PUBLIC ADMINISTRATION REFORM
AND EUROPEAN INTEGRATION IN CROATIA


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Acknowledgements

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At the early stage of reforming the public administration, the Government of the Republic of Croatia, in cooperation with development partners, the European Commission, Department for International Development (DFID), OECD/SIGMA, and the World Bank, joined together with representatives of trade unions, leading experts from Croatia and abroad to examine the medium term challenges and opportunities for public administration reform and European integration in Croatia.

Special thanks goes to guest speakers, government officials from Slovakia and Latvia who critically assessed their public administration reform processes, lessons learnt and possible avenues of improvements. All speakers strongly emphasized that implementation of a comprehensive public administration reform programme is the prerequisite both for economic development and further European integration. Legislation harmonization and sectoral reforms required for EU accession can only appear successful, if there is a strong supporting administrative system for their implementation.

The booklet will hopefully be a useful recollection of a fruitful exchange of thoughts and experience during the forum.
Tony Verheijen (The World Bank)

Croatia’s public administration and the preparation for EU membership:
A need for swift action

The designation of Croatia as a Candidate State for EU membership creates a new sense of urgency in the area of public sector reform. Whereas recently reforms in the public sector have been stepped up, and the Government has shown increased interest and commitment to reforming the system of public administration, a large agenda of issues remains. Based on the experience of the new EU member states, Croatia will still need to take deep and urgent steps if the country is to be administratively ready for membership by the targeted accession date of 2008.

The Workshop on Public Administration Reform held on 7 June 2004 provided a platform for discussion on both the key issues the Croatian Public Administration system is facing, as well as for a review of the experience of the new Member States of the EU in preparing for accession.

Similarity in reform needs and issues
The main issues raised during the discussion are much the same as those that the new Member States of the EU faces in their preparation process for membership. They include the need to reduce the cost of the administration, while at the same time building an ethos of performance in the system, the need to improve coordination and coherence in the operation of the administration, the re-allocating functions between levels of government to build a more effective system of public service delivery, and the need to improve systems for the management of cross-governmental functions, such as Human Resource Management, Budget Management and Legislative planning. Whereas Croatia is facing possibly some more serious challenges that other states in some of these areas, in particular in the size and cost of the administration, overall the agenda is rather representative of that in other transition states.

Presentations by Government representatives highlighted the initiatives that are being considered to address these issues, including the modernization of the legislative framework for the management of the civil service, the review of the salary system, the creation of a new institute for civil service training, the assessment of the organization and functions of central and local government, and the modernization of the budget planning and execution system.

The Central State Office for Administration (CSOA), which was created following the 2003 elections, is drawing up a strategic program for public
administration modernization to ensure the coordination of the different initiatives that are currently being designed. The ability of the CSOA to take effective control over the administrative reform process will be a crucial factor in determining the success of the reform process. Based on the experience of other states in the region, as presented during the workshop, the presence of a properly staffed reform management structure, endowed with the right level of political authority is an essential element of a successful reform process.

**Different directions: what approach for Croatia?**

The issues faced and reform plans considered by the Government are generally in line with approaches taken by other states in their preparation for EU membership. However, the presentation of experiences from Latvia and Slovakia, as well as the comparative presentations based on the experience of Southeast European states all highlighted the very fundamental differences in the reform path taken by Central and East European states.

Whereas the Latvian case is a clear example of a ‘learning by doing’ approach, in which over a prolonged period of time different types of reform initiatives were tried and tested, Slovakia was a ‘country in a hurry’ in which there was little time for changes of direction once the reform process was started.

In Latvia, which started its reform process as early as 1995, reform efforts found focus and direction only after several years of experimentation with public management innovations based on the UK and New Zealand experience, the introduction of which created some serious problems of coordination and transparency. Undoubtedly this learning process has in the end led the country to a model of public administration that represents a balance between different approaches to public management, showing both traditional continental aspects of public administration, with a strong law-based career model for officials, and innovations such as management contracts for top level officials and an agency-based service delivery system.

Slovakia, however, needed the little time available since the change of government in 1998 to catch up with other countries. Administrative reforms were started in earnest only in 1999, four years after Latvia and later than any other of the then candidate state. The Slovak approach to reform was therefore pragmatic, driven by what was possible rather than desirable, but at the same time highly focused and purposeful with a clear awareness of fiscal constraints. Whereas essential reform measures were taken before membership became a reality, the reform agenda in Slovakia is set to continue for at least several more years. This has certain disadvantages, in particular when it comes to questions such as the implementation of structural funds and
other EU programs and tools. As the system of intergovernmental relations is finding its final shape only now, there has been little time for preparation of participation in the EU policy process. The same is true for the civil service and newly created policy management tools.

Discussions on the experience of other states highlighted similar issues. The need for commitment to the reform process is essential. The problems that states like Slovenia are starting to face after entering into the EU, due to the lack of reform of institutions, are illustrative of the types of issues Croatia is likely to encounter if progress on reforms is not made. It may be possible to enter the EU, but it won’t bring the expected benefits to the country. It is important to realize, as highlighted by SIGMA representative in his presentation, that the goal posts can be moved. Problems in the new Member States with the participation in EU policies, which are highly likely to occur, will make the EU look in a more critical way at the issue of administrative capacity in future accession processes.

**What are the lessons for Croatia?**

Croatia, like Slovakia, is a ‘country in a hurry’ and there is little room for delays and turnarounds if the country is to be administratively ready for EU membership in some 3 years. The focused approach taken by Slovakia could therefore be a good example of what lies ahead: if a reform unit with the appropriate mandate and capacity is given the authority to address the key issues the country is facing in terms of public administration, making the deadlines at least from a formal point of view is well possible. The fact that much work may remain until after membership is something that will need to be accepted both internally, and by the EU itself.

Addressing the whole palette of issues discussed in this volume in a comprehensive manner over a 3-year period seems all but impossible, especially in view of the many other issues that need to be addressed in social sector reform, public enterprise restructuring and others. However, the minimum goals to be achieved are obvious, modernizing key laws and rightsizing core institutions at central level, cutting the cost of public sector employment with at least some 2% of GDP, while investing in the professional development of those that remain, and revising the system of intergovernmental relations, by re-allocating functions and financial resources, thus building an institutional system that is capable of participating in key EU policies at all levels. However, as yet there is no clear agreement on how to get to these objectives, this is where reaching agreement should be a matter of months rather than years, and may be even of weeks. As illustrated by the presentations on Latvia, Slovakia and other states, getting to these decisions will require political courage, an ability to convince stakeholders,
such as Trade Unions, of the need to reform, and imaginative leadership by those in charge of the reform process.

