason for the slow progress of the reform. Also, strategy underlined the need to use momentum of consensus and immediately start with reforms. But as visible from Figure 6 this was not the case. Only activities on appointing members and deputy members of the supervision boards for implementation of the action plan, took place over one year period. Majority of activities were planned to be completed by the end of 2007, but the actual realisation was slightly below 20%.

Figure 6. Public administration reform progress



Source: PARCO, 2011

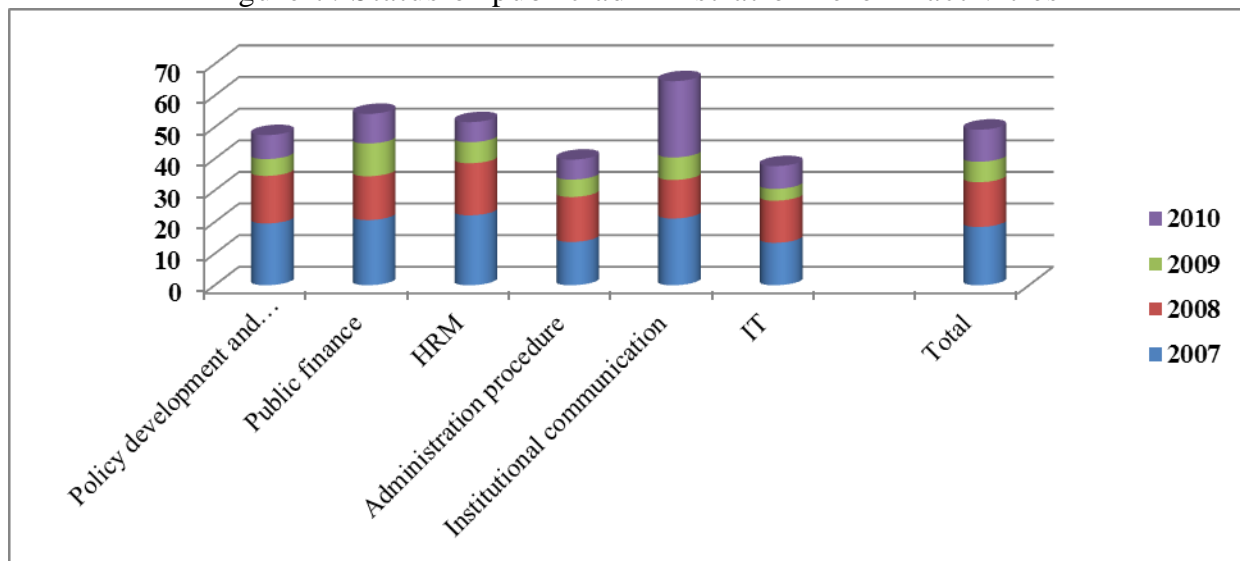
The action plan for strategy implementation listed activities, responsibilities and deadlines in six main areas: policy development and coordination, public finance, human resource management, administration procedure, institutional communication and information technology. These six

areas and aligned goals and tasks are presented in detail in Appendix 2 and are also further discussed under 5.2.1.

During 2007 PAR fund has been established by the embassy of the Kingdom of the Netherlands in Bosnia and Herzegovina, the Swedish international development agency (SIDA), the UK department for international development (DfID) and the Delegation of the EC in BiH and common platform on principles and implementation of the reforms is adopted. However, no single project started before mid 2009. So far, fund financed 11 projects in total amount of 2.7 million EUR, out of those 4 projects are finished, 5 are ongoing and 2 are in initial phase.

If we take a closer look by areas of implementation, they are not implemented by the same dynamics. Two areas, administrative procedure and IT, are slightly lagging behind, having implementation percentage below 40%, while institutional communication has almost two thirds of measures implemented and being leading area in terms of implementation percentage.

Figure 7. Status of public administration reform activities



Source: PARCO, 2011

The measurement of the status of PAR is rather quantitative and simplified. Proofs of reform success are sought after “rulebook adoption” and similar measures, while quantitative aspect of real effects in practice is not measured. For example, reforms are considered to be done at the moment of the adoption of respective rulebook in 2007, and in later progress reports, implementation is not discussed.

## **5. COMPARATIVE ANALYSIS OF PUBLIC ADMINISTRATION REFORMS IN BIH AND OTHER COUNTRIES IN THE REGION**

### ***5.1. Methodology and data***

The selection of methodology in research work is one of the key milestones and is crucial for retrieving valid results. It has to be led by the nature of research hypothesis, relevant questions and objectives. For this particular research we have to add also availability of data and data sources relevant for the topic as the publicly available data and reliable relevant statistics are missing. It is not only a case for this particular research, but is rather overall problem in BiH. That left limited methods and tools available for this research which is therefore primarily based on secondary data, using desk-based data collection method. Gathered data is systematically organised to enable comparative analysis. Due to the specifics of this research, majority of data is collected from secondary sources and they are organised and analysed primarily using the method of comparative analysis. The secondary data is collected from well-known and reliable sources.

With respect to the research work related to H1, the overview of theoretical framework and relevant reports and discussions on application of private sector standards in public sector is done. The particular emphasis is on the concept of new public management and experiences of countries that adopted the concept, making a distinction between developed and developing countries. The sources used for H1 are independent views of different authors and for every topic different views are compared using both proponents and opponents of different ideas and approaches. There is no empirical evidence for some of the statements, but sufficient amount of data is collected and sufficient number of references consulted to support the conclusions.

For the purpose of testing H2, the comparison of data is done on two levels. Firstly, undergoing reforms are assessed against best practices and principles established for public administration (OECD SIGMA). Here the latest reports of OECD have been analysed and the countries in the region have been compared in terms of assessment of public administration against SIGMA principles established by OECD. Besides the pure public administration comparison, other aspects of “Democracy and rule of law” part are also analysed as they provide a framework for qualitative functioning of public administration. Secondly, reforms are evaluated against achievements of the countries in the region in the same area as measured by EC progress reports. Here approach of the governments of the respective countries to public administration reform has been analysed. The criteria for comparison with BiH approach were: quality of strategic document (accuracy, goals, objectives), funding of the reform and progress in implementation. The assessments of EC and OECD SIGMA assessment used for H2 are based on standardised set of criteria and provide professional objective assessment which is easily comparable between countries analysed. The other sources used are independent views of different authors, like

NGOs, including self-assessment by institutions in charge. These sources added value in terms of objectiveness and better understanding of local specifics, but the conclusions to this research are predominantly based on the two main sources: EC and OECD assessment.

The research under H3 has been focused on analysis of the references to the EU accession and relevance that factor of EU accession has on the reform implementation and priorities. Data are collected during analysis of the strategies for public administration reform of the countries in SEE as well as during examination of relevant literature, articles and papers for other two hypotheses.

## ***5.2. Public administration reform strategies in the SEE region***

### **5.2.1. Bosnia and Herzegovina**

Council of ministers BiH adopted Strategy for public administration reform and accompanied Action plan in July/August 2006. The activities on revision of action plan have started and revised plan has been presented in December 2010 to relevant stakeholders. As of today, 8 months later the revised action plan is not adopted yet.

The strategy vision is to “develop a public administration that is more effective, efficient, and accountable; that will serve the citizens better for less money; and that will operate with transparent and open procedures, while meeting all conditions set by European integration, and thereby truly become a facilitator for continuous and sustainable social and economic development“(CoM, 2006, p.7).

The strategy is focused on improvement of general administrative capacity by reforming core horizontal systems and structures and strengthening primarily central administration at the level of BiH, the entities and Brčko district. The strategy defines preparation of two action plans, one that is incorporated into strategy at the adoption and the second one to be developed in first half 2007 with a focus on developing capacity in key policy sectors. As mentioned earlier, the second plan is not adopted yet, although the deadline was four years ago.

The action plan 1 provides details on areas in which reform shall take the place, time schedule and responsibility for implementation. Activities are organised in six main areas:

1. *Policy making and coordination capacity* aims to improve central policy capacity and coordination across various levels of government as well as link between policy development and budgeting.

2. *Public finance* aims to establish efficient financial management system and strengthen control environment within which the administration operates.
3. *Human resource management* objective is to develop a professional, political impartial, nationally balanced, ethical, stable and responsive public service.
4. *Administrative procedure* addresses the need to upgrade this area to become a functional reliable, efficient, transparent, accountable and coherent tool of a modern, client oriented public administration able to join European administrative space.
5. *Institutional communication* shall strengthen public relations capacities in public institutions, gain public support by creating positive attitudes towards public institutions, and encourage active public participation in the decision making process.
6. *Information technology* aims to improve information flow and citizens participation through increase of IT utilisation in public administration. (CoM, 2006)

The action plan contains list of 220 activities under these six areas as well as over 400 steps to be implemented within these activities. The largest number of steps - 121, is foreseen in area of human resource management. Overall, many of objectives are general and vague and responsibilities are not clearly defined. For example, there are activities and steps that shall be taken by “all” or “governments”. Also, deadlines are not precise and include: “by 2007”, “late 2008”, “2010” etc. Further details on the action plan areas, sub-areas and objectives are presented in Appendix 2.

The reform is to be implemented in three stages, the first one – initiation and consolidation to be implemented by the end of 2007, the second stage in the period 2007-2010 is expected to result with the basic horizontal system in place, while by the end of 2014 the objective is to reach the quality level of the European administrative space (EAS).

Management of the reform process is divided into several levels from political leadership to operational force – working groups:

- political leadership is with Board for economic development and European integration who closely cooperate with Office of PAR coordinator;
- the PAR coordinators include state coordinator for PAR and coordinators in FBiH, RS and BD, which have to be at least at the assistant minister position;
- the PAR task force include cooperation with Directorate for European integrations and the responsible institutions for European integration at entity level and representatives of government from different administrative levels;
- working groups have to be established as operational force for reform activities.

Measures of success are simplified and quantified and refer mostly to the “establishing working group”, “monitoring progress”, “adopting law, or other document”.

### 5.2.2. Albania

Within the framework of the National strategy for development and Integration, in January 2008 government of Albania has adopted Strategy of public administration inter-sectoral reform 2008-2013. The strategy aims to establish a sustainable, professional and well organised administration, based on decision making process that is transparent, inclusive and accountable to the public. This aim requires determination of basic priorities in the strategic and operational improvements to the system of public administration. In that regard three main directions are recognised:

- modifications and improvements in the civil service in general and HRM;
- modifications in organisational and functional system of public administration structures;
- modifications and improvements in procedures and tools that determine the quality of decision making and the quality of public administration services.

Each of the areas is analysed from the point of measures taken so far and the measures that shall be undertaken in future period. The analysis by areas is detailed and focused with concrete measures and goals defined. The central focus of the strategy is related to civil servants and establishment of the framework for recruitment and development of human resources. For this purpose Training institute for public administration is established and by the end of 2013 a School for public administration shall be established as well.

An integral part of the strategy is action plan that includes measures, timelines and assigning of the responsibility. The main topics and actions are summarised as follows (Government of Albania, 2008):

- *civil servant status and HRM*: Measures in this area include review of the civil servant status, institutional strengthening of the key bodies in the implementation and reviewing internal relations. Activities are focused on preparing detailed policy document and reaching consensus for respective reforms, drafting and adopting necessary legislative framework for implementation and making operational improvements in databases and reporting along with institutional strengthening.
- *decision making procedures and services*: Measures in this area include review of the administrative procedures, establishing electronic register of administrative act and implementation of models called one-stop-shop and approval in silence. Activities are related to conducting relevant studies on the basis of which the respective activities will be implemented.

Particular attention is also paid to setting up effective monitoring and rating system and therefore the strategy has identified 15 areas of indicators against which the success of the strategy will be



measured. Each of these areas has defined indicator, data sources, role and responsibility and reporting approach.

Implementation of the strategy is in jurisdiction of Department of public administration and civil service commission, which also have responsibility for accountability, monitoring and rating analysis of the strategy implementation. The particular emphasis is on accountability, monitoring and rating analysis and a number of synthetic indicators linked with the reform inputs, processes and outcomes. These indicators have to be used for analysis of reform progress in preparation of annual report which has to be publicly available. Department of public administration reports to Ministry of interior and upper levels of government, if necessary, while Civil service commission reports directly to the parliament (Government of Albania, 2008).

