

Introduction: The Challenge of Capacity Building in Central and Eastern Europe

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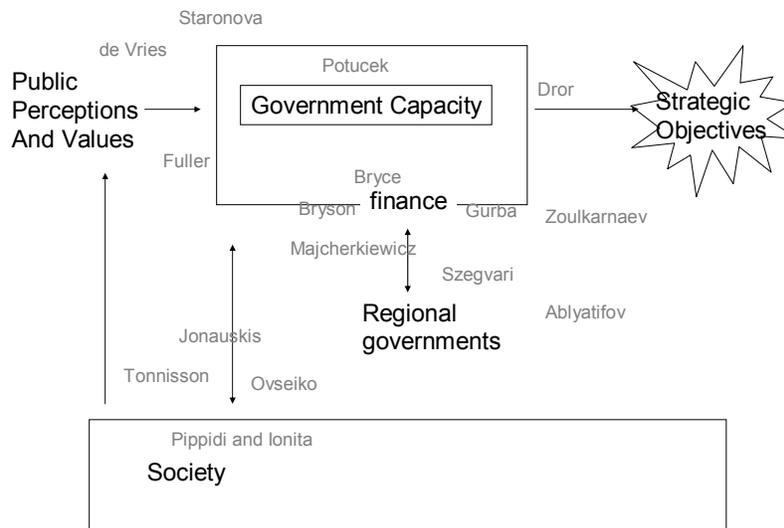
For much of Central and Eastern Europe, “transition” remains elusive. For political transition, the State was to be rolled back as democratic institutions such as free media, parliament, and “civil society” were developed. Economic transition required privatisation, liberalisation, and industrial restructuring.¹ Yet, by the late 1990s, policymakers and academics realised that the State could not simply be downsized, it had to be “rightsized” (to use the buzz-word of the time). The theory of “downsizing” (for better or worse) had its corpus in the political science literature of decentralisation and local participation and the economic literature of privatisation and liberalisation. Yet, “right-sizing” was an area “without a map” (to coin Schleifer and Treisman’s famous book of the time).

The purpose of these selections from contributions to the NISPAcee 11th annual conference is to contribute to that map by exploring the capacities needed by public sector bodies. The state has a role to play in providing public goods (such as educating the youth of the country) as well as in reflecting the political and social values (such as throwing out parties who turn a blind eye to corrupt privatisation). Yet, “capacities to govern” must be developed – capacities related to setting strategic direction, building capacity to implement policy, and building new ways of financing public goods and services. While it is too early to develop a model of government “rightsizing” and “capacity building”, the papers in this volume should contribute to such a theory. Figure 1 provides the reader with a roadmap for the papers which will follow.² The first part of the volume provides an overview of capacity in the region. The second section describes the public perceptions and values which shape the authority and legitimacy of such capacity. The third set of papers describes the changing balance of responsibilities between central and non-central government. The fourth set of papers describes methods of financing the capacities to govern and the fiscal reflection of changing national and local level relations. The final section describes some issues related to the positive and negative interaction between the State and society.

¹ See Blanchard (1997), Gros and Steinherr (1995), Roland (2000), Schleifer and Treisman (2000).

² The section on health reform was not covered as they will have their own separate volume. For readers wishing to consult the original papers, see <http://www.nispa.sk/modules.php?name=News&file=article&sid=46>. We would like to thank the session presenters who helped shape our ideas.

Figure 1: Roadmap for Capacities to Govern



Building Capacities for the Present and the Future

Yehezkel Dror starts the volume, putting the capacities to govern in a wider context. In his view, these capacities to govern are needed to steer Central and Eastern European societies through “ruptures in history.” The ruptures can be overcome by “weaving the future” or providing a strategic conception for transition (and post-transition) policy. Economists often note that political and economic outcomes are “path-dependent.” Dror takes this view a step further by arguing that Central and Eastern European policymakers must consider all these possible paths and choose policy based on the best path.

If Dror provides a glimpse into the future, then **Martin Potucek** provides a glimpse into the present – defining ten capacities of good governance. After defining indicators based each of the ten capacities of good governance, he conducts an expert survey and finds that Central and Eastern European countries are roughly 49% of the way toward the “good governance” of the Western European countries. However, there are significant differences as Estonia is roughly 76% of the way while Ukraine is about 50%. Together, the reader obtains a broad static view (the current situation) and a dynamic view (over time) of the capacities to govern.

Changing Perceptions of Governance

Looking at democratic values of both Western and Eastern society, **Michiel de Vries** offers a dynamic analysis of value change at the local level in Lithuania, Belarus, Russia, Sweden and the Netherlands. By using policymaker surveys to look at attitudes toward leadership, minorities in decision making processes, participation, conflict

resolution, parochialism, central-local relations, and income policies, he finds that “period-effects seem to be most important for explaining value change and that values are especially characteristic for periods and less for generations and age-groups.”

Focusing on a particular country, **Katarina Staronova** looks at how policymakers see themselves. Drawing upon her work in the Slovak Republic, she finds that senior Slovak officials often view their jobs quite differently than as defined in their official duties. Such divergences, however, reflect a political institutional structure as “the role of a state secretary depends on the minister and his definition which can range from acceptance of a state secretary as his deputy to the marginalisation of this post.” In 60% of her cases, state secretaries saw themselves as managers rather than leader (20%). Interestingly, only 5% saw themselves as interest group negotiators.

In **Donald Fuller**'s account of the Czech Temelin Nuclear Reactor, he discusses the relevance of external and internal government perception. Accordingly, Czech policy towards a potentially dangerous nuclear reactor has been swayed somewhat by external pressure groups, yet by the government's own perception of the status quo. At the risk of over interpreting the paper, the Temelin case shows a “cognitive dissonance” view of an Eastern European government which is only swayed by the force of the EU and the benefits that accession will bring.