August 2004
Marija Peščinović-Burić (Ministry of European Integration)

Opening speech

Ladies and Gentlemen,

Allow me to greet on behalf of our lady minister Mrs. Kolinda Grabar-Kitarović all of you who are present here and to thank to organizers for their hard work. We particularly welcome the fact that this Forum for Public Administration and European integration in the Republic of Croatia represents the result of joint effort of a number of institutions, government bodies and individuals.

I think that today’s topic is particularly important and that special attention should be paid to it. I would like to thank the World Bank, Delegation of the European Commission in Zagreb, DFID and SIGMA for their co-operation so far and support in this key area for the process.

I feel honoured to have the opportunity to address such an important gathering and particularly by the fact that it takes place on the eve of European Council reaching the decision on the Republic of Croatia, namely on its status as Member State and possible date for starting negotiations with European Union.

As you all know, on April 20 of this year, European Commission reached a positive Opinion on the Republic of Croatia, recommending European Council to start negotiations on accession with our country. That moment was historical for all Croatian citizens and for Croatian Government because it represented acknowledgment for all previous efforts and hard work in the process of rapprochement with the European Union.

Metaphorically speaking, a positive avis is like a medal – it has two sides. The front side of the medal, as I already mentioned, represents a commendation, a reward for our achievements so far; on the other hand, the reverse side of the medal we should take as an incentive to continue further with our reforms which are necessary in order to be able to reach our goal – full membership in the European Union, a strategic goal of the Republic of Croatia’s foreign policy.

Still, I would like to point out that European Union membership cannot be a self-sufficient goal. It also represents a motive to undergo a process of reforms necessary to bring our level of development in line with the Copenhagen criteria. That would also help us to achieve economic prosperity and progress which would affect all Croatian citizens in their everyday life.
Thus, achieving European criteria and membership in European Union does not represent a self-sufficient goal, primarily it represents a fulfillment of our own interests concerning our development.

Croatian Government is determined to become ready by the end of 2006 to take over all of its obligations resulting from its membership in the Union. Therefore, we shall continue with the same pace to carry out the reforms, having in mind both the membership (as a realization of a strategic foreign policy goal) and interests of the Croatian society to develop further.

Acquiring full European Union membership represents national interest and one of the most important strategic goals of the policy of the Government of the Republic of Croatia. Our commitment to the goal is reflected more than ever in our commitment to the process of European integrations and to creating even closer relations with the EU.

Great effort should be invested in all segments of the society in order to adjust ourselves to European standards; this, among other things, implies the adjustment of public administration to the standards of European Union.

Furthermore, any country wishing to become a full member of the European Union is required to fulfill, besides the three Copenhagen criteria, the fourth criterion – administrative criterion. This criterion, known as the Madrid criterion, calls for the adjustment of appropriate administrative structures in order to provide conditions for gradual and harmonious integration – such as strengthening of administrative capabilities, creating efficient government administration system with the aim of providing an efficient process for adopting and implementing acquis communautaire of the EU.

The public administration reform represents a large and far reaching operation with numerous repercussions. Taking into consideration history, present situation and desirable development of Croatian government administration, it is obvious that government administration in Croatia must simultaneously aspire to two, at first sight, different goals. One goal is to make up for falling behind in development, which means to impose standards for regulated, lawful and democratically responsible administration. The second goal is to achieve the most possible adaptability and openness towards future and world trends, particularly with relation to the integration to EU.

Croatia’s needs for reform and modernization of public administration are strategically important in the context of European integration for at least three important reasons:

1. Potential members should have sufficient administrative capability to fulfill obligations undertaken under the Stabilization and Association Agreement;
2. Public expenditure should be cut in order to achieve borrowing and fiscal sustainability;

3. Required improvement of policy management and its coordination;

By acquiring the status of a candidate country, Croatia would become eligible for possible utilization of EU preaccession funds intended as EU assistance to reforms to be carried out by candidate countries. Major benefits of preaccession funds are their effect on institutions and economy. Projects co-financed by such means make part of EU efforts to adjust successfully the economy of future EU Member States to EU standards in order to be able to successfully confront the pressure of competitiveness in EU joint market.

The institutional effect, i.e. making future Member States capable of making use of as much as possible means made available by EU membership by strengthening institutional capabilities and creating necessary human resources upon accession to EU, is even more important than the economic effect of such preaccession funds.

Efforts invested by the Government and other institutions alone are not enough for joining large European family. Participation of the entire society is required – in the form of team work as well as their individual participation.

This is because Europe begins in the minds and actions of every Croatian citizen and only full participation of all segments of the society in realization of European Union membership may guarantee a successful completion of European integration process. For that reason I would like to thank you once more for your interest for this topic which increasingly penetrates all pores of our society and which is bound to thoroughly transform it. It is up to us to provide that the consequences of the process be positive for Croatia and I am certain that you shall also give your contribution towards that.

Thus, Ladies and Gentlemen, I do hope that today you will make a great step forward to achieving that goal. I thank you for your work so far and I look forward to our future cooperation.

Thank you for your attention.
Laura Garagnani (EC Delegation to Croatia)

Opening remarks

Excellencies,
Dear Guests,
Ladies and Gentlemen,

Croatia is at a very important crossroads.

After a positive Opinion of the European Commission on 20 April on Croatia’s application to EU membership, the European Council is expected to decide in a few days, whether Croatia will become a candidate country.

If the decision is positive, Croatia – being a country of transition – will face very concretely the urgency of engaging itself in a comprehensive public administration reform programme. In the first instance, Croatia would need to increase capacity to conduct negotiations, but in a long-term perspective, Croatia would need to increase capacity to benefit from the EU membership.

We acknowledge that the first efforts have been made by the Croatian Government to start the administrative reform. The Central State Office for Administration is preparing a new civil service law based on European and international standards. Capacities for appropriate human resources management are being increased. The Civil Service Training Centre is in the process of being set up and a continuous training system for civil servants is being developed. This we also support through our CARDS programme.

At the same time, we also know that public administration reform is not just one minor reform. It is not just about adjusting the existing structures. It is a thorough reform, affecting the whole society, and it will take a number of years. Therefore it needs firm commitment at the highest political level, and it needs to be guided by the Government through an appropriate reform strategy.

The European Commission supports Croatia through the CARDS programme. In the period 2001-04, Croatia has been allocated 255 million EUR, about 1.9 billion kuna. Out of this almost 10 % supports directly efforts to reform public administration reform and administrative capacity building.

Our experience with implementing the CARDS programme has also highlighted the need for increased capacity within Croatian public administration. The absorption capacity for the CARDS assistance is namely very slow, among the slowest in the CARDS region. This in itself is an
indication that considerable efforts need to be made to increase capacity within administration.