### **5.2.3. Croatia**

The strategy of public administration reform in Croatia is dated to March 2008 and covers period of three years. The strategy defines a vision and objectives of modern administration along with indicators of implementation and measurement of results of public administration reform. The main goal of reforms is joining Croatian public administration into European administrative space by implementing reforms in five main areas (Government of Croatia, 2008):

1. *structural adjustment of public administration*, from structure to good governance which includes reorganisation of public administration to increase performance and savings; improvement of coordination and harmonisation in service delivery as well as openness of the administration towards citizens and participation of citizens and civil society;
2. *improvement of legal system*, through improving the quality of programmes, laws and regulations, in particular in areas of strategic planning, programming (designing, strategy drafting, political recommendations), performance measurement and enforcement of laws;
3. *modernisation of civil service system* refers to depoliticisation and professionalization of civil service, improvement of development systems and human resource management, anti corruption activities and strengthening of ethics in public administration and introduction of accountability and performance based pay;
4. *education of civil servants* as continuous process of improving their knowledge, skills and competencies based on functional analysis of current and future needs and establishment of efficient system of continuous training and education programmes;
5. simplification and modernisation of administration activities through *e-government* which will improve accessibility of those services to citizens and support business sector development.

The strategy defines several principles that have to be respected in the course of implementation: establishment of foundations for long term effects, professionalization and sustainability of

results of reforms, significant participation of citizens, civil society and public, decentralisation and partnership and protection of citizen's rights. Measurement of success includes a number of concrete metrics such as annual surveys on citizens satisfaction, maximum 10% of GDP may be spent to salaries in public administration etc.

The implementation of reform is done by Central state administration unit, while the important role shall be played by National council for valuation of public administration modernization, which shall make annual valuation of results and revision of strategy in two years from implementation start date. Before strategy adoption the reform was implemented through CARDS and PHARE programs. Some measures as "Hitrorez" were introduced aiming at significant reduction of administrative barriers to development of entrepreneurship, "One stop shop", for example.

Education of public servants is planned from the very beginning of strategy implementation. Some very practical measures are defined like the rule that each of the public servants that works on improvement of legislation has to have good knowledge of foreign languages, objectives on the qualification structure change within public administration etc. (Government of Croatia, 2008).

#### **5.2.4. Kosovo (under UNSCR 1244/99)<sup>1</sup>**

Government of Kosovo (under UNSCR 1244/99) has adopted strategy for public administration reform in March 2007 covering period of next five years. The integral part of strategy was an action plan, which was revised in August 2009 and at the same time the strategy has been revisited with conclusion that there is some progress in reform activities but lower than expected. In general only 35% of planned reforms were implemented. That was the reason to update strategic document to reflect new political context as well as other identified obstacles. The new strategy was adopted by government in October 2010 and „paves the way not only to the convergence to European administrative space, but also to the overall European integration process“(Government of Republic of Kosovo (under UNSCR 1244/99), 2010 p.4 ).

The strategy originally was focused in eight areas, but the revised strategy is expanded and is going to be implemented through measures in 12 areas:

1. *policy management* with the main objective to reorganise system and build institutional capacity for transparent development of public policies;
2. *legislative drafting* with the main objective to reorganise system and build institutional capacity for planning, drafting and monitoring of legislation preparation;

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<sup>1</sup> Name Kosovo is used in line with UN Security resolution - UNSCR 1244/1999

3. *ethics and transparency* integrated to public administration which shall be ethical, transparent, responsible, non-corrupted, non-discriminatory and with equal opportunities;
4. *communication and citizens participation* with the main objective to reorganise communication system and strengthen citizen participation in process of policy and legislation drafting;
5. *budget planning* based on priorities set by government, to support development policies that address public policies and citizens needs;
6. *budget execution* process improved through increased performance in dealing with requests from budgetary organisations according to established set of criteria;
7. *internal control and audit* system improvement in terms of quality in controlling public sector units;
8. *public procurement procedures* modernisation to align them with best practices and standards;
9. *reorganisation of public administration* through reorganisation of executive branch of government according to recommendations from functional review;
10. *human resource management* with main objective to build professional, impartial, independent, merit-based civil service oriented towards citizens and businesses;
11. *rationalisation of administrative processes* by improving of quality of administrative services through digitalisation of administrative processes;
12. *e-government development* with the main objective to reach digitalisation of government and public administration.

Originally responsibility for implementation and monitoring of the strategy was with inter-institutional working group and the network of sub-working groups. The analysis of strategy implementation in August 2009 identified the need to strengthen this capacity in order to accelerate reforms implementation and supervision. As a result, the driving force according to revised strategy for reform implementation is public administration reform inter-ministerial commission in coordination with Ministry of public administration. In addition, responsibility is assigned to different ministries for implementation of reforms in each of listed areas: Office of the Prime minister is in charge for area 1-4, Ministry of economy and finance for areas 5-8 and Ministry of public administration for areas 9-12. Public administration reform inter-ministerial commission consists of: one deputy prime minister who is the chair of commission and four members – ministers of: public administration, economy and finance, European integration and local government administration (Government of Republic of Kosovo (under UNSCR 1244/99), 2010).

The progress reports have to be prepared annually. The strategy is accompanied with action plan, where the later is only available in Albanian language, so it was not possible to comment on it.

### 5.2.5. FYR Macedonia

The public administration reform strategy 2010-2015 is a continuation of reforms undertaken under “old” PAR strategy (1999-2010). The PAR strategy 2010-2015 defines its way of implementing reforms as “selective – radical” way which actually means that “radical strategy is not needed” and therefore the changes will not be very broad or radical. But it is underlined that the full EU membership status is one of the main objectives and PAR is one of the preconditions for the EU accession.

Overall objective of PAR is to achieve *good governance* and ensure full incorporation of public administration into the *European administrative space*. There is also a number of specific objectives (Government of Republic of Macedonia, 2010):

- improving the quality of administrative services through the contemporary IT solutions (“E-government” and “E-administration” concepts);
- improving the public service quality by strengthening human resource management and HR development function;
- improving strategic planning and policy coordination function;
- raising efficiency and effectiveness of the public finance system;
- improving openness and transparency of public administration through improved access to public information.

The implementation of PAR strategy includes 6 main horizontal pillars:

- *administrative procedures and services* refer to the improvement and simplification of the administrative procedures, strengthening of decision-making process and reaching functional, reliable, efficient, transparent and accountable system;
- *strategic planning, coordination, policy making and better regulation* which covers several aspects, particularly impact assessment, removal of administrative obstacles, inter-sector coordination and coherency, public consultation, accessibility of regulations;
- *civil service system and HRM* system improvement in order to protect the rights and the interest of citizens and organisations;
- *public finances system* refers to the number of activities to be undertaken to reach improvements in areas of public finances, public procurement and external financial audit;
- *e-government and e-administration* strategy aims to introduce a massive and efficient use of electronic communication and information technologies in conducting out public administration activities;
- *anti-corruption* refers to the upgrade of existing activities and efforts on implementation of anti-corruption legislation, instruments and practices.

The PAR is coordinated by public administration reform unit at the sector for policy analysis and coordination within the General secretariat of the government. Action plan is to be implemented in three stages. In short term (by end 2011), objective is to initiate and consolidate key systems and conclude the corresponding legislative adjustments. In following two years the goal is to have the basic horizontal systems in place, strengthened and harmonized to adopt and implement the *acquis*. The third stage aims to reach quality level of the European administrative space by the end of 2015 (Government of Republic of Macedonia, 2010).

#### **5.2.6. Montenegro**

In March 2011 government of the Republic of Montenegro, has adopted strategy of public administration reform in Montenegro 2011-2015, so called AURUM. This strategy is a continuation of previous strategy document, so called PARiM that covered reform activities in the period 2002-2009. The strategy analyses the achievement in past period and defines further reforms needed in upcoming period. The reform activities are divided on two levels: state administration level and local self-government units.

At the state administration level main activities include: structural adjustment on the model of best European standards, stabilization of public finance, improvement of the civil service system, improvement of the quality of regulations and strategic documents, improvement of administrative procedures, improvement of the electronic management system for documents and inspection system reform. At the same time it is important to raise the level of ethics among civil servants.

The functional analysis at the level of local self government units showed that main problems to be resolved are: overstaffing and financing problems, lack of interaction with citizens, lack of transparency and motivation of civil servants, lack of effective inspection system, low quality of service delivery and complex and costly administrative procedures. The reform aims to make improvement in those areas (Government of Republic of Montenegro, 2010).

Each of areas discussed include baseline data, objectives and direction of future activities. The strategy ends with an action plan which defines objectives, activities, responsibilities, deadlines, indicators and financial resources. The action plan is organized around several groups of activities, namely:

1. *structural adjustment of public administration* according to the best European standards, including reorganisation, rationalisation and better coordination of public administration, increase of efficiency as well as improved openness, accessibility and citizens participation;
2. *public finance stabilisation* by introducing unified policy of merit based payments as well as better planning and control of expenditures;

3. *civil servant system improvement* by further development of HRM through introduction of merit based recruitment and promotions as well as comprehensive training programmes
4. *improvement of strategic documents quality* by introducing obligatory feasibility study of regulations on law system, implementing regulatory reform and coordination of public policies;
5. *administration procedure improvement* in order to ensure better quality of public administration services to citizens and organisations;
6. *e-government improvement* throughout public administration;
7. *improvement of inspection system* by introducing adequate organisation, precise responsibilities and strengthening human resources and technical capacities of inspectorates;
8. *increasing the level of ethics within civil servants and fighting against corruption* is one of the main priorities of Montenegro government;
9. *local self-government development* through higher level functional and fiscal decentralisation and enabling fair economic development at a local level.

The examples of success indicators include general things like “conducted analysis”, ‘draft of law”, decrease by 1% in total costs of salaries, “established system” etc.

Ministry of justice was in charge of coordination of public administration reform until 2009 when deputy Prime minister overtook the role. Also, in 2010 government council for administrative reform was established (Government of Republic of Montenegro, 2010).

### **5.2.7. Serbia**

In October 2004, government of Serbia has adopted strategy for public administration reform. The strategy was accompanied by action plan for strategy implementation which originally covered period 2004 -2008. Following the implementation of the strategy, the new action plan for the period 2009-2012 was adopted. The main objectives of public administration reform are related to building of democratic state based on legal principles, responsibility, transparency, effectiveness and efficiency as well as building of public administration which is citizen-oriented and able to provide high quality services to citizens and businesses. Strategy also defines main principles that have to be respected by government in implementing reforms and they include principles of: decentralisation, de-politicisation, professionalization, rationalisation and modernisation (Government of Republic of Serbia, 2009).

The recent action plan (2009-2012) recognises 6 areas where reforms have to be implemented:

1. *decentralisation* process shall start with establishing platform and coordination mechanisms and result with a strategy on improving effectiveness of local self-government units and protection of citizens' rights and interests;

2. *professionalization and de-politicisation* aims to improve civil service system and ensure continuous professional development;
3. *rationalisation* refers to improvements of effectiveness within organisational structure, increase of efficiency of public administration units, enabling decentralised EU funds management of IPA funds and modernisation of legal framework;
4. *public policy coordination* is to be improved based on developed methodology and strengthened capacities of the staff and established preconditions for strategic planning inputs and increased quality of the operative planning process;
5. *control mechanisms* refer to improvement of internal control system and other forms of supervision and strengthening public administration bodies' capacities to increase transparency and accountability including development of external control mechanism;
6. *e-government - public administration modernisation* covers a number of activities such as establishing legal framework and national records system, enabling electronic data exchange, establishing information communication infrastructure, e-government service development, and re-engineering of administrative processes and introduction of new IT solutions.

In addition the set of measures is defined to facilitate action plan implementation and promote public administration reform. The main principle is to create a wide platform and commitment within public administration and wide public auditorium to support the reform processes. Each of those areas is detailed by defining: desired impact, baseline, output, activity, timeline, indicators, financial sources and implementing agency. Control mechanisms for public administration are established through internal and external control with different inspections and courts in charge.

The management of public administration reform has to respect two main requirements: continuity and consistency. Continuity refers to two areas: the reform itself since reform is not one-off process and at the same time the continuity of public administration work which cannot be stopped or interrupted in its ordinary activities. On operational level, Ministry of public administration and local self-government is in charge for implementation of reforms (Government of Republic of Serbia, 2009).