Changing Relationship between the Nation and the Region

If Fuller sees accession as a powerful driver of Czech policy, **Peter Szegvari** describes the role of regional policy in accession. Europe, in many ways can be considered a Europe of regions – Szegvari citing Eurostat data for 1998 notes that “there is a more than five-fold differential in income between regions in the EU – the Greek Ipeiros Region has 44 % of the average income of Europe's regions while Inner London 224 % of this average.” In his view, this Europe of regions will be based on the principles of cohesion, decentralisation and subsidiarity.

Tatiana Majcherkiewicz is less optimistic about the role of regions in promoting democracy. Tracing politico-administrative relations in Polish regions from 1989-2001, she finds that spoils system politics has become increasingly entrenched in Polish politics. Most vividly she describes how the change of 1993 led to the politically motivated dismissal of 50 senior employees and during the first hundred days, 19 *voivodes* (heads of the regional public administration). She also describes the counter-current of the civil service reform and the Civil Service Act of 1996 (and later the Act of 1998) which attempted to depoliticise large sections of the civil service.

Rustem Ablyatifov argues that politics *should* be in regional government – not for party patronage, but to express the legitimate rights of minorities. He notes that despite Crimean Tartars constituting 12% of Crimea's population, they constitute only 1% of employees in the Crimea's government bodies. Looking at the 2002 Ukrainian elections, he describes the methods by which the Crimean Tatars were able to increase

their electoral representation in local councils – going from a situation of almost no representation to increasing representation (such as 39% of the Belogorsk *rayon* council).

Financing Capacities to Govern

The fiscal decentralisation concomitant with political decentralisation often also exhibits the same opportunities and risks. **Bartłomiej Gurba** describes both the opportunities and threats posed by decentralisation in Poland. Looking at central government transfers to the local governments (*gminas*), these may add up to about 40% of total local revenues – but these transfers vary between about 10% to 90% depending on the locality! He also finds that localities which tax less have higher debts.

For **Ildar Zoukarnay**, borrowing between the central and regional level is less an issue than transfers between them. He finds that budgetary incentives are not provided to local governments because of the instability of tax rates (and tax sharing arrangements in federal and Bashkortostan legislation) and the under-funding of public infrastructure due to inadequate calculation and finance of expenditure needs. If Gurba finds evidence of significant vertical inequality, Zoukarnaev finds horizontal inequality. For example, in terms of local tax revenue for 2001, the Mishkinski *rayon* collected the least -- approximately 10.5 US dollars per capita – while the Krasnokamski *rayon* collected the most, raising approximately 165 US dollars per capita.

Both vertical and horizontal inequalities often stem from what **Herrington J. Bryce** calls “unanticipated budgetary consequences of devolution.” In the Russian context, he notes how the devolution of responsibilities by the Federal government has not been matched by the devolution of funds (or funding sources). Current centre-region relations promote deficit finance of local government responsibilities – a relation which should be changed. Budgetary allocations should also be changed reflecting the inter-regional nature of spending such as on hospitals where service users come from other regions. Inter-regional structures such as water or sewer districts and the establishment of “public authorities” could also help.

One way of alleviating the local government financial pressure is to find local revenue sources. **Phillip Bryson** and **Gary Cornia** describes the property tax as a local revenue source which represents a “missed opportunity for fiscal decentralisation” in the Czech and Slovak republics. While in the Slovak Republic such taxes accounted for roughly 10% of local revenues in 2000, in the Czech Republic they only accounted for 2%. Instead, Czech localities were more reliant on transfers from the centre – and these made up roughly a quarter of local budgets. For Bryson and Cornia, these two countries depict a trade-off between stability and autonomy. While relying on local finance is less stable, local finance ties local budgetary decisions to local political leaders.

Managing the Relationship between the State and Society

The quality of local level service is affected by more than the degree of political or fiscal decentralisation. The nature of interaction between the public and private sectors affects local service delivery. For **Kristiina Tonnison**, the quality of local service – in

the Estonian context – depends upon deep seated national information policy. Drawing on fieldwork data, she found that information provided by local authorities was often lacking (in late 2002, only 137 out of 247 Estonian local authorities had their own webpage). She also finds that information flows within the public sector itself and from public service users to the Government are often inadequate. For her, “good governance” is difficult to achieve if information needed to identify and serve citizens’ needs is lacking.

While information exchange may be a critical element in functional public-private relations, for **Pavel Ovseiko** such information often leads to adverse incentives for service delivery. In the Hungarian context, the three seemingly positive developments of democratisation, liberalisation and decentralisation have been attendant with increased “business capture” of the medical profession – resulting in 30%-40% of doctor-patient encounters not being justified on medical grounds.

Yet, corruption and poor governance are not unique to Hungary. **Mungiu-Pippidi and Sorin Ionita** describe corruption and governance trends generally across the region. If corruption exists, it is due to “amoral family-based policies” of the ruling elite who look out for their own interests before those of the nation. Worse yet, 59% of Romanian respondents affirm to have been “mistreated by a civil servant after 1990.” Such mistreatment helps explain the low level of trust in government (in their regression analysis, it is THE explanation).

If corruption undermines the capacities to govern, action can be taken to reduce corruption. **Mantas Jonauskis** looks at the anti-corruption programmes undertaken by Lithuania. Noting the extensive legislative and institutional framework for preventing corruption, he notes 8 different anti-corruption courses in public administration courses and 8 government bodies who provide highly specialised anti-corruption training. He also offers recommendations for a specific “model” anti-corruption programme based around civil servant ethics and probity in public-private relations.

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