Ladies and Gentlemen,

At this important moment for Croatia, this conference provides a great opportunity to bring together all the key stakeholders and experts both from Croatia and abroad and learn from each others’ experiences. We hope this conference provides a further impetus for Croatia to plan its medium term public administration reform agenda.

I therefore the Central State Office for Administration for organising this conference in cooperation with development partners – World Bank, DFID, SIGMA and the European Commission. The presence of so many development partners and representatives of the EU Member States – who are also bilateral donors - highlights the fact that we are together firmly committed to further support Croatia in these efforts.

I wish all the success for this conference!
Ladies and gentlemen, dear colleagues,

The preparation of the Croatian state administration for the EU accession process, no doubt, has a history which reaches far back before the formal commencement of the preparation for the status of the Republic of Croatia as a candidate for membership, even before the application was submitted during the Greek presidency last year. From the very beginning this preparation had two dimensions, reflected in the title of this presentation. Therefore, allow me to present to you, in a nutshell, the development of the structures for the management of Croatia’s European integration process, as well as the ensuing changes in the state administration.

The need for a specific structure within the state administration which will manage and coordinate the European integration process was evident at the very creation of the modern Croatian state and its state administration. As early as 1990, within the then Government the European Integration Alignment Office was established, whose main task was to monitor the European integration process and undertake activities related to the alignment of the Croatian legal and economic system to the process. Regrettfully, the war activities moved Croatia further away from the European integration process. The restoration of Croatia’s concrete European ambitions followed in April 1998, with the establishment of the European Integration Office. The Office took credit for instigating a system of providing scholarships and employment to top notch young experts in various areas related to European integration, as well as the development of the first strategic document of the Government of the Republic of Croatia for the integration of the Republic of Croatia into the European Union: the Integration Activities Plan. From the moment when, with the launching of the Stabilization and Association Process, Croatia gained prospects of EU membership, this institutional framework for process management and coordination had to be strengthened and prepared for a far larger scope of work resulting from the institutional relations with the European Union. For this purpose, but also to send a clear message on Croatia’s commitment to EU membership, in 2000 the Ministry of European Integration was established, whose main scope of competencies has not substantially changed so far.
Nowadays the Ministry of European Integration performs a total of six groups of activities related to the process of integration of the Republic of Croatia into the EU:

1. Coordination of alignment of legislation with the *acquis communautaire*.

2. Analytical support for making strategic decisions related to the integration process, with constant consideration of the consequences of the integration on the Croatian economy and the society at large.

3. Coordinating the implementation of EU assistance and cooperation programs, by providing the technical and expert assistance to the state administration bodies in designing, preparing, and implementing reform projects consistent with the priorities agreed in advance between the Government of the Republic of Croatia and the European Commission.

4. Informing the Croatian public of the integration process developments and all its elements, on the significance of the process and its impacts on all citizens.

5. Training and professional improvement of civil servants, local self-government employees, and all others included in the integration process.

6. Finally, the most important aspect which supports all the activities mentioned above – translating *acquis communautaire* into the Croatian language, as well as translating Croatian legislation and strategic documents into the official languages of the EU, notably the English language.

In light of the management of the European integration process, the Ministry of European Integration has a key sector coordination role; it initiates or participates in the preparation of essential strategic documents of the Government of the Republic of Croatia, participates in the work of working group of experts and all Coordinating Committees of the Government, receives draft legislation for opinion, and participates in the discussions on these proposals at the sessions of Parliamentary Committees. The European integration process is also a process of answering the questions: What, How, and When? We are trying, specifically by defining the priorities, mode, and dynamics of the focus in the European integration process, to connect the possibilities with the needs and maintain clarity of approach in coping with the commitments resulting from this process. Drawing on the experience of the new member states and candidate countries, for the second consecutive year we have been developing a document which represents the central management mechanism in European affairs of the Government: the National
Program of the Accession to the European Union. Taking the Stabilization and Association Agreement as a starting point, it answers the questions: who will do what over a year, align, fully or partially, with specific parts of the acquis, how much funds will be used from the state budget and which persons are directly responsible for specific activities.

Starting from the criteria for the membership in the European Union, which make up the structure of the National Program, this document realizes the ambition of clearly set European activities on an annual basis.

This document also provides basis for the implementation of the Stabilization and Association Agreement, the coordination of the process of legislative alignment on an annual level, and defining the requirements of the institutional framework for the implementation of the reforms set by the implementation and transposition of the acquis. The control of the implementation of this document is ensured at every meeting of the working group of experts and the Coordinating Committee of the Government, and established at the sessions of the Government of the Republic of Croatia.

Also, this document rationalizes the translation process, which, in the end, is the biggest spender of the budget. More precisely, the Translation Institute of our Ministry translates the documents, laws, and the acquis communautaire which are specified in the National Program. Finally, this document is also a starting point for the new project adopted by the Government: the legislative impact analysis. Currently designed as a pilot project, the impact analysis will become – after the presentation of project results at the end of the year – obligatory in the preparation of draft legislation on the Government procedure level.

With regard to European partnership, whose draft was submitted to us together with the opinion of the European Commission, I would like to note that the National Program is currently adjusted to the short-term recommendations which are specified in the European Partnership. Given that this year's National Program is „older“ than the European Partnership, I am happy to stress that the majority of short-term recommendations has already been addressed in the National Program.

The horizontal network of civil servants set up by the practice of development of this document is a fine connection tissue of Croatian state administration. The departments for European integration in all state administration bodies, European coordinators, and project implementation units – are the first address of our operations. Overall, the management of the European integration process enables for a number of complex and demanding tasks to be effected in a quality manner and within given time lines. This is the starting point. The clearer the approach to the European Union is, the stronger
the connection between the management of European integration and the reform of state administration become. Why?

The requirements posed by the integration process for the state administration in Croatia are clear: they are laid out in the so-called Copenhagen criteria, the Madrid criterion, and the principles which make up the European Administrative Space. However, it should be noted that, in terms of the provisions of the acquis communautaire, there are no "European standards" in the area of organization and functioning of state administration. The criterion defined at the meeting of the European Council in Madrid in 1995 stressed the need for meeting the assumed commitments resulting from EU membership, particularly the implementation of the transposed provisions of the acquis communautaire.

Finally, the European Administrative Space marks a number of principles which, although they are not an integral part of the acquis communautaire, are applied in the organization and functioning of the state administration of the member states. Those principles are grouped as follows: reliability and predictability, openness and transparency, accountability, rationality and efficiency of the state administration.