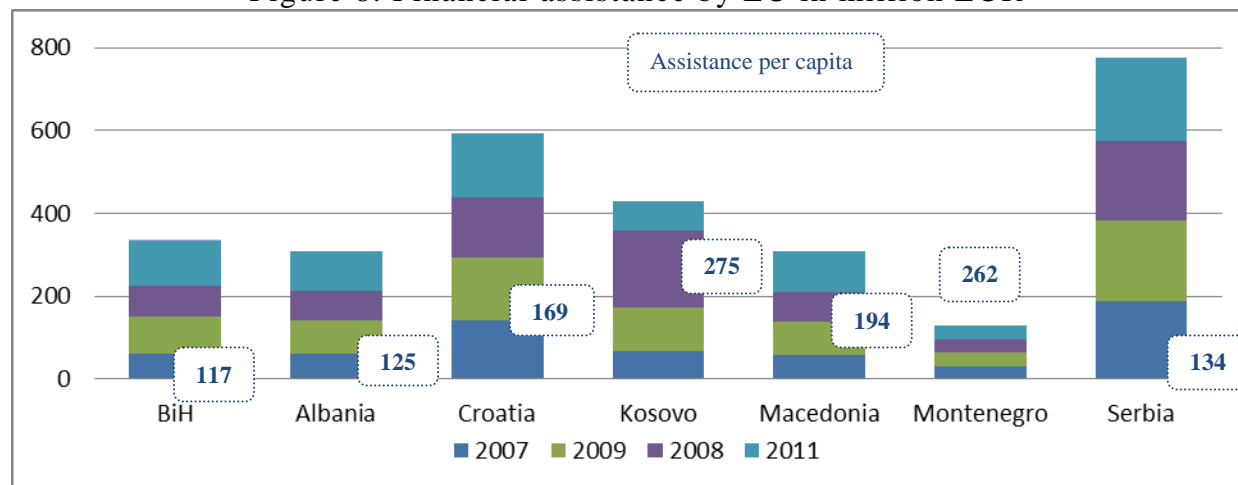
### ***5.3. EU accession status and support***

The current status of the countries analysed in terms of EU accession status is presented in Appendix 3. It shows that BiH and Kosovo (under UNSCR 1244/99) are the only two countries that have no SAA fully in force. These two countries also have much stronger presence of EC and international community and benefit from other support besides IPA financial assistance. Among countries analysed only Croatia managed to decentralise financial assistance system. All other countries have so-called centralised system whereby the EC delegation manages financial assistance in respective country. Croatia also got the date for EU accession and recently Serbia

got a recommendation for candidate status. By this, only BiH, Albania and Kosovo (under UNSCR 1244/99) will remain potential candidates among countries in the region.

EU significantly supports the countries in the region in different terms including strong financial assistance. In Figure 8 the annual amounts allocated to the countries are provided showing that financial assistance remained constant despite the global economic crisis in last few years. The highest assistance per capita is provided to Kosovo, followed by Montenegro while BiH was the country with smallest per capita assistance within countries in the region.

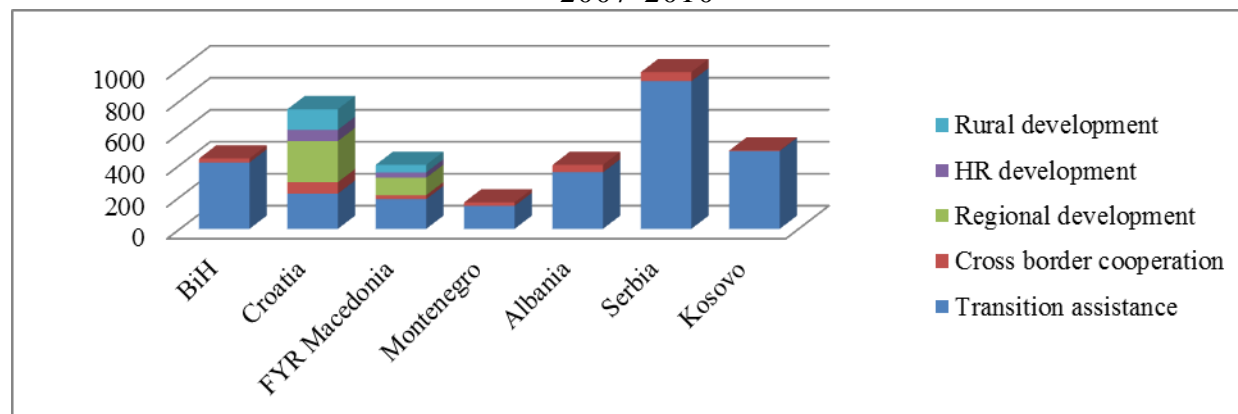
Figure 8. Financial assistance by EU in million EUR



Source: Data on Financial assistance: EC web site, n.d., [http://ec.europa.eu/enlargement/candidate-countries/index\\_en.htm](http://ec.europa.eu/enlargement/candidate-countries/index_en.htm) and data about population World bank web site [www.worldbank.org](http://www.worldbank.org)

The structure of funds provided to the countries varies and except Croatia and FYR Macedonia, the funds are still committed only for two of five IPA components: transition assistance and cross border cooperation, with clear dominance of the transition assistance funds.

Figure 9. Structure of IPA assistance by components - total commitments in period 2007-2010



Source: EC web site, n.d. [http://ec.europa.eu/enlargement/candidate-countries/index\\_en.htm](http://ec.europa.eu/enlargement/candidate-countries/index_en.htm)



One of the key issues for all countries is related to HR development and functional analysis of the public administrations of respective countries recognised lack of capacity and competent staff as a main problem. As it can be seen from Figure 9, only Croatia and FYR Macedonia benefited from funds in the area of HR development.

#### **5.4. Public administration reform progress**

One of the most prominent sources for assessment of the status of public administration in the region is a joint initiative of OECD and EU established in 1992 and named SIGMA — support for improvement in governance and management in CEE. On their way to EU accession, candidate countries need to reform their public administration to be in line with Copenhagen and Madrid criteria for accession whereby most areas of government are covered by *acquis communautaire*. *Acquis communautaire* does not set standards for horizontal systems of governance in public administration, but over time a general consensus on the components of good governance has been reached creating the so-called “*European administrative space*” (OECD, 1999).

SIGMA paper No.27 defines European principles for public administration setting the framework and standards that EU candidate countries have to meet. These components include the rule of law principles of reliability, predictability, accountability and transparency, but also technical and managerial competence, organisational capacity and citizens’ participation (OECD, 1999).

The latest available SIGMA assessments on the status of public administration against European principles for public administration are analysed in this chapter. SIGMA assessment report analyse 5 main areas: democracy and the rule of law, civil service and administrative law, integrity, public expenditure management and control, public procurement, and policy making and coordination. Public administration that is assessed under democracy and rule of law is presented separately, summarising the main characteristics of the public administration in general. Later, the aligned topics were analysed for better understanding of the framework and details about current status of the country and public administration reforms, in particular area from the stand point of their effectiveness and quality, as preconditions for efficient public administration reform. In addition, EC progress reports are used as a source of assessment of the progress of public administration reform in 2011, along with other independent sources, such as NGOs, researchers and similar, as available per each country.

Appendix 4 summarises conclusions on public administration reforms in two reports: EC progress reports 2011 and OECD SIGMA assessment reports 2010. It is important to underline that OECD SIGMA provides current assessment of the status of public administration, while EC reports provide assessment of progress in 2011.

#### **5.4.1. Bosnia and Herzegovina**

Both, EC and OECD have used strong wording in terms of BiH progress in implementation of reforms in public administration: “The notion of public management – skills, authority, responsibility and accountability – is not understood” (OECD, 2010b, p.4) and “Little progress was made in the area of public administration. Continued fragmentation and politicisation of the civil service system remain issues of concern,” (European Commission, 2011a, p.11). These reports are recognising public administration in BiH as ineffective, fragmented system with weak management capacities and lack of clear responsibility at the various levels of government. The civil service is highly politicised and in urgent need for professionalization, transparency and introduction of merit based systems.

Civil service system is based on position system and nature of work is not defined in terms of tasks but as position held and/or educational level required. Performance of civil servants is done at least once a year, which may lead to promotion to higher category, but only through a public competition procedure (RESPA, 2009).

The core issue is lack of political support in reform process. Public expenditure management is under additional pressure for cutting expenses through structural reforms as a result of standby agreement with IMF. The budget planning and management capacities are weak and combined with lack of coordination between different levels of government. There is no progress recorded in area of public procurement reform, neither public finance internal control (PFIC). Supreme audit institutions have a sound basis, but they have no constitutional standing and their reports are not fully used by parliaments (OECD, 2010b).

In addition to the assessment of public administration it is important to underline some critical aspects from other areas assessed by EC and OECD, such as:

- lack of respect for fundamental democratic tenets, electoral system in contradiction of the European charter of human rights and endangered freedom of media;
- setup on unsuitable basis for an effective democratic state;
- weak professional capacities of parliament;
- no legal certainty is guaranteed by judicial system;
- public governance system is a “fruitful ground” for corruption.

NGOs in BiH mark the progress in public administration reform as decelerating (ACIPS, 2010) which is frustrating having in mind the importance of the reform from two reasons: EU accession and dissatisfaction of citizens. Analysis done by ACIPS follows the previously discussed issues around implementation of NPM in developing countries: reality of the reform and resources for its implementation. The main questions to be answered are related to the share of quality in so far

recorded progress expressed in quantitative terms, and three essential ingredients of any process: will, knowledge and money. It is not hard to prove that all three ingredients are missing in case of public administration reform in BiH. The lack of political will is identified as the core issue in PARCO reports and without thorough analysis of politicians' activities it is visible that public administration reform is not at the top of their agenda. But, two other ingredients, knowledge and money, seem to be tightly connected. There is limited amount of money, so education is suffering. Team members in working groups are not motivated as they do not receive extra compensation for their work. When there is money available to spend, then the public procurement becomes a problem. It looks like a paradox: reformists are not motivated for reforms, although the main aim of the reform is change of culture. In private sector innovation and participation in new projects are a matter of prestige for employees and usually help a lot in their career development. Poor public procurement rules are known factor, so in implementation of reform agenda this shall be taken into account.

In addition it is important to mention a lack of interest from citizens and private sector due to lost trust towards public administration. Centre for human politics conducted citizens' survey to obtain answers on 4 questions: 1) Do citizens notice any progress in public administration reform; 2) How citizens perceive quality of services in public administration; 3) On which administrative level the reform is most important for citizens; and 4) Which are the main problems that citizens are faced with within public administration. According to this survey, 70% of citizens do not notice any improvement, only 10% of interviewed citizens are satisfied with public administration reform and 70% of citizens consider reform at a local level of administration as most important. The main problems that citizens have associated to public administration in BiH are grouped in four areas (Centre for human politics, 2008): 1) *lack of professionalism*: public administration servants are recognized as impolite, rude, incompetent and unqualified; 2) *inefficiency*: slowness, complicated procedures, long waiting and crowdedness; 3) *corruption* : by the public servants; 4) *politicisation*: political eligibility is a pre-condition for employment in public sector.

#### **5.4.2. Albania**

The main findings on Albanian public administration are as follows (OECD, 2010c, European Commission 2011b):

1. Albania set many elements of legal administrative framework and the civil service system, mostly in line with European standards and practices;
2. the problems arise in implementation of the legal framework and the respect of rule of Law by the public governance system;
3. the organisation of administration is formalistic and bureaucratic and separation between executive and legislative branches is still not in place;

4. public service is politicised, combined with corruption and lack of transparency, in particular in appointment;
5. human resource management is a problem due to high turn-over of staff as well as understaffing of the central government.

Albanian civil service law is based mainly on job/position system and includes some elements of career system, defining that only university graduates may be civil servants in the professional staff category. All civil service employees are subject of annual evaluation based on achievement of objectives and skills necessary to fulfil the tasks. Civil servant cannot obtain performance-based increase of salary as the salary is increased only by reaching higher-rank position, but annual bonuses are awarded to those who have the best marks (RESPA, 2009).

In regards to public expenditure management the legislative framework is significantly improved but PFIC activities are in a very early stage. There is a positive progress towards alignment of public procurement laws, but the concession laws do not comply with EC directive nor reflect the fundamental principles of the EC treaty. Albania has introduced electronic procurement system but does not understand the principles of procurement making the whole process purely mechanical (OECD, 2010c).

By independent researchers the reforms are marked as the measures to reveal the pressure of international community on Albanian government rather than real commitment to reforms (Cepiku & Mititelu, 2010). Due to the historical reasons and long period of country closeness to the outside world, Albania has inherited weak local and strong central government. Local government refers to communes, municipalities and regions, so the process of strengthening of the local level is rather complex.

The key challenges for Albania in implementing reforms may be summarized around following (Cepiku & Mititelu, 2010):

- reforms were addressed mechanically and formally, by drafting laws and establishing new agencies, without taking care of qualitative aspects and real implementation of the reform;
- Albanian PA remains rigid hierarchy with custodial attitude towards citizens;
- to a large extent government “outsourced” the management of reform to external assistance which in turn created problems in terms of lack of sufficient knowledge of local conditions as a precondition to select reforms that will suit the best to the Albanian environment;
- in addition to outsourcing, there was no coordination between different donors’ initiatives;
- weak administration capacity and poor coordination of decentralisation;
- high fragmentation and small size of local units combined with undefined role by different levels of government;
- absence of clear standards and measurement criteria of performance.

### 5.4.3. Croatia

EC 2011 progress report recognises progress in public administration reform. However, further improvements are needed in improving professionalism and ensuring efficient implementation of legal framework. In particular it refers to the area of HRM legal framework for developing a merit based professional civil service and addressing the issue of turnover and retention among newly employed staff (European Commission, 2011e).

Positive developments have taken place in the area of administrative law and potential for further improvements in the administration is increasing. A separate Ministry of administration is established and the new ministry's capacity is still developing, due to the country's difficult economic situation. Substantial progress is made in area of public expenditure management and PIFC, but system does not yet comply fully with international practice. The new Law on general administrative procedure has created better conditions for political visibility and guidance of the public administration reform process. The prospect of EU membership in the coming years clearly has a positive impact on the readiness to implement the necessary changes. A relative concern is related to the respect of rule of law by public governance system and legal framework suffers from a persistent formalistic and detailed approach. The key evidence of good fiscal policy in Croatia has been the fiscal adjustment process. External audit institution has a strong reputation. The public procurement system in Croatia complies fully and is harmonised with the EC directives. Croatian legal framework for the policy system is adequate, with a good sequential system in place for fuelling items and for conflict resolution in preparation of government sessions, but despite improvements in recent years, the quality of policy development and law-drafting in ministries remains variable and overall poor. It is worth mentioning that democratic processes are well embedded in political system; there is also strong political commitment in fighting corruption and promoting integrity, including the new training system for recruiting judges (OECD, 2010d).

In Croatian civil service career system elements are more pronounced by the new law, although it is still combination of a job (position-based) system with elements of a career system. Candidates for the civil service have to take a special examination after the probationary period. Civil service law provides for a merit-based and competitive recruitment. Performance appraisal is done once per year and it has an influence on the salary grid (RESPA, 2009).

As Croatia is the most advanced country in the region in terms of EU accession, it is valuable to extend the analysis to preconditions and solutions during implementation of the reform. The problems that occurred during implementation of reform in Croatia may be categorised in two groups, as limiting factors in relation to the state and local self-government units. These limiting factors are presented in Table 4.

*Table 4. Limiting factors during reform in Croatia*

|  |   |
|--|---|
| Commitment (declarative vs. real)                                    | A large number of local units: 424 municipalities, 122 towns, 20 Counties and the City of Zagreb  |
| Treatment of reform activities as ones in regular course of business | Negative past experience on transferring some affairs to local level due to financial constraints |
| Setting short deadlines to accommodate public pressure               | Overtaking new responsibility and new tasks   |
| Cooperation of government officials and foreign experts              | Lack of competency and skills on local level  |
| Burden on small number of competent staff                            | Opposition by local officials to take more responsibility   |
| Opposition to decentralise at central government level               |   |

Source: *Antić, 2002* p.130-132

The main similarity with Bosnia and Herzegovina is high number of administrative units. But at the other side the main difference is the path of the reforms. The major reform in Croatia was decentralisation and this is quite opposite to the situation of Bosnia and Herzegovina, where the strategy of public administration reform tackles primarily central level. However, these are two sides of the same coin and it is useful to analyse path and the problems in implementation to identify lessons learnt and pitfalls during implementation.

The core critics from Antić (2002) reflects the presence of popularism which resulted by setting short deadlines for reform to meet expectations of citizens towards implementation of reforms on the way to EU accession. All documents related to reform stressed strong political will and commitment, but it was not accompanied with clear strategy, thorough analysis of the current status, neither with concrete programs with goals, implementation rules and responsibility assignment.

#### **5.4.4. Kosovo (under UNSCR 1244/99)**

The recent progress and assessment reports (European Commission, 2011d, OECD, 2010h) underline some progress in public administration reform, which, similar as other countries in the region, is related to the number of laws that have been adopted.

Kosovo's system for policy making and coordination is marked as good, having in mind very short period in which institutions are established. However it is important to underline that decision making remains highly concentrated at the top level of hierarchy. The main improvement is related to the new Law on the civil service which sets good grounds for reform in this area. It is to be followed by bylaws that will ensure implementation of law.

The progress is also noticed in the area of financial management and public procurement. Further improvements are needed and the main concern is related to implementation capacity. The Law on administrative procedures is in place since 2006, but its implementation is not satisfactory and implementation of recommendations from the functional review study is very slow. The decentralisation process is also taking place and the first results are visible through creation of four new municipalities.

The main problems in Kosovo's public administration reform are recognised around HRM. The employment in public sector is characterised with high level of politicisation, overall lack of capacity, low level of professionalism, high turnover and low level of salaries. Some of the main general issues related to sufficient ground for public administration reform include (OECD, 2010h):

- lack of full respect of public governance system towards rule of law;
- weak capacity and oversight function of the parliament;
- gains in implementation of public procurement system;
- overall lack of capacity in policy development and law-drafting.

For Kosovo (under UNSCR 1244/99), it is also important to mention the huge pressure arising from the statehood. The status of Kosovo (under UNSCR 1244/99) and still unstable environment with armed conflicts create tough environment for reform processes. Strong presence of international community and their influence has twofold impact on reform processes: on one side Kosovo (under UNSCR 1244/99) benefits a lot, but on the other side it loses opportunity of building its own capacity to deal with internal problems. The lack of donor coordination is also important obstacle that has to be addressed properly.

#### **5.4.5. FYR Macedonia**

In 2011, progress in public administration reform was made in terms of policy coordination and legislative developments, but overall it was quite limited. Significant additional efforts are needed to guarantee transparency, professionalism and independence of public administration, in particular in the area of legal framework (European Commission, 2011e).

There is a number of positive development in terms of sound system for policy planning, policy making and coordination, legal framework for the policy system in FYR Macedonia is assessed as "excellent", public expenditure system contains many preconditions for an effective and efficient administration and the public procurement law is nearly fully compliant and harmonised with the new EC public procurement directives (OECD, 2010f).

Macedonian civil service system is position based, in principle. Civil servants must be recruited through public vacancy announcement. Annual assessments of civil servants are prescribed, there is no early career preference stimulating a higher inflow of professional candidates from outside public administration (RESPA, 2009). The new Law on public servants is not in line with the EU standards of good legislation and the internal organisation of administrative bodies needs to be rethought. The merit-based recruitment is not guaranteed by the law and there are far too many exceptions leaving too large room for discretion (European Commission, 2011e, OECD, 2010f).

The current administrative framework reflects the authoritarian understanding of the past, there is no legal protection against administrative decisions, it is too detailed for the level of the law and prescribes lengthy and unnecessary procedures. In addition, there is a lack of respect of the law and democratic institutions, oversight function of parliament is rather weak, and there is high dependence and direct political influence on the election and dismissal of judges. FYR Macedonia has division of power into legislative, executive and judiciary; but in implementation principles of balance and mutual control are not guaranteed. The Supreme audit institution has still not been granted constitutional protection. The legal basis for PFIC in Macedonia improved but linkages with other laws missing and PFIC arrangements cannot work effectively therefore (OECD, 2010f).

The local experts argue that in FYR Macedonia approach in delivering public services is eroding in organisational, managerial and professional sense due to use of copy/paste approach in reform processes and ignoring local contingency factors. The success of reforms depends on the addressing, at the first place on issues around weak administrative capacity, high-level corruption and highly-politicised decentralisation process (Dimeski, 2011). The paradox of declarative commitment of rightsizing of public administration and at the other side massive hiring of employees without concise rightsizing strategy reflects formalistic approach (Analytica, 2009).

#### **5.4.6. Montenegro**

Public administration reform in Montenegro has benefited from establishment of a comprehensive legal framework. By this preconditions for reform implementation are in place and respective activities to enforce the legal framework shall follow to ensure quality of services and alignment with European standards and principles.

However, the reform did not tackle the core area of civil service management and introduction of merit system. The Montenegrin civil service system is designed as position system. Recruitment is carried out as internal or public announcement, appraisals are done once per year and promotion opportunities are directly connected with appraisal marks provided that servant receives the appraisal mark “good” for three consecutive years or receives the appraisal mark “excellent” two time in the row (RESPA, 2009). But in practice the recruitment and promotion



processes are highly dominated by patronage networks, clientelism and politicisation. HRM is an issue as a matter of proper competence as well as weak understanding of managerial accountability (OECD, 2010g).

The critics of Montenegrin public administration system are largely based on the reality of reform: there are a lot of things going on, but only on the paper, not in real life. There is a capacity and legal and regulatory preconditions, but what is missing is will and knowledge to implement reform features in practice.

Some of the main challenges to be addressed by Montenegrin government include (OECD, 2010g, European Commission, 2011g):

- ensure strong, long-term political commitment for reforms;
- simplification of administrative procedures;
- establishment of effective regulatory framework to monitor corruption and conflict of interest;
- improved access to public information;
- intensive human-capacity building;
- ensure respect of the law and democratic institutions (not only on a paper);
- cope with politicisation of civil service.

PFIC is in very early stage of development as well as Supreme audit, while procurement system has a number of deficiencies and needs alignment with modern principles. Maybe the best illustration of the quality of procurement is a quote from OECD Report: “Public sector institutions do not hesitate to disregard legal provisions or binding procedures as they see fit“(OECD, 2010g p.5).

If we take a look at independent, local sources comments, we may see that they share the view of international sources: the reform is paper one and is not based on any thorough analysis nor is offering real working solution but rather the policy of ticking the box to literally satisfy conditions that pop up on the way to EU accession. The reform is virtual from its foundation – strategy, which is lacking comprehensive analysis and measures of success (Institute Alternativa, 2010).

#### **5.4.7. Serbia**

European Commission report recognises administrative capacity as well developed at the central level and weak at the local level. Overall, the capacity of public administration is good, but reforms are at a slow and uneven pace due to the lack of coordination of main stakeholders and

insufficient managerial capacities. There is a need for further alignment of legislation and establishment of a merit-based recruitment and career system (European Commission, 2011f).

Public bodies are bounded by law in decisions and activities, but the administrative procedures need upgrading especially in terms of a more solid legal certainty and predictability. Agencies as ad hoc forms become popular, but in practice they become parallel state administration, without clear accountability. Public procurement and concession system need legal and institutional reform, while public expenditure system has been strengthened. Civil service law from 2005 distinguishes between civil servants and political employees, but merit system is not guaranteed and remains fragile as recruitment decisions are based too heavily on management discretion that is leading in recruitment, promotion and dismissal. Merit-based recruitment is mixed up with publication of vacancies (OECD, 2010e). Serbian civil service law leans more towards career-based system, early carer entry is favoured and promotion is not automatic. Appraisal of civil servants is conducted annually and carried out according to official guidelines and salary system is homogenous and transparent (RESPA, 2009).

OECD assessment underlines that extent to which public governance system respect rule of law remains to be a concern, there is a present dominance of executive power in practice and lack of separation between executive and legislative branches. Parliament is characterised by weak controlling role, slow speed on passing laws, ineffective consultations and weak capacities, reforms taken in judicial system illustrate disrespect of independence of judges. The poor quality of legislation remains to be a problem in Serbia with the main deficiencies being: tendency to over-regulate, contradictory provisions, poor systematic order, and incomprehensibility due to overly bureaucratic or technical language. In area of PFIC, Serbia has good legal basis but little understanding from senior officials, the same is the case for Supreme audit institution establishment while the essentials of the policy making and coordination system remain weak (OECD, 2010e).