Integration into the European Union is a comprehensive process which requires adjustments and efforts of the society as a whole and all its institutions, including all state administration bodies. Therefore, it is clear that, monitored separately, the activities of the Ministry of European Integration alone cannot lead to the desired objective of the Republic of Croatia – membership in the European Union. After all, a short description of the activities of the Ministry of European Integration indicates that its task is to assist other state administration bodies in the implementation of the activities put forward by the European integration process. A contribution of all state administration bodies is constantly on the rise, both in terms of the volume and in terms of the quality. Membership in the European Union is a common asset of the state administration, which entails a division of not only the rights, but also of obligations and responsibilities in the execution of activities in its scope of competencies. Referring again to the title of this presentation – management of European Union integration process, we can say that the Croatian state administration is primarily required to have inner strength and capacity for the preparation and implementation of this process, and then, hand in hand, the capacity for the implementation of the legislative alignment process which, without efficient implementation, cannot accomplish its overarching objective: the protection of its target beneficiaries. Consequently, strengthening of administrative capacities as an uninterrupted process represents the pivotal element and indicator of success in the
accession, but also remaining in the membership of the European Union. The preparation of the administration for European integration is also the preparation for the European Administrative Space mentioned above.

In the forthcoming period the Republic of Croatia will be a part of the internal market. This region will be an area of free movement of goods, capital, services, and persons, data on taxes and excise taxes, contagious diseases, and veterinary control will be exchanged, intellectual property rights of other member states will be protected, and domestic companies will compete in public tenders on an equal footing.

All these desired goals should be supported by efficient, fast, modern, and trained state administration. Its every part will, in the field of its competencies, be a part of this European Administrative Space, and here we must not and do not want to fail. Member states, as well as those wishing to become ones, should be capable of implementing the policies of the European Union and its legislation. The European Union does not have its administrative branch offices throughout member states, and neither does it have a unified administrative law, which would significantly contribute to a more smooth alignment and implementation phases of both groups of countries. It is specifically because of the lack of these two elements that the European Union should trust that what is adopted as policy and legislation is efficiently applied by member states in the country-specific manner, taking into consideration the basic objective and stipulated criteria. Consequently, it can be said that member states are not obliged to give a unified answer to the question „how“. Rather, they are obliged to show unified results. In doing so, the biggest challenge is the mutual sector coordination of ensuring results, in which various sectors start from their own, in some cases naturally opposing, interests. At this point the political consensus on European integration is worth mentioning: maintaining the consensus of all parliamentary parties is essential for successful implementation of the process. Of course, the consensus does not necessarily presuppose, and should not imply overlapping of positions on all issues related to the European Union accession process, but it excludes using specific issues for political purposes, for the sake of specific party interest. Without such a responsible approach of political parties, one can not imagine successful and fast negotiations for full membership, under the time frame which we wish to accomplish, modeled after the experience of states of the Helsinki group of candidate countries.

This consensus, as well as the criterion of meeting professional standards, will be a decisive moment in creating the management of the membership negotiation process.
The speakers who are next on the schedule will discuss more about the problems faced by the Croatian state administration, as well as steps taken to resolve these problems, as they are in their direct scope of competencies. From the aspect of European integration, it should be noted that the Republic of Croatia has embarked on the reform of its state administration from positions somewhat better than the ones which some of the "new" member states of the Union had. This gives reason for optimism, but does not warrant decreasing energy and effort which have already been invested into the reform. For instance, the fundamental laws which regulate some issues related to the functioning of state administration, such as the Law on Civil Servants and Civil Service Employees, have been an integral part of administrative tradition in Croatia for a long time, whereas, for instance, the status of civil servants in some of the countries mentioned above was, until recently, regulated by the general labor legislation.

In the forthcoming period the Croatian state administration will face a task not in the least easy to accomplish – to fulfill the requirements and fully apply the principles laid out above in everyday operations, particularly in its relation with the citizens. The Republic of Croatia in this process counts on the assistance of a number of international institutions, but also EU member states. On this occasion I want to thank the European Commission, the World Bank, DFID, and SIGMA for their contribution in the state administration reform project so far and in the future, as well as for organizing this Conference.

Institution building and strengthening is, as I already mentioned, a continual process. This process will not stop on the day of Croatia’s gaining membership in the European Union, regardless of when it will take place. This is not like crossing the finish line after running a marathon and an opportunity to relax. This is a race of life to be pursued by all generations.
Antun Palarić (Central State Office for Administration)

Preparing the Croatian Administration for EU Accession

Assessment of the Situation

Republic of Croatia inherited administrative apparatus of the former Socialist Republic of Croatia. The inherited system was mainly characterized by insufficient development of central public administration bodies and a huge state apparatus on the local level. In addition to that, public administration was also characterized by considerable influence of political factors on human resources policy and decision-making regarding particular type of matters.

During the process of reaching its independence, the Republic of Croatia organized ministries as dominant bodies of public administration by strengthening their administrative capabilities. With the establishment of local self-government system in compliance with the standards of the European Charter on local self-management, after the first local elections held since 1993, the process of differentiation between the government and local administration began. Counties were organized as local government and self-government units. Although there were special county bodies performing public administration activities and special bodies performing local self-government activities in a county, due to the fact that there were at the same time local officials and government administration officials in the county, problems concerning unique application of legislation in the entire territory of the Republic of Croatia emerged. A considerable reform step forward was created by organizationally separating county public administration from local self-government and by organizing county public administration offices.

After the elections in 2003, the then existing public administration was organized on medium level in 19 ministries, large number of public administration organizations, large number of agencies and offices and, on lower level, in 20 county public administration offices with around 4,500 employees.

During its brief history as an independent state, the Republic of Croatia was looking for an appropriate organization of central public administration body that would deal with government administration and local self-government proper. Thus, until 1994 there was Ministry of Justice and Administration, from 1994 to 1999 the Ministry of Administration and from 1999 to 2000, State Directorate for Public Administration and Local Self-government.

Decentralization
It is the intention of the Government of the Republic of Croatia to stimulate an even development of its entire territory thus ending the trend of focusing economic activities in Zagreb and in developed tourist centers on the Adriatic coast. It is Government’s opinion that regional and local self-government units may act as regional development agents. The Government is preparing reform of local self-government to be carried out before regular local elections which are scheduled for May 2005, which is to include extensive decentralization. Before designing public administration reform, it is necessary to define which shall be the activities of such public administration. For that reason, Central State Office for Administration took a stand on local self-government which should be taken into consideration when designing public administration reform:

1. Before engaging in public administration reform, it is necessary to determine the scope of comprehensive decentralization and time schedule for particular steps.
2. The principle of the European Charter on Local Self-government, i.e. the principle of subsidiarity, should be applied when performing decentralization.
3. Provide for building of administrative and fiscal capacity of small local self-government units in order to make them qualified for implementation of projects of common interest by legally regulating their functional pooling for project implementation.
4. Building horizontal connections among local self-government units, particularly on regional level, in order to make even working practice and jointly coordinate regional development.
5. Establish permanent communication across local self-government units and central public administration bodies with the purpose of efficient implementation of law in the entire territory of the Republic of Croatia.
6. Provide more efficient supervision over the legality of local self-government unit operation.
7. All ministries should join in the process of providing training to local self-government unit employees to be carried out by the Central State Office for Administration with the purpose of building local self-government unit administrative capabilities.