### ***5.5. Hypotheses testing and interpretation***

**H1: The success of application of private sector standards, strategies and tools in public sector of BiH is a subject of appropriate customisation of the standards, strategies and tools, to the specific needs of public sector and specific needs of BiH.**

In playing its core role, state has to establish efficient mechanisms and introduce set of rules, laws and institutions. There is a lot of experience and lessons learned from the developed and developing countries in applying the private sector standards, strategies and tools in the public sector. One of the crucial preconditions is to ensure efficient functioning of the state, which shall start with understanding and motivation of the public sector to perform under the standards of

private sector taking the responsibility and being accountable for its work to the whole society and tax payers.

The critics of NPM are quite strong, but they are mainly related to different understanding of the concept and arise out of assumption that NPM equals to simple transfer of business principles into public sector without any modifications. The practice shows that many of the private sector standards, strategies and tools may be applied to public sector almost without any modifications (budgeting, financial management, for example) while for some of them modifications are needed to reflect specifics of public sector features. But it is very hard, if at all possible to find the areas where private sector experience is not applicable at all to public sector activities. It seems that everything is a matter of proper interpretation. For example, the core standard in conducting out any activity is the maximisation of value. It is a matter of interpretation that in private sector this would be a profit and in public sector this may be social welfare, transparency etc.

In the context of Bosnia and Herzegovina, we have to be selective in terms of data analysis and interpretation in order to be sure that we add value and not only provide critics of the Bosnian authorities. So we will get focused here on the three most used features of reforms from NPM menu by developing countries, namely: privatization, downsizing and corporatization. To be fair, it would be too premature to analyze thoroughly other items of NPM menu as it is clear, without any thorough analysis, that these are either in infant stage or do not exist at all.

**Privatisation** process definitely has very little elements of success. The overall trend of moving the role of the state from market player to regulator did not take the place in BiH. State remains very much present in almost all sectors. But as a paradox, a number of regulatory agencies are created; meaning that in some aspects government actually regulates itself. Privatisation strategies are repeatedly presented to the government with the same content for years now. But nothing moves. The pros and cons of privatisation are discussed at very rhetorical level: Why the government would sell profitable companies and lose money? Here we may recognise a perfect example of very suitable implementation of private sector tools in making decisions to sell/divest. If we even take out the discussion around customer orientation and what citizens would get in terms of better services, the basic feasibility study would clearly show what the government would get and what would it lose in financial terms in the case of privatisation. The assumption is that money from privatisation would be just spent for social programmes (as it was the case so far), but what if money would be invested in economic development and economy development programmes instead. Privatisation in telecommunication and energy sector is highly politicised. Lack of transparency and corruption accusations on previous privatisation attempts have created negative image around privatisation.

**Downsizing** is one of the hardest elements of reforms to be implemented. Beside NPM menu, the recent global crisis, as well as IMF arrangement for BiH, calls for structural reforms and downsizing of public administration apparatus. In BiH, the IMF request is addressed on the way that all budget items are cut by 10%, without thorough analysis, neither selective savings. In the context of previous discussion on privatisation, the implementation of privatisation programme probably would lead to releasing the resources in administration that are currently in charge for state owned companies. Social pressure is strong, but it would be even stronger if some immediate actions are not taken. Strategic cost cutting, as a measure that is implemented in private sector is one to properly address the issue of downsizing. Bosnian government did a typical mistake on using “slash and burn” method in cost reduction. It is not a matter of question shall the downsizing take a place, but the question is when. The sooner, the better.

**Corporatisation** in BiH is a typical example of “ticking the box” approach. As mentioned earlier, a number of bodies are created, for example regulatory ones for sectors where the state is dominant player. The number of agencies is increasing almost on a daily basis. But their role and effects remain unclear. The reform in this area shall move from the paper to reality. The cost/benefit analysis as a basic method of deciding on the optimization of efficiency and effectiveness shall be applied, instead of creating agencies by automatism. Do we need a separate body at all and for what reason? What is the most effective way to perform the particular function? The specifics of the analysis in the context of public sector is definitely around the terms of cost and benefit as they are not always expressed in financial terms. The cost of not creating agency may be non-compliance with some requirements (EU accession, for example) or the cost of duplication and double payment for the same service by tax payers in case that the agency is just another body in public administration.

Among other three features that are mostly used by developed countries: decentralisation, market-type mechanisms and performance based accountability, the later is probably far away from the reality of BiH, while other two deserve some additional explanation.

**Decentralisation** is a trend that is present in all countries in the region. The centralised administration inherited from previous political system required proper localisation and increased power of local government units. BiH is quite specific in this regard as the power of the state is already decentralised in FBiH, but not always harmonised at a local level. BiH has established the local units and in some areas which are subject of decentralisation in neighbouring countries, it is already in place in BiH (for example, health and education). So, it is a matter of establishing proper organisational and financial mechanisms to make the system work. Administrative set up is often used as an argument for inefficiency of public sector in BiH. But if we take a closer look at the region, all countries have similar set up: Croatia has 20 counties, 122 towns and 424 municipalities; Slovenia, the country with half of BiH population has 211 municipalities, Albania

has 3 levels of local government: communes, municipalities and regions, etc. So, it is not about numbers, it is about proper organisation and usage of resources.

*Market-type mechanisms* seem to be the most appropriate for Bosnian environment having in mind the limited capacities of local government. Unfortunately, a number of non-transparent attempts to establish public private partnerships, unsuccessful concession mechanism, corruption related to both processes have created negative environment and prevent entry of serious players in BiH market. The system of entering into these arrangements is very complex, unclear and time consuming. In the first place strategic planning, feasibility studies, negotiations with private partners and introduction of serious control mechanisms are preconditions to address this issue.

To summarise, for any of areas from the most used NPM menu of reforms there is a useful private sector tool to serve the purpose. There is even no need for too much of the customisation, just to make sure that proper input and interpretations are used.

## **H2: In comparison to other Balkan countries, BiH is slower in implementing public sector reforms.**

In general, the activities on public administration reform in the region are strongly supported by international community. Usually, beside EC support, the reforms are financed by British DiFD, UNDP and government of Sweden. At one side, it has a positive impact in terms of obtaining financing and competent resources, but at the other side, the practice of countries in the region to leave the control completely to external forces, results with lack of knowledge on local conditions, delay in building local capacity and in some cases poor control over different programmes that may overlap, or in extreme cases, even produce contradictory effects.

For the purpose of analysis of this hypothesis, three main areas are analysed: quality of Strategic documents, as a basis for reform implementation; funding of the reform, as a precondition to finance activities from reform agenda and progress in implementation, independent assessment of relevant authorities on the status of the reforms.

### ***Quality of strategic document***

To a large extent development of strategic documents was supported by international community and experts. In addition they stick (maybe too much) to SIGMA and EAS principles trying to avoid any wording that is in conflict with these two. It led further to overall impression of document that serves the purpose and not the document that is a basis for reform for long-term sustainable effects. In general, it is a lot of rhetoric present and too much emphasis on the need to comply with EAS, and very little analysis of local specifics, customisation of the tools and standards and clear measurement standards. The measures of success are usually very technical

and vague, like establishment of working group, drafting a law, etc. All the strategies are accurate and updated addressing the relevant period. Goals are defined as very broad declarative statements. The deadlines are set as wish-list, rather than realistic targets. Appendix 5 shows comparison of strategic approach to public administration reform, proving that BiH strategy is oldest one by date, without structural changes since 2006. The institutions in charge for PAR are within all countries at high level in government structure (like separate ministry or prime minister office) while in BiH it has a status of coordination office.

### ***Funding of the reform***

Significant amount of funds is committed by EC as well as by other donors, so it may be concluded that funding is not a big issue in the region. The amount of IPA funds, for example, remains more or less constant despite the crisis. Only Kosovo (under UNSCR 1244/99) had a somewhat inconsistent IPA funding curve, but for specific reasons. The problem always arises at the level of funding by respective government. Some of the usual things that accompany the reform shall be paid by the respective country, like building up capacity, i.e. salaries of public servants, costs of continuous education. In last few years that was a huge problem due to the pressure on budgets. In particular that is the case in Bosnia and Herzegovina due to the bad management of requirements from IMF standby arrangement.

### ***Progress in implementation***

If we move from the rhetoric to the real effects of the reforms in practice, the progress may be seriously questioned. Even for Croatia, that obtained a date for EU accession, the latest SIGMA and EC progress report note some serious weaknesses. This may be interpreted as a flexibility of EC to accommodate and incentivise countries by recognising their efforts. In general, the major problems identified in the region are around: 1) *politicisation* of civil service system; 2) *corruption* and lack of effective mechanisms for prevention and control; 3) *reforms are mainly related to legislative aspect*; 4) *weak institutional capacity*; 5) *weak oversight capacity of parliament*; 5) overall *lack of respect of rule of law* and democratic institutions.

This is in conflict with the majority of SIGMA principles that call for reliability and predictability, openness and transparency, accountability, and efficiency and effectiveness. *Reliability and predictability* call for multi-sided mechanisms that will provide legal principle of proportionality and reasonableness and guarantee procedural fairness, while ensuring timeliness and professionalism. With strong presence of politicisation in the region, this is hardly to be guaranteed and reached at short period of time. *Openness and transparency* are necessary instruments for the rule of law to protect public interests and the likelihood of corruption at one side, and protect individual rights at another side. Unfortunately, the OECD and EC reports underline lack of democratic processes, whose establishment is demanding and long-term

activity, which seems it is not yet started in analysed countries. *Accountability* means that any administrative body is responsible for its actions to other administrative, legislative or judicial authorities. Supervisory institutions may include: courts, prosecutor, ombudsman, internal and external audit, parliament committees or specialised authorities. In region, this is present on the paper only. *Efficiency* is managerial value of maintaining ratio between resources and outputs and is closely related to *effectiveness* which has to ensure that performance is successful in achieving goals and solving problems. Throughout the region, these two things are mixed and effectiveness is often measured by quantitative aspects.

It is important to observe the wording used by EC and OECD in their reports. While for other countries the light wording is used and the assessment usually started with recognition of positive developments, BiH assessment is characterised with very strong wording and negative tone. By combining these reports and lack of attention by BiH politicians to public administration reform, the wording becomes understandable. While other countries show at least the declarative will and establishing a framework for modern public administration, neither OECD nor EC recognises any progress in BiH. The only institution that recognises progress is PARCO, but their assessment become highly questionable in the context described above. The reports do not show the brilliant position of any of the countries in the region in regard to the public administration status and progress in reform during 2011. But, BiH is the only country where you may hardly find any positive sentence in both reports. This sends a clear message about the need to do something radical immediately in terms of public administration reform.

*Table 5. Comparison of reforms progress*

|                                     |          |          |          |          |          |          |          |
|-------------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Public expenditure management       | <b>W</b> | <b>P</b> | <b>G</b> | <b>P</b> | <b>G</b> | <b>P</b> | <b>P</b> |
| Policy development and law drafting | <b>W</b> | <b>W</b> | <b>W</b> | <b>P</b> | <b>P</b> | <b>W</b> | <b>W</b> |
| Public procurement reform           | <b>W</b> | <b>P</b> | <b>G</b> | <b>P</b> | <b>P</b> | <b>W</b> | <b>W</b> |
| Public finance internal control     | <b>W</b> | <b>P</b> | <b>G</b> | <b>P</b> | <b>P</b> | <b>P</b> | <b>P</b> |
| Fight against corruption            | <b>W</b> | <b>W</b> | <b>G</b> | <b>W</b> | <b>W</b> | <b>P</b> | <b>P</b> |

**G=Good P=Progressing W=Weak**

Source: *OECD Country Assessments*

### **H3: Accession process to the EU is an important push factor in implementing public sector reforms and enhancing public sector performance.**

EU accession and requirements arising from the accession rules and standards are important part of the strategies and the main driver for the reform process in public administration. Each of the strategies for public administration reform analysed in 5.4. have placed EU accession process, at central point of the strategy document.

Not only the analysed countries during the research for this thesis, but also the countries that already joined the EU, have been faced with strong pressure to comply with EAS requirement as one of the precondition for the accession. It is criticised by several authors as it created a pressure of countries to jump to the final position, without taking care of structural changes. The political bargain plays a strong role as the pressure from public to comply with all requirements of the EU accession is too high and politicians are led with short term goals and immediate outcomes that will enable them to get rewards for such an important thing such as EU accession.