Public Administration Reform Activities

The Government is determined to make Croatian public administration capable for European Union membership; therefore, it decided to engage local experts and scientists as well as international assistance in achieving that goal.
During this year, the Government shall adopt reform strategy and schedule for its implementation. Still, before adopting the strategy, the Government has already undertaken whole set of activities with the aim of improving public administration efficiency.

1. Before appointment of the new Government, three important laws were adopted; their purpose was to provide appointment of a smaller and more operational Government. The Law on Organization and Scope of Activities of Ministries and Government Administration Organizations reduced the number of ministries from 19 to 14 and abolished two government administration organizations. The Law on Amendments to the Law on Government and the Law on Amendments to the Law on Government Administration System provided for organization of central government offices.

2. The role of the President of the Government was strengthened by establishing central government offices headed by state secretaries who are responsible for their work to the President of the Government.

3. The Law on Transfer of Power has been drafted; presently it has been forwarded to the Parliament for the second reading. The Law makes the position of civil servants during transfer of power more stable since it stipulates that only senior civil servant categories are required to place their mandate at the disposal of the new government providing the transfer of power takes place.

4. The Law on Amendments to the Law on Civil Servants was forwarded to the Parliament for adoption; the Law should facilitate employment in civil service thus opening the possibility to build on administrative capacity of public administration bodies in order to enable each body to implement the process of adjustment to European Union.

5. Decrees on internal organization of newly organized ministries were adopted and thus the process of consolidating central government administration bodies was rapidly carried through after having abolished a number of ministries.

6. State Budget for 2004 provided for large funds for each government administration body for civil servant training and electronic equipment procurement.

7. Central State Administrative Office for e-Croatia was established; its task is the introduction of the application of modern information technologies to government administration operation.
8. The total of 1230 computers was provided for to be distributed by the Central State Office for Administration to county public administration offices.

9. Communication of all Government members with heads of county public administration offices was established.

10. Changes to the Decree on organization of County Government Administration Offices are being prepared in order to build the administrative capability of services which have already fallen behind with their work; at the same time, the number of employed in services where the activity has decreased due to e-procurement of offices shall decrease.

11. Close cooperation was established between the Government and the National Competition Council. The President of the Government personally chairs joint sessions while National Competition Council committees are complemented by members of the new Government. With regard to public administration reform, Government is expecting recommendations from Rule-of-law State Committee in compliance with EU, chaired by Mr. Božo Prka.


**Central State Office for Administration**

With the purpose of more efficient care for public administration and local self-government, the Government established a special public administration body which, besides performing regular activities of the former Ministry of Administration, should represent an organizational and technical agent for public administration and local self-government reform. In an effort to achieve these goals, the following actions were undertaken:

1. Central State Office for Administration was established, headed by State Secretary who is responsible for his work exclusively to the President of the Government.

2. The Office has taken over from the Ministry of Justice 66 civil servants and employees assigning them to the posts in the Office.

3. Decree on Office Internal Organization foresees that 113 civil servants and employees shall perform activities with the area of competence of the Office while State Budget for 2004 provided for
sufficient means for salaries and material expenses for newly employed civil servants.

4. Central State Office for Administration includes two new organizational units which shall have an important role in the implementation of the reform: Civil Service Planning and Human Resources Management Department and Civil Service Training Centre.

5. Head of the Centre and a senior civil servant were appointed while the assigning of the remaining personnel is under way. A competition for the position of the Head of Civil Service Planning and Human Resources Management Department was announced and candidate selection shall soon be completed.

6. With the purpose of building Office administrative capabilities, 13 vacant positions were announced. Several candidates have already been selected and employed. The Office is about to announce again vacant positions but at the moment there is no space available for the required number of employees.

7. With the purpose of providing space for required employees, and particularly of providing space for Civil Service Training Centre operation, the premises at Maksimirska 63 were placed at disposal of the Central State Office for Administration, resources for necessary improvements were provided so that the Office may be ready to receive donated equipment for the Centre as part of 2001 CARDS programme implementation.

8. The Office actively participated in organization of new ministries and in creating and implementing all Government activities with relation to public administration, local self-government and political system including the realization of ethnic minority rights.

9. The Office established permanent and efficient communication with county government administration offices and provided for expert, material and financial preconditions for their unobstructed operation.

10. The Office established cooperation with international institutions and is preparing itself for 2003 CARDS implementation. Project implementation units were established and intensive activities in the field are waiting for them.

11. The Office has intensified its activities regarding 2001 CARDS implementation – State Secretary Deputy is bringing to an end the work on the Law on Civil Service with foreign experts while Head of Civil Service Training Centre, besides working on remodeling of premises for the Centre, is currently working on securing expert and
legal preconditions for operation of the Centre immediately after putting the equipment in place.

12. The Office is hurriedly preparing local self-government reform which became number one priority due to short time before elections. The Office is working on local self-government reform in cooperation with the Council of Europe, Urban Institute and everybody else who had offered their expert assistance.

**Legislation**

Since public administration reform strategy is not completed yet, here I can specify only Office views on segments which require intervention in order to improve the level of public administration efficiency:

1. Simulate the application of legal provisions before adopting the Law: (i) specify in detail required administrative capacity; and (ii) specify in detail the amount of required funds and their source.

2. Avoid frequent amendments to the law and allow the adopted laws to subsist.

3. Decrease as much as possible the number of subordinary legislation necessary for implementation of the law.

4. Provide for an efficient control mechanism for elaboration of subordinate legislation intended to prevent imposition by subordinate legislation of various obligations and restrictions to citizens when realizing their rights.

5. When drafting laws and other regulations, avoid unnecessary registers and obligations for the administrative procedure parties to submit evidence of facts for which there are official records.

6. Consolidate administrative practice and make it available to public administration bodies, local self-government bodies and citizens through ministry web-site or by any other suitable means.

7. Upon adoption of the new law or regulations, carry out training of civil servants who will be implementing such regulations.

**Public Administration Bodies Organizational Structure**

1. It is necessary to define all jobs to be performed by public administration and specify the required number of employees for their performance.

2. It is necessary to review the scope of activity of each public administration body and eliminate double competency.
3. It is necessary to stipulate in detail activities for each working post as well as requirements to be fulfilled by each civil servant to be able to work at such a post by Regulations on Internal Organization.
4. The performance of auxiliary and technical services should be left to the market.
5. Re-examine the need for large number of government offices and agencies as independent bodies.
6. Adjust the internal organization of government bodies to the new model of work offered by information technology.

The Position of Employees

1. Lower the requirements regarding the number of years of experience to be assigned to lower management civil servant positions.
2. When recruiting advisors and senior advisors to civil service, carry out an objective testing of their knowledge.
3. Centralize civil servant recruitment; if possible, establish government commission for civil servant recruitment.
4. Immediately after recruiting trainees, organize courses on key regulations referring to civil servants, i.e. courses on public administration system, office operation and civil servant relations.
5. Introduce the system of pecuniary incentives and opportunities for career promotion based on merits, work and performance.
6. Permanently train personnel at Civil Servant Training Centre.
7. Establish, within the body where they are employed, the transfer of knowledge acquired by particular civil servants when attending international courses and conferences.
8. Establish reliable civil servant records which would include all data important for the public servant and the service.
9. Introduce position bonus for management staff.
10. Improve the efficiency of employees’ courts in order to be able to remove from civil service employees who have severely violated civil service regulations and regard employees’ courts decisions as having the preventive effect in general.
11. Elaborate the model of early retirement of servants who are often on sick leave or who do not have the expected work performance.

Zagreb, June 6, 2004
Gunta Veismane (State Chancellery of Latvia)

Experience of Public Administration Reform in Latvia: Lessons from the past and challenges ahead

- PowerPoint presentation -

Themes of presentation
- Key developments since early years of independence
- Achievements, critique and lessons learned
- Current reform programme
- Achievements, challenges faced and issues ahead
- Critical success factors for meeting the public administration reform challenge

Public administration reform pre-2001 (1)
Public administration structures created almost from scratch since 1989/91 – the process we call “uncoordinated evolution”
- The Law on Civil Service adopted in 1994
- One of the first Civil Service Laws in CAE
- Career based Civil Service
- Introduced the concept of Civil Service Candidate
- Candidates required public sector experience, obligatory training and examination before becoming the Civil Servant
- Thus only in 1998/99 the first Civil Service Candidates became Civil Servants
- Broad coverage – including local governments
- Provided with rules for appointments, dismissal, activity, significant social benefits etc.
- Led to creation of both the Civil Service Administration and ministerial responsibility for Public Administration
- The later has changed over time and now resides with the State Chancellery and the Prime Minister
### Public administration reform pre-2001 (2)
- However, this Law was never fully implemented – it was seen by political class as too rigid and in contradiction to “business like” approach to management in Government in mid-nineties
- Implementation of the Law remained limited only to Central Ministries and some bodies under their subordination
- In parallel, fiscal pressures as well as willingness on part of some of the public administration actors to “escape” from the Civil Service rules started creation of numerous quasi-commercial entities (non-profit public companies operating under the principles of private law) for service delivery
- This escape route was supported by political class of the time, partly, as a result of them being fascinated by the “New Zealand model of New Public Management”
- All that resulted in some serious problems of transparency and accountability – problems that have been resolved only by now

### Public administration reform pre-2001 (3)
**Key success story from the first “wave” of reform – establishment of Latvian School of Public Administration:**
- Created in 1993
- 100% funded from the State Budget and supported by international projects
- Has more than 15 permanent staff and works with more than 100 trainers on contract (approx. 75% of them being practitioners)
- Provides training to central administration
- Has several training contracts with municipalities
- Has regional centers in 10 cities and towns
- In 2002 and in 2003 approx 10 000 civil servants and other public employees have undergone at least one training course annually
- Training focus on specific courses of professional knowledge rather than general public administration type of education (no degree)

### Public administration reform pre-2001 (4)
Other significant pre-2001 developments included:
- 1995 Concept for Public Administration Reform, and 1997 Public Administration Reform Strategy and its Implementation Plan
- All three largely remained “paper exercises” due to lack of political steer and leadership
- In 1997 introduction of so called “management contracts” for Civil Servants giving Ministries possibility to pay top-on salaries for the key staff (in some cases – triple the amount of the basic salary)
- This system was aimed at retaining the most qualified staff, however, it also resulted in a rather non-transparent and fragmented pay structure across the Government
- Now a new unified pay system is a “work in progress”, however, a return to more decentralized system is not excluded. Both have pros and cons
Public administration reform pre-2001 (5)
- European integration process (political priority) - setting targets for sectoral changes (accelerates since 1995)
- However, EU accession without strong public administration drive created fragmented institutional structure across government
- That required new Public Administration Reform with greater emphasis on coordination
- Since 2003, the New Civil service Law is in place
  - Much more limited in coverage – mostly focuses on central ministries and some of the subordinated bodies
  - Decentralized recruitment and management
  - Overall policy set by the State Chancellery
  - Allows for transfer of staff from one ministry to another
  - Positions based Civil Service

Critique and lessons learned from pre 2001 reform period
- The reform was never a real Reform as most of the structures and procedures were created almost from scratch (Reform is ahead);
- There was a lot of experimentation and taking on of experience from other countries
- In some cases it worked well, like with the Latvian School of Public Administration
- In other cases – Latvia learned the “leapfrogging” lesson – introducing advanced forms of public management before putting in place the basics (for example, use of the non-profit company model operating under the principles of private law)
- Political drive and leadership started the process of creating modern administration, however, at times it did exactly the opposite
- In 2000/01 a number of needs for further Reform of newly created structures and processes were outlined (see next)
Issues to be addressed by Reform Strategy 2001-2006
- Need for stronger central coordination, culture of horizontal working, and openness of decision making processes
- Need to become more results oriented
- Need to eliminate duplications
- Need to link budgeting, policy planning and operational management
- Need to plan in medium to longer term as well as provide for better policy impact assessment and evaluation
- Need to improve accountability and transparency of non-profit public companies by transforming them into public agencies
- Need to decide on the grading and pay structure for the Civil Service, enhance motivation systems and reduce staff turnover in some Ministries
- Need to introduce more effective and customer friendly forms of service delivery including e-government

Public administration reform Programme 2001-2006
New strategy in 2001 focusing on the following directions:
- Improving policy advice and coordination
- Strengthening public expenditure management and accountability
- Creating the Civil Service that is capable of delivering better policies and services to Government and citizens
- Achieving greater public participation in policy process and improving public trust in the public administration
Now – after few years of reforms – distinctive Latvian model of public expenditure is emerging