All strategies for public administration reform of countries that have a status of (potential) candidate for EU accession put in the central place that public administration reform is one of the preconditions for the EU accession. The main goal of strategy implementation is compliance with EAS requirements and countries often set unrealistic deadlines to reach such a complex goal. In general public administration is reluctant to the reform and modernisation, in particular in countries where democratic tradition is not strong and expectations from the state are at the low level.

A push factor, such as EU accession is important and valuable tool, that help a lot to bridge the period of establishing the democratic society and citizen oriented public administration in a “natural way”.

### ***5.6. Recommendations for further reform process in BiH***

The research work established several areas that seem to be crucial for BiH public administration reforms:

***Creation of comprehensive PR strategy and state marketing strategy to address the image issue;*** The analysis and review of the data during research suggest clearly that one of the most powerful tools used in private sector completely failed in the case of BiH: public relations (PR). Here the marketing may be easily added as a tool that may help a lot to BiH at the moment. The comparative analysis of the public administration reforms of the neighbouring countries do not reflect such huge differences, but the wording used in BiH reports is much stronger. The only meaningful explanation is related to the overall impression and presentation by BiH officials. The



job of PR is to communicate properly with stakeholders. Instead of structuring communication in a positive way, Bosnian officials use any occasion to criticise another department, ministry or entity. It creates very bad perception about country and its capacities.

***Revisit the core strategy elements in public administration reform;*** The recent activities of PARCO are focused on revision of action plan. Surprisingly, the strategy by itself is not questioned. According to surveys 70% of citizens in BiH consider reform at local government level as the most important. But strategy for public administration reform in BiH addresses primarily reforms at the state and entity level, and it is not successful. The logic behind strategy of centralisation for the sake of further decentralisation is not quite understandable. Namely, all countries in the region are working on decentralisation which is already in place in BiH. The focus shall be on strengthening of coordination capacities at upper level and real reform at local level. The argument of complex administrative setup is not really strong. Administrative set up is not different than setup in neighbouring countries. The problem is of very political nature and this is the first thing to be addressed. The main problem in BiH is asymmetric development of government units in BiH. The goal of strategy shall be to harmonise systems, ensure decentralisation in RS and make proper understanding of the word “decentralisation”. It is not the transfer of complete power to the lower units, but transfer of operational power towards lower levels and freeing resources at the central levels to deal with strategic issues, harmonisation and coordination.

***Approach to HRM – mandarin system?*** The experiences of developed and most important development countries underline human resources as critical factor. Already huge and robust public sector and the level of protection of employees in public sector give limited possibilities on strengthening its quality and capacity. In principle two types of merit based recruitment are mandarin system and open recruitment systems. Mandarin system (France, Germany and Japan) are closed entry, hierarchical system with highly competitive entrance requirements; recruitment is centralised and highly selective. Open recruitment is flexible, decentralised and increasingly market-driven approach (World Bank, 1997). For current situation in BiH, elements of mandarin system will be very welcomed and probably produce better results in transition period as qualified human resources are in general, in short supply.

***Create supportive environment to enable change of culture;*** Hood differentiates by three types of administrative values: sigma, lambda and theta and associates the sigma values with NPM. It seems that Bosnian environment is dominated by lambda-type administrative values whose main concern is to avoid system failure and putting an emphasis on security and resilience. In case of BiH it is not due to fear of failure, but due to political reasons. As sigma values assume culture of public honesty, BiH shall move to theta administrative values. Classic expression of theta administrative values seems to be applicable and useful for the current status in BiH, namely:

- recall systems for removing public officials by popular vote;
- “Notice and comment” and “Hard look” requirements in administrative law. It means that there shall be consultations before ruling some act and these consultations are obliged to be published along with possibly revised acts. These consultations shall be obligatory and add value, not to be cosmetic, as it is the case now in BiH, where the law or amendment are published on the web site and time is given for comments. This targets wider public and not only those that may contribute and/or are subject of law;
- independent anti corruption investigatory body. This has been one of the first activities in Italian public reform, for example, so-called “clean hands inquiry”.

***Support innovation in the public sector delivery;*** The latest trends in public sector development underline a need for incorporation of innovation as an important driver of public sector development. In BiH we may note existence of all factors that are usually drivers of the innovation processes: electoral pressure, lack of resources, continuous crisis, but still no developments in this area. Here the main constraint is the lack of motivation and innovation capacity of public sector institutions in BiH. Motivation is one of the most powerful drivers of changes and success; regardless of the type of organisation and the sector in which such organisation operate. The stakeholders in undertaking and implementing any activity have to recognise the value and be motivated to reach the final output. It is a true for many years that only pure money in terms of payment for work done is not sufficient motivation in the private sector. So it is hard to expect that only good salaries in the public sector will be a proper motivational factor.

***Promote accountability as a concept;*** Public service bargain and undertaking of different measures in a complex environment of BiH are a separate issue. The mechanisms to make politicians accountable for results, but at the same time to make clear what is reasonable to expect and how to communicate it to wider public is a big challenge. Experience from private sector is very welcomed here; open and transparent plans, clear set of objectives and communication flow, on internal and external level is key of success.

***Use lessons learnt by neighbours;*** There is a number of things that work well in neighbouring countries and probably could be easily implemented in BiH as well:

- Several countries in the region (Macedonia, Kosovo (under UNSCR 1244/99)) have moved the responsibility for public administration reform to the highest level of government sending a clear message how important reform is. In addition, a separate ministry is usually established to cope with the reform issues – Ministry of public administration.
- Croatia is a good example and the lessons from development of their system can be very useful for BiH. For example, for all countries in the region corruption is underlined as one of the major problems, but only Croatia earns a positive score in OECD assessment which

recognises that democratic processes are well embedded into a system and there is a clear commitment to fight corruption. Croatia also has similar local level government set up with municipalities and counties. But the counties have only coordination role.

- One of the main preconditions for reform initiation and follow up is capacity to draft policies and capacity to coordinate among different levels horizontally and vertically. The lessons may be drawn from case of FYR Macedonia whose policy making and coordination capacity is marked as “excellent” by SIGMA.
- Central focus of strategies are on human resource development assuming concrete measures (Albania, Croatia), like resolving ageing issues and addressing continuous learning. In particular, BiH strategy in HRM part lacks concrete qualitative measures and focuses on legislative aspects.

***Patience and customisation;*** During implementation of PAR, it is important to understand that it is a slow and complex process and that failures are happening. The strategy and implementation shall always be as lean as possible, but avoiding the trap of copying models from other countries as cheap and fast solution. Each country is specific and has to adopt the set of standards accordingly. The main goal shall not be to tick the box and become the EAS compliant, but to ensure the long-term sustainability of society and state and build modern society. Changing a culture is long process, but it has to start at some point.

***There is a whole range of further recommendations*** which may improve performance of public sector in BiH by using tools, strategies and standards from private sector like:

- improving performance of decentralised system in FBiH to make it more efficient and effective instead of waiting for political solution and keep paralel structures
- increasing transparency and efficiency of public procurement system; the legislative framework is solid, but public procurement processes sufer of misinterpretation and failures
- introducing the performance measurement techniques into public sector by using balance score cards, activity based costing, performance based remuneration etc.

## CONCLUSION

The review of literature shows that there are many more similarities than differences between public and private sector. It is not possible to draw a clear line between public and private neither to do simple equitation between the two. Both would be over-simplification. The analysis of main challenges of public sector and public administration, in particular, identified the strong pressures that governments are exposed today:

- to “do more with less” making savings in selective way – by not tackling rights of citizens;
- to respond to external pressures arising from internationalisation and globalisation;
- to respond to internal pressures that arise from country specifics.

Responding to these challenges became a very complex task, even for developed countries, and calls for innovative approaches. One of the responses is found in NPM, as a core doctrine that advocates for transfer of private sector tools and standards in public sector. Analysis shows that ***impact of NPM doctrine in terms of introducing private sector standards is very visible creating universal standards for public sector: market oriented approach and performance based accountability.*** The lessons learnt from experience in NPM implementation confirm ***that reforms are demanding and resource-consuming process and that the most difficult reform areas are related to measurement, efficiency and productivity.*** The developing countries are characterised by lack of democratic tradition and capacity to implement reforms and therefore it is crucial to start from modernisation of civil service and reorganisation of institutional capacity to ensure commitment and motivation of reform forces.

The analysis from the first three chapters is important input for analysis of applicability of the standards, strategies and tools from private sector into public sector in the BiH context. ***The analysis of five most commonly used activities from NPM menu in BiH context, namely privatisation, downsizing, corporatisation, decentralisation and market-type mechanisms, shows that these activities are rather done on copy/paste approach and not customised to BiH environment.*** This may explain the low success of the reforms. Important conclusion related to lessons learnt from developed countries is that most successful reforms came as a result of internal pressure which resulted with looking for solutions which are customised to particular country by respecting external influence and requirements. ***It is important to understand that there is no ready-made, universal solution, but that BiH has to customise activities and reforms to respond to the needs of public sector and specific needs of BiH.*** The current activities implemented in these five areas are unsuccessful and to a large extent inappropriate for BiH context and shall be revisited to ensure their effectiveness. ***The analysis of reforms in BiH context shows that these five main reforms from NPM menu may be addressed by a proper and***

***effective private sector tools, standards and strategies which are tested and proven by experience of other, in particular, developed countries.***

The analysis of reform strategies and implementation results in SEE shows that public administration reforms in SEE countries are characterised by strong reliance on legal acts and have more legal and binding nature. It is probably understandable as this is shortcut to the desired state of environment which respects ethical values; change of culture takes time, while the laws have immediate effect. The quality of strategic documents, measured by realistic outcome is relatively poor. The strategies for PAR by its design look good, but by the content look as the documents to serve the purpose of showing commitment towards reaching SIGMA and EAS standards. It is visible through setting unrealistic targets and deadlines for current stage of development of the respective country and giving vague and rhetorical statements rather than concrete measures. Funding of the reform seems not to be issue as the IPA support remains constant over last few years despite the crisis and there are several bilateral donors which traditionally support PARs. This is quite common for all analysed countries giving them more or less the same starting position. The usual critics around administrative set up of BiH as a major obstacle for efficient public administrations, seems not to be a major problem as all analysed countries have huge number of administrative units and several levels of administration.

***Analysis of reform status and the activities in neighbouring countries do not show critical unreachable differences between BiH and neighbouring countries, but it is evident that BiH progress in implementing reforms is much slower.*** Even countries with a candidate status still have serious weaknesses in their public administration systems as well as in other areas which create preconditions for public sector performance, ***but the EC recognise expression of their will to make changes.*** The problems identified in BiH are also still not completely addressed in majority of neighbouring countries. But the main problem is of the political nature and deadlock of the BiH in political sense which leaves very bad impression about prospects of the reform. ***BiH is lagging behind in terms of proper communication of its specifics and the need to customise and phase some reforms. The justification for this is to be found in the analysis of reforms outcomes in developed countries where the most successful reforms were initiated by internal driven forces.*** Not only BiH, but all countries in the region are exposed to high influence of external sources, especially from EU and very little room for customisation to local conditions.

***While one of the core reforms within PAR is around HRM, progress report of PAR in BiH recognises lack of motivation for reform processes as one of the main issues which arises from the lack of additional payment for work on PAR.*** Here we see the main difference between public and private sector approach – in private sector it is a matter of prestige to be in innovation team and it guarantees better career path. ***The main lessons that BiH may learn from experience of other countries*** are related to communication strategy, revisiting core elements of PAR strategy, applying innovative approach to HRM, encouraging change of culture, support

innovation in public sector, promote accountability, use lessons learnt by neighbouring countries in concrete areas and accept that patience and customisations are keys for success.

EU accession dominates all strategies for public administration reform and more independent sources, local authors in SEE recognise this as an issue. The main problems recognised by different authors are related to declarative commitment of government toward reforms, legislative and “on the paper” achievements, setting very short and unrealistic deadlines just to meet preconditions for the EU accession and ignoring local contingency factors. ***There is no doubt that the EU accession is important push factor in implementing public sector reforms. Alignment with EAS is recognised as the main goal of the public administration reforms in all countries analysed in the thesis.*** The most advanced countries in the EU accession process, like Croatia, started in parallel many reforms and resolved problems along, just to meet deadlines and be able to reach the final goal: EU accession. ***All analysed strategies and progress reports are measured from the point of how close are they to acquis communautaire and EAS standards.***

***EU accession*** is a valuable tool used to push public sector reforms in the analysed countries and help a lot to bridge the lack of internal pressures within the countries in the region. It ***is important shortcut to better public sector performance*** as development of democratic society and citizen oriented public administration in a “natural way” would take much more time.