Achievements to date
- Framework for public administration set out – Law on Budget and Financial Management, Law on Public Administration, Agency Law in place. Now architecture of public administration requires only marginal development, but lots of implementation
- Much improved document management in government. Provides with E-working for the Cabinet as well as provides businesses, NGOs and general public with access to all Government documents at all stages of decision making
- The “centre of government” transformed from being just a mailbox to one of the key players in policy coordination and Public Administration Reform
- Legal acts and policy papers now require impact assessment, the system of annotations is well functioning and provides both the Cabinet and public with more informed policy making
Achievements to date
- In order to achieve better aligning of Government’s policy, budgeting and operational management functions a Government-wide system of strategic planning system has been introduced
- Strategic planning and programme/functional reviews have been already successfully implemented in Ministries of Agriculture, Economy, Culture, Finance
- Strategic plans are useful as they:
  - show clearly what are Governments programmes;
  - what those programmes deliver in terms of outputs or services;
  - services have performance measures;
  - programmes demonstrate what outcomes they contribute to;
  - each programme has its financial envelope
It is intended that from 2006 Strategic Plans will become the key budget document

Achievements to date
- Government’s policy decision-making process has become more open to participation of NGOs and other representation groups. Latvia is regarded as one of the most liberal countries in this regard
- Most of the non-profit public companies created in nineties by now have been reviewed and reorganized into public agencies thus significantly improving their transparency and accountability
- Non-profit company revisions have also provided with few millions savings and identifying many shortages in functioning of those institutions that now can be fixed
- Law on Administrative Process in place and is being successfully implemented. Number of Administrative courts have been established
- Transition from career to job civil service has been implemented, but the issue of pay system remains open

Key reforms ahead
- Priority is to embed the reforms already implemented or under way, and to make them into a coherent model of Latvian Public Administration
- Among the issues that require attention in the future the most important ones are:
  - Completing strategic planning in all of the Ministries and carrying out additional budget management reforms in order to introduce medium term budgeting
  - Improve programme design and evaluation
  - Achieve consensus on the pay system for Public Administration institutions and implement it
  - Develop procedures and institutional mechanisms for public appointments
  - Complete and implement E-Government’s programme
  - Ensure greater separation between political, policy and economic communities within the policy process
Lessons learned and critical success factors for Public Administration Reform

- In the transition countries the argument that there needs to be sequence (generations) of reforms to be followed can be questioned.
- We have to achieve incremental successes at all levels of reform without too much of “leapfrogging” – establish basic accountabilities and transparency, focusing on performance, improving service delivery, involving citizens, etc.
- In the few years to come there will be more local theoretical thinking about consistency and overall management of reforms and less blind copying of foreign recommendations and success stories.
- Be cautious about international experience – no one size fits all – different countries, different approaches and management cultures.

Lessons learned and critical success factors for Public Administration Reform

- Strong centre (Prime Ministers Office, Ministry of Finance) can be very powerful driver.
- One another way to achieve commitment to reforms is by “locking” in reform issues into agendas of various important players such as international agencies in your country.
- In Latvia important role has been played by organizations like European Commission, World Bank, Sigma, IMF and others.
- Use of Accession Partnerships and Acquis – can provide good stimulus, pressure point and knowledge for improvement.

Lessons learned and critical success factors for Public Administration Reform

- Political determination to create good government will be the key success factor.
- Paradoxically, reform-minded Civil Servants have the least control over political will to carry out reforms.
- However, there are ways to push for reforms, for example, by picking one or two Ministries that want to change, and that can over time provide with a role model for others.
- Ownership, leadership and drive on part of senior Civil Servants are very important.
- It is people not institutions who own, lead and drive reforms.
- Grow and value them!
Miroslav Beblavý (Ministry of Labor, Social Affairs and Family, Slovakia)

Civil Service and Organizational Reforms in Slovakia 2000-2004: Rapid changes under internal and external pressure

Slovakia: country in a hurry
- 1999: began to negotiate EU accession 2 years after other Visegrad countries
- 2004: joined at the same time as its in May 2004
- 2008/9: expected to join EMU as the first Visegrad country
- 2000: least competitive economy among the Visegrad-4 (according to Swiss Institute for Management)
  2004: the most competitive economy among the Visegrad-4 (according to Swiss Institute for Management)

PAR reforms are the key enabler for other reforms – education, social benefits, local development

Public Sector under communism
- Mlčoch (2000): “In a closed system of hierarchical management, the planning was a widespread social game based on a all-encompassing dichotomy between the real rules and the official ones. In reality, local “controlling” groups tried to maximize their share of a social pie in the inverted pyramid. Planning was an instrument and an ideological smokescreen to utilize a monopoly power over allocation of scarce resources, information and decision-making processes within the social reproduction process.”
- Hojnacki (1996): "There can be little doubt that during the last several years of the communist rule, the major force in both policy-making and policy implementation... was the communist-led bureaucracy that was almost immune to political pressure from any source."

Continued:
- Burnham (1972): the real rulers of communist countries were "the men who are running the factories and mines and railroads, the directing members of the commissariats and subcommissariats of heavy and light industry and transportation and communications, the heads of the large collective farms, the expert manipulators of the propaganda mediums... the managers in short."
- the “public” and “corporate” sectors had equal treatment under the communist system:
  - both controlled by sectoral ministries
  - subject to similar regulatory environment
  - result: “civil servants” behaving like corporate managers
The heritage of communism:
- organisations with legally defined autonomy, rights and responsibilities
- staff and particularly managers responsive to political pressure individually, but acquired very little accountability
- staff and managers felt certain informal ownership rights
- the distinction between public- and private-sector mentality blurred or nonexistent in eyes of most actors
- lack of skills and information needed to participate in policy-making in a new world of market democracy

Recent Slovak political history
- 90-92: In hurry, vol. 1
- 92-98: Out of Europe
- 98-02: Back to Europe
- 02-: In hurry, vol. 2

2002-2004 reforms:
- Enacted: Labour market, pensions, taxes, social benefits, judiciary, civil service and government reorganisation, primary and secondary education
- Currently in the parliament: Fiscal decentralisation, health care, higher education

Where Slovak experience in PAR defies received wisdom
- House divided against itself cannot stand?
- Oh yes it can and even progress
- History repeated becomes farce or tragedy?
- Actually, rather a happy-end

Why such a difference between 1998-2002 and 2002-?
- Ideological disputes within the government vs. relative cohesion
- Lack of clear vision vs. conscious preparation for potential governance
- Different popular mandate – evolution of public opinion

The highlights in each area of PA reform:
- The importance of simultaneous change
- Political reform
- Political effects of decentralisation
- Shift to independent regulation in many areas
- Ethics and anticorruption efforts
- Budgeting reform
- Strategic budgeting: emphasis on deficit-reduction, programs and priorities, the medium-term outlook
Continued:
- Decentralisation and organisation reform
- Service delivery in many areas down to regional and municipal governments
- Fiscal decentralisation
- Shift to direct responsibility of ministries for service delivery remaining in central government hands
- Civil service reform
- Pay reform
- CS agency creation