The analysis in the thesis shows that BiH has in place huge administrative apparatus and that state is dominant player, not only in traditional activities associated with the state, but to large extent state is dominant player in economy. By its nature state and public administration are reluctant to radical reforms, democratic tradition is not strong, so expectations and pressure for changes in this area by citizens and businesses are at a very low level. Three ingredients are essential for success of any activity, namely will, money and knowledge. We concluded earlier that money is not an issue; knowledge may be easily gained and transferred as there are clear standards defined, so we remain with ***the will as main issue in the case of BiH.*** The new government in FBiH stands at the position that privatisation shall be further delayed, and that even more underlines the need for immediate application of the best practices in terms of the management and governance into the public sector.

The observations on the state by Drucker (1969), although more than 50 years old is very applicable to the countries in the region today: “Is government really strong or is just big?” The answer for the region is clear: it is only big. Young people are not sentimental about the government, but become more demanding recognising “monstrosity of government, its disorganisation, its lack of performance, and its impotence rather than illusions the older generation still cherishes...” ( Drucker, 1969, p.12).

To conclude, the research done for the purpose of this thesis shows that there are evidences which confirm all three hypotheses, namely:

1. There is no structural barriers for application of private sector standards, strategies and tools to the public sector. The experiences of developed and developing countries show that success is dependent on the appropriate customisation of the standards, strategies and tools to the specific needs of public sector and specific needs of particular country.
2. The comparative analysis of public sector reforms in Balkan countries shows that BiH is much slower in implementing public sector reforms. This is confirmed by current status towards EU accession, as well as through assessments of relevant institutions like EC and OECD where the consistent methodology is used.
3. EU accession is main driver of public sector reforms in Balkan countries which results in enhancement of public sector performance. EU accession and standards with which country have to comply to fulfill requirements for accession are dominant part of PAR strategies and Action plans.

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## APPENDIX 1: LIST OF ABBREVIATIONS

|                |   |
|----------------|---|
| <b>AURUM</b>   | Accronym used for Strategy of public administration reform in Montenegro,; there is no details provided on meaning of AURUM |
| <b>BiH</b>     | Bosnia and Herzegovina  |
| <b>BD</b>      | Brcko District  |
| <b>CEE</b>     | Central and eastern Europe  |
| <b>CoM</b>     | Council of ministers  |
| <b>CS</b>      | Civil service   |
| <b>CSA</b>     | Civil service agency  |
| <b>EAS</b>     | European administrative space   |
| <b>EC</b>      | European Commission   |
| <b>EU</b>      | European Union  |
| <b>FBiH</b>    | Federation of Bosnia and Herzegovina  |
| <b>H1</b>      | Hypotesis 1   |
| <b>H2</b>      | Hypotesis 2   |
| <b>H3</b>      | Hypotesis 3   |
| <b>HR(M)</b>   | Human resource (management)   |
| <b>ILO</b>     | International labour organisation   |
| <b>IMF</b>     | International monetary fund   |
| <b>IPA</b>     | Instrument for pre-accession assistance   |
| <b>MoF</b>     | Ministry of finance   |
| <b>MTEF</b>    | Mid-term expenditure framework  |
| <b>NPM</b>     | New public management   |
| <b>OECD</b>    | Organisation for economic cooperation and development   |
| <b>OHR</b>     | Office of the high representative   |
| <b>PA</b>      | Public administration   |
| <b>PAR</b>     | Public administration reform  |
| <b>PARCO</b>   | Public administration reform coordinator's office   |
| <b>PFIC</b>    | Public finance internal control   |
| <b>PIC</b>     | Peace implementation council  |
| <b>PR</b>      | Public relations  |
| <b>R&amp;D</b> | Research and development  |
| <b>RS</b>      | Republika Srpska  |
| <b>SAA</b>     | Stabilisation and association agreement   |
| <b>SEE</b>     | South-east Europe   |
| <b>SIGMA</b>   | Support for improvement in governance and management  |

## **APPENDIX 2: AREAS OF ACTION PLAN FOR PUBLIC ADMINISTRATION REFORM STRATEGY IMPLEMENTATION IN BIH**

**GOAL:** To improve central policy capacity on all government levels and institutions as well as coordination across various levels of government and link between policy development and budgeting

**TOTAL NUMBER OF ACTIVITIES:** 36

**TOTAL NUMBER OF STEPS:** 68

**COMPLETION OF ALL ACTIVITIES:** By mid 2008

**OBJECTIVES:**

- strengthening central capacity at state, entity, district and cantonal level through consolidation of government services and vertical and horizontal coordination;
- improving capacities of individual ministries through strengthening policy capacity, establishing a coherent policy on the quality of regulations, allowing capacity sharing, facilitating staff specialisation and using outsourcing;
- improvement of compliance verifications in general, in style, legally and against EU aquis as well as measuring effects on budget and consultations;
- improving enactment process by disseminating drafts of legislation to decision makers and parliament in early draft stage;
- improving access to legislation through establishment of legislation database, enabling access to secondary regulations and consolidated versions of law.

**RESPONSIBILITY:** Respective levels of governments, parliaments

**GOAL:** To consolidate activities related to public finance, establish efficient financial management system and strengthen control environment within which the administration operates.

**TOTAL NUMBER OF ACTIVITIES:** 36

**TOTAL NUMBER OF STEPS:** 36

**COMPLETION OF ALL ACTIVITIES:** 2010

**OBJECTIVES:**

- strengthening of fiscal coordination mechanism through adoption of Law on fiscal council, regular preparation of macro finance framework and consolidated government account;
- raising efficiency and effectiveness of budget management by introduction of program based budgeting, expanded reporting and timely inclusion of parliament;
- improving the accounting framework and the treasury system operations through introduction of accrual accounting, harmonisation of standards, better coordination of treasuries;
- introduction of PFIC in full compliance with EU requirement;
- improving the organisational structure and investing in capacity building of MoF.

**RESPONSIBILITY:** Fiscal council, Ministry of finance, governments



**GOAL:** To develop a professional, political impartial, nationally balanced, ethical, stable and responsive public service able to deliver effective services.

**TOTAL NUMBER OF ACTIVITIES:** 39

**TOTAL NUMBER OF STEPS:** 121

**COMPLETION OF ALL ACTIVITIES:** by 2010

**OBJECTIVES:**

- common approach to modern HRM policies by harmonization and direction of HRM policies and required legal provisions and agreement on definition and scope of civil service;
- strengthen the policy role of CSAs and district unit and enhance coordination between them as well as to secure specialised HR capacity in administrative organisations;
- development of database with data of CSA employees;
- ensure proper HR planning, common job classification/grading arrangements and common competency profiles for each grade/sector specific positions;
- improvement of recruitment and selection process through more time-efficient and cost-friendly process, efficient screening of application, standardisation and mutual recognition of professional exams, increase of CSAs independence, enabling mobility of staff and career prospects using incentives and staff retention techniques;
- improve performance management system including harmonisation of standards, creation of common standards for probation period and induction of employees;
- prepare training strategy based on personal, organisational and performance needs and establishing of Institute for public administration;
- reform the compensation structure to make it more attractive for civil servants, develop common basic salary scheme;
- to deal with disciplinary problems in managerial level rather than legalistic;
- ensure awareness of all staff on their roles and responsibilities;
- develop policy on respecting national representation and respect EU acquis on anti-discrimination and equal opportunities.

**RESPONSIBILITY:** CSAs, Brcko Unit, PARCO, governments, all

**GOAL:** To strengthen administrative decision-making, as a key component between administration and citizens and make it a functional reliable, efficient, transparent, accountable and coherent tool of a modern, client oriented public administration able to join EAS.

**TOTAL NUMBER OF ACTIVITIES:** 25

**TOTAL NUMBER OF STEPS:** 47

**COMPLETION OF ALL ACTIVITIES:** By 2010

**OBJECTIVES:**

- introduce countrywide administration simplification program, consider quality management systems (ISO,CAF) and models like one stop shop;
- simplification in area of procedural law through harmonisation of the existing procedural laws , establishing general principles, delegation of responsibility, addressing the issue of lengthy procedures and appeals in the first instance and bringing second instance on merit;
- simplification in area of material law by introducing central registries of procedures and verification of the need for special procedures;
- simplification in terms of process re-engineering and sharing the registries (CIPS for example) and allowing electronic communication;
- improve organisation of administrative decision-making by develop capacity for internal analysis and constant improvement and investing in professional qualifications of staff;
- ensure effective internal control and monitoring of administrative decision-making practices and disciplinary responsibility framework;
- develop the role of administrative inspection, improve capacity and introduce standard operative procedures for their work.

**RESPONSIBILITY:** Ministries of justices, others, parliaments, all, CSA,

**GOAL:** To strengthen public relations capacities in public institutions, gain public support, create positive attitudes towards public institutions, and encourage active public participation in the decision making process.

**TOTAL NUMBER OF ACTIVITIES:** 26

**TOTAL NUMBER OF STEPS:** 77

**COMPLETION OF ALL ACTIVITIES:** Mid 2008

**OBJECTIVES:**

- regulate the work of PR officer/units and improve strategic communication through preparation of communication strategy and action plan with integrated budgets;
- separate institutional from political communications and ensure proper respect of PR work and PR capacity in institutions along with established coordination and cooperation ;
- create pool of resources which will be supported by appropriate material resources and transparent budget allocations;
- clarify and simplify media communications and improve efficiency of media monitoring;
- ensure that all institutions respect Freedom of information act and have direct communication with citizens, establish and maintain regularly web-sites;
- initiate country branding and promotion abroad and improve internal communication;
- measure effectiveness of institutional communication.

**RESPONSIBILITY:** Governments, all institutions



**GOAL:** To increase IT utilisation in public administration to make government more accountable, transparent and effective; improve information and service delivery and encourage citizen participation in the decision-making process.

**TOTAL NUMBER OF ACTIVITIES:** 59

**TOTAL NUMBER OF STEPS:** 59

**COMPLETION OF ALL ACTIVITIES:** end 2010

**OBJECTIVES:**

- bring legal framework in line with acquis communautaire requirement in the area of IT including drafting laws and regulations and harmonising existing ones;
- implement e-government action plan;
- adoption of software strategy, IT security policy and establish standards for IT procurement;
- improve organisation and human resources capacity through establishment of IT agency and central IT units, optimisation of scarce resources, establishment of e-government forum, pay attention on classification of IT posts, professional development and retaining staff;
- establish appropriate infrastructure by establishing national backbone, improve horizontal and vertical networking, unique access point for information exchange, establish standard workstation configuration;
- develop standards for system architecture and development of applications, strategy on public registers, uniformly implement information system;
- create BiH portal to serve as one stop shop and implement 20 e-services from e-Europe 2005;
- promote e-government, establish e-government benchmarking process and ensure foreign-aid coordination.

**RESPONSIBILITY:** Governments, AIS, IT centres of government

*Source: CoM BiH , Bosnia and Herzegovina public administration strategy,2006*

### **APPENDIX 3: EU ACCESSION STATUS OF SEE COUNTRIES**

|                              |  |  |
|------------------------------|--|--|
| BiH                          | <ul style="list-style-type: none"> <li>- potential candidate;</li> <li>- SAA signed in June 2008, has not yet entered into force.</li> </ul>   | <ul style="list-style-type: none"> <li>- strong presence of international community since 1995 including OHR and PIC;</li> <li>- financial assistance through IPA funds implemented by EU delegation;</li> <li>- IPA 2011 not implemented due to lack of agreement between stakeholders in the country regarding the projects to be financed.</li> </ul> |
| Albania                      | <ul style="list-style-type: none"> <li>- potential candidate;</li> <li>- SAA signed in June 2006, and entered into force in April 2009.</li> </ul>   | <ul style="list-style-type: none"> <li>- financial assistance through IPA funds implemented by EU delegation;</li> <li>- the 2011 IPA programmes totalled EUR 82 million.</li> </ul>   |
| Croatia                      | <ul style="list-style-type: none"> <li>- membership status from 01 July 2013;</li> <li>- SAA signed in October 2001 and entered into force in February 2005;</li> <li>- in October 2005 accession negotiations were opened.</li> </ul> | <ul style="list-style-type: none"> <li>- financial assistance through IPA funds implemented through decentralised system which is assessed by EU as satisfactory;</li> <li>- the 2011 IPA programmes totalled EUR 156.5 million.</li> </ul>  |
| Kosovo (under UNSCR 1244/99) | <ul style="list-style-type: none"> <li>- potential candidate;</li> <li>- SAA not signed yet, but participating in stabilisation and association process.</li> </ul>  | <ul style="list-style-type: none"> <li>- financial assistance through IPA funds and Instrument for stability implemented by EU delegation;</li> <li>- the 2011 IPA programmes totalled EUR 68.7 million.</li> </ul>  |
| FYR Macedonia                | <ul style="list-style-type: none"> <li>- candidate;</li> <li>- SAA signed in April 2001 and entered into force 3 years later.</li> </ul>   | <ul style="list-style-type: none"> <li>- financial assistance through IPA funds implemented by EU delegation;</li> <li>- the 2011 IPA programmes totalled EUR 115 million</li> </ul>   |
| Montenegro                   | <ul style="list-style-type: none"> <li>- candidate;</li> <li>- SAA signed in October 2007 and it entered into force in May 2010.</li> </ul>  | <ul style="list-style-type: none"> <li>- financial assistance through IPA funds implemented by EU delegation;</li> <li>- the 2011 IPA programmes totalled EUR 34.1 million.</li> </ul>   |
| Serbia                       | <ul style="list-style-type: none"> <li>- candidate status recommended by 2011 report;</li> <li>- SAA signed in April 2008 and in December 2009, Serbia handed over country's application for membership.</li> </ul>                    | <ul style="list-style-type: none"> <li>- financial assistance through IPA funds implemented by EU delegation, decentralisation is in process;</li> <li>- the 2011 IPA programmes totalled EUR 203 million.</li> </ul>  |

Source: EC progress reports, 2011

#### **APPENDIX 4: COMPARISON OF PUBLIC ADMINISTRATION ASSESMENTS IN EC PROGRESS REPORTS 2011 AND OECD SIGMA REPORT 2010**

**BiH**

Limited progress has been made in the area of **public administration**. The implementation of the public administration reform strategy has continued, but the coordinating structures at entity and cantonal levels remain insufficient. The public administration reform process lacks the necessary political support. Continued fragmentation and politicisation of the civil service system remain issues of concern. The establishment of a professional, accountable, transparent and efficient civil service based on merit and competence requires further attention (European Commission 2011a, p.11).

The economic situation and consequent fiscal difficulties will have negative impact on the timing and feasibility of public administration reform actions. The authorities may rely more heavily on donor funds to pursue PAR activities, thus making donor co-ordination even more necessary. Current public administration reform efforts are likely to have little impact on real administrative performance because the focal problems are political rather than administrative. The exception may be Republika Srpska, where the entity's public administration is steadily improving when compared with the other entities, but it still needs major reforms if its governance system is to be aligned with mainstream EU member states (OECD, 2010b p.2).

**Albania**

Despite some reform measures such as the Council of ministers decision on the structure and organisation of public bodies of June 2011, essential steps in public administration reform, which is a key priority of the opinion, including amendments to the civil service law, have not been completed. Adoption of relevant legislation is pending and contingent on overcoming the persistent political stalemate. Implementation of the existing laws and

The government's reaction to the economic crisis – i.e. severe staff/expenditure costs – will constrain governance reform, which will become even more reliant on donors. Current public administration reform efforts seem to be only weakly supported and their scope is too limited relative to the challenges. The drive for professionalization may be too difficult for the current political system to digest. The main efforts should focus on strengthening checks and balances in

|                                     |   |   |
|-------------------------------------|---|---|
| <b>Croatia</b>                      | <p>administrative acts remains weak. In the institutional context, DOPA<sup>2</sup> continues to lack sufficient authority to take up its role fully. Establishing an independent, merit-based and professional civil service free from political interference has still to be achieved. Appointment of the ombudsman is still pending (European Commission 2011b, p.10).</p> <p>Progress can be reported in the area of public administration reform. Further efforts are needed in improving professionalism and ensuring efficient implementation of the relevant legal framework in order to build a modern, reliable, depoliticised and citizen-oriented public service (European Commission 2011e, p. 6).</p> | <p>the system (especially administrative justice and procedures), consolidating the public finance system (including procurement/concessions) and improving the quality of policy and law-making (OECD, 2010c, p.2).</p> <p>The government's actions during the period under review focused on recovering from recession, stabilising government finances and securing EU accession. Despite weak public support, the government is aiming to complete technical phase of the negotiations with the EU by the end of 2010. Considering the close prospect of accession, administrative actions must be more and more judged against the level required for being a member (rather than for becoming one). The government's reaction to the economic crisis will constrain governance reform. Current public administration reform efforts seem to be only weakly supported and their scope is too limited relative to the challenges (OECD, 2010d, p.2)</p> |
| <b>Kosovo (under UNSCR 1244/99)</b> | <p>There has been limited progress on public administration reform. Some laws and regulations have been adopted. Efforts to implement the strategies and legislation adopted need to be steeped up. Furthermore, the skills of the civil service need to be significantly improved. Kosovo (under UNSCR 1244/99) needs to build a professional public administration free of political interference. This</p>   | <p>The economic crisis may impact on remittance flows and bilateral donor support. However, this could increase the Commission opportunities for enhancing the coherence of international efforts to support governance institution-building... It will be difficult to change existing political or patronage-based practices, and perhaps even more difficult to deal with the legacy of past staffing practices... For the time being, politicisation, weak professionalism and high turnover are affecting whole administration... Decision making remains highly concentrated at the top levels of the</p>   |

<sup>2</sup> Department of public administration

|                      |   |   |
|----------------------|---|---|
|                      | <p>is a key European partnership priority and needs to be a high political priority. Strengthening the capacity of institutions in charge of public administration on the one hand and of independent institutions on the other, notably the ombudsperson, is of the utmost importance (European Commission 2011d, p. 10).</p>  | <p>hierarchy, reducing effectiveness, weakening predictability and hindering improvements in horizontal implementation (OECD, 2010h, p.2 - 4).</p>  |
| <b>FYR Macedonia</b> | <p>Progress was made in the area of public administration reform in terms of policy coordination and legislative developments. A ministry responsible for public administration reform was created and the Law on general administrative procedure was amended. An e-government interoperability system was launched among several institutions. Progress in implementing reforms was limited. Significant additional efforts are needed in order to guarantee transparency, professionalism and independence of the public administration in practice. Further improvements of the current legal framework are necessary, in particular as regards the Law on general administrative procedures (European Commission 2011e, p.11).</p> | <p>The government's reaction to the economic crisis will constrain governance reform, which will become even more reliant on donors. Current public administration reform efforts seem to be only weakly supported and their target not fully adapted to the situation and the challenges. The drive for professionalization may be too difficult for the current political system to digest. The main efforts should focus on strengthening checks and balances in the politico-administrative system (especially administrative justice and procedures as well as constitutionally independent institutions), consolidating the public finance system (including procurement/concessions) and improving the quality of policy making and law-making systems (OECD, 2010f, p.2).</p> |
| <b>Montenegro</b>    | <p>Montenegro has taken important steps to address the main challenges posed by the public administration reform. The government adopted and started to implement a public administration reform strategy. An improved legal framework in the area of civil service and state administration aiming at efficiency, de-politicisation and merit-based recruitment has been adopted. Legislation regulating administrative procedures has been amended and a</p>  | <p>Three concerns dominate the assessment of Montenegro: the sustainability of reforms in the light of the consequences of the global economic crisis, the extent to which the public governance system adequately respects the rule of law ( i.e. a set of principles requiring separation of power between the judicial, executive and legislative branches of government; compliance with the law on the part of the government, individuals and economic operators; the proper functioning of the judiciary; and the</p>  |

## Serbia

further comprehensive reform has been launched. The HRMA<sup>3</sup> has been strengthened. Preparations for implementation of the adopted legislation have to be stepped up and focus on enforcing de-politicisation, professionalism, effectiveness and impartiality of the administration, including through merit-based recruitment and promotion. The capacity of the ombudsman office and the state audit institution is to be further enhanced. Implementation of the public administration reform strategy needs to take due account of the need to rationalise administrative structures and strengthen administrative capacity, notably in areas related to European integration, while ensuring the financial sustainability of public administration (European Commission 2011g, p. 9-10).

The public administration is in general well developed, in particular at central level. The principle of a merit-based career system needs to be fully implemented. Serbia has established a Statute for the province of Vojvodina and has undertaken to transfer some competences to the municipal level (European Commission 2011f, p.10).

consisted application of fair procedures by the administration), and the sustainability of institution-building in view of the small size of the country. The economic situation and consequent fiscal difficulties are having negative impact on the timing and feasibility of public administration reform actions. The authorities are relying more heavily on donor funds for pursuit of PAR activities, thus making donor co-ordination even more necessary. One major reason for the shortcomings in public governance is the lack of respect of the law and of democratic institutions by the major actors, whether they are parliament, the executive or the judiciary, or civil society and its organisations... Small states should give reinforced priority to good governance as a matter of survival (OECD, 2010g, p.2).

The government's reaction to the economic crisis – e.g. severe staff/expenditure cuts - will constrain governance reform, which will become even more reliant on donors. Current public administration reform efforts seem to be only weakly supported and their target not fully adapted to the situation and the challenges. The drive for professionalization may be too difficult for the current political system to digest. The main efforts should focus on strengthening checks and balances in the administrative system (especially administrative justice and procedures), consolidating the public finance system (including procurement/concessions) and improving the quality of policy making and law-making (OECD, 2010e, p.2).

<sup>3</sup> Human resources management authority

## APPENDIX 5: COMPARISON OF STRATEGIC APPROACH TO PUBLIC ADMINISTRATION REFORM

|                |      |   |                                     |
|----------------|------|---|-------------------------------------|
| <b>BiH</b>     | 2006 | <ol style="list-style-type: none"> <li>1. policy making and coordination capacity</li> <li>2. public finance</li> <li>3. human resource management</li> <li>4. administrative procedure</li> <li>5. institutional communication</li> <li>6. information technology</li> </ol> | PARCO                               |
| <b>Albania</b> | 2008 | <ol style="list-style-type: none"> <li>1. civil service in general and HRM;</li> <li>2. public administration structures;</li> <li>3. quality of decision making and public administration services.</li> </ol>   | Department of public administration |
| <b>Croatia</b> | 2008 | <ol style="list-style-type: none"> <li>1. structural adjustment of public administration,</li> <li>2. improvement of legal system,</li> <li>3. modernisation of civil service system;</li> <li>4. education of civil servants;</li> <li>5. e-government</li> </ol>            | Central State Administration Unit   |
| <b>Kosovo</b>  | 2007 | <ol style="list-style-type: none"> <li>1. policy management;</li> <li>2. legislative drafting;</li> </ol>   | Ministry of public                  |

|                      |      |  |  |
|----------------------|------|--|--|
|                      |      | 3. ethics;<br>4. communication and citizens participation;<br>5. budget planning;<br>6. budget execution;<br>7. internal control and audit system;<br>8. public procurement procedures<br>9. reorganisation of public administration<br>10. human resource management<br>11. administrative processes;<br>12. e-government development   | administraton                            |
| <b>FYR Macedonia</b> | 2010 | 1. administrative procedures and services;<br>2. strategic planning, coordination, policy making and better regulation;<br>3. civil service system and HRM;<br>4. public finances system;<br>5. e-government and e-administration;<br>6. anti-corruption.  | General secretariat of the Government    |
| <b>Montenegro</b>    | 2011 | 1. structural adjustment of public administration;<br>2. public finance stabilisation;<br>3. civil servant system improvement<br>4. improvement of strategic documents quality;<br>5. administration procedure improvement;<br>6. e-government improvement;<br>7. improvement of inspection system;<br>8. increasing the level of ethics within civil servants and fighting against corruption<br>9. local self-government development | Deputy prime minister                    |
| <b>Serbia</b>        | 2009 | 1. decentralisation process;<br>2. professionalization and de-politicisation;<br>3. rationalisation;<br>4. public policy coordination;<br>5. control mechanisms;<br>6. e-government  | Ministry of PA and local self-government |

Source: *PAR Strategies of respective countries*