Sources of pressure:
- EU accession and need for economic growth
- EU can be fooled, economic actors (e.g., investors) cannot be
- EU focuses on processes and inputs, investors focus on the outputs and outcomes

Effects of pressure:
- Under pressure, low quality civil service is expensive: lawsuits, need to bribe investors, stupid and wasteful decisions
- Importance of quality civil service increases as reforms progress to second and third generation and to service delivery

Effects of pressure – actors and incentives:
- Failure of CS agency (as an HR agency and regulator)
- Failure of consultants
- Reasons: insufficient incentives, strategy and local knowledge
- Other factors: role of political parties, coalition governments and local pressure
- Key role of the executive

Recruit and promote: HR most underrated element
- On a policy level – individual recruitment
- On a delivery level - systems
- The network effects of having quality people in various key positions are impossible to overestimate

Conclusion
- PA reform is the key enabler for other reforms
- The more you are in a hurry and more advanced in reforms you are, more important it becomes
- Politicians do not pay it enough attention
- Everyone bears the costs
- It does not have to be that way
**Simon James (DFID)**

PAR management in new Member States, Candidate States and the Western Balkans: European Integration, Policy-Making and Policy Coordination

- *PowerPoint presentation*

<table>
<thead>
<tr>
<th>Why does PAR matter?</th>
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<tr>
<td>1. Preparation and conduct of EI negotiation requires analysis and coordination.</td>
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<td>2. Important way of maximizing effectiveness of resources:</td>
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<tr>
<td>- Tight budget constraints</td>
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<td>- Implementing <em>acquis</em> expensive</td>
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<td>- Avoid under spending EU grants</td>
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<tr>
<th>EC monitors implementation</th>
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<td>- Member states: monitoring and prosecution for non-implementation</td>
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<td>- Non-member states: regular reports on implementation of agreements/progress towards membership. Focus on</td>
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<tr>
<td>Transposition of law</td>
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<td>Implementation of law</td>
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<td>Capacity to implement</td>
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<th>Capacity to implement</th>
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<td>- Commission reviews, often critically, the mechanisms for implementation, incl.:</td>
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<td>- Institutions for carrying out EI work (especially EI units in ministries)</td>
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<td>- Training for civil servants</td>
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<td>- Mechanisms for coordinating EI policy, and policy more generally</td>
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<th>European principles of governance</th>
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<td>As a general rule, the EU does not prescribe any system of governance or administration; but development of common standards: ‘soft <em>acquis</em>’</td>
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<tr>
<td>- Openness</td>
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<td>- Participation</td>
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<td>- Accountability</td>
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<td>- Effectiveness</td>
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<td>- Coherence</td>
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Elements of policy coherence
1. At strategic level:
   - Clear government strategic priorities
   - Objectives and programmes of individual ministries accord with those priorities.
   - Annual budget reflects those priorities
   N.B keep it simple

2. At the level of daily decision-making:
   - Ministries ensure that their actions conform with the Government’s priorities and the budget
   - Coordination between ministries (and agencies) to ensure their actions cohere with each other.

3. In cultural terms:
   - Sharing of information
   - Thinking of overall government objectives, not just of ministry objectives/procedures
   - Focus less on law-writing, more on implementation

4. Institutions and procedures:
   - Procedures to ensure this is done (e.g. Rules of Procedure of the Government)
   - Institutions to ensure the procedures are followed (e.g. Government meeting and its task forces and working groups; Government Office)

How does Croatia measure up to these standards?
Sources:
   - Annual SIGMA assessments
   - World Bank review of policy-making and coordination June 2003
(May have changed slightly, but not greatly due to change of government)

In conception, excellent system for coordination at the centre
   - Clear Rules of Procedure of Government
   - Plan of legislative activities
   - Strong planning of EI activities
   - System of task forces (civil servants) and working groups (ministers) to ‘filter’ issues for Government meeting

In practice, many problems at earlier stage:
1. Inadequate analysis and preparation at ministry level
2. Procedures for coordination between ministries often work poorly
3. Inadequate analysis of budget implications
At ministry level
- Inadequate initial analysis of problems (focus too much on legal drafting).
- Inadequate exploration of alternative options, or of non-legislative options
- Implementation not much considered
- Proliferation of strategy documents not linked to central government priorities or budget

Coordination between ministries
- Working groups developing laws rarely include civil servants from other ministries (EI an exception)
- Consultation mechanism between ministries works poorly:
  No standard deadline for responses, so time often inadequate
- Often ministries or agencies affected by a law are not consulted (contrasts with highly effective mechanism for identifying EI implications)
- Comments made often not reflected
- Requirement to create working group to resolve problems works badly (still true?)
- Consequently disputes are pushed up to Task Forces and Government Working Groups without being resolved at lower level – absorbs much time.
- 7 day rule: prevents Government Office from enforcing procedures for coordination, and inhibits resolution of disagreements
- Commenting procedure paper-based, not IT-based – very laborious.

Budgetary implications
- New laws and initiatives often not covered in existing budget
- Often not costed adequately
- Ministries and Ministry of Finance lack capacity to carry out costings
- Staff in Ministries do not see budgetary consequences as their concern
- Consequently Government takes decisions without knowing full budgetary consequences
- Overall: weak budgetary discipline – will endanger implementation of the acquis.

Recommendations
- Ministries should prepare concept papers:
- Define objectives
- Consider different options
- Assess impacts (budgetary, economic, social, environmental)
- Consider implementation
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<th>The inter-Ministry consultation process should be reformed to:</th>
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<td>- Involve other ministries in working groups developing concept and laws</td>
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<td>- Standard minimum period for consultations</td>
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<td>- Reflect comments from other ministries in its proposal, or explain why this is not done</td>
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| - Ensure all relevant agencies and ministries are consulted |
| - Make greater use of IT for the inter-ministry commenting process (as EI system does) |
| - Change 7 day rule to 14 days to allow Government Office to check quality of proposals |
| - Empower Government Office to enforce these procedures. |

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<th><strong>Introduce ‘budgetary impact assessment’:</strong></th>
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<td>- Ministry completes form for every law or proposal</td>
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<td>- Provides costs of proposal for three years: salaries, goods and services, capital, transfers, etc</td>
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<tr>
<td>- Identifies also costs for off-budget funds, municipalities, etc</td>
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| - Compares this with existing spending plans in budget |
| - Identifies any compensating savings |
| - Submitted to Ministry of Finance at inter-ministry consultation stage and agreed |
| - Result submitted to Government: Ministers can take an informed decision, aware of resources |

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<th><strong>Objections</strong></th>
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<td>- Cultural resistance – the whole point of the changes is to change culture</td>
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<td>- Policy development takes time – so does repairing laws that do not work</td>
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<td>- Pressure to pass laws at high speed (especially in EU context) – laws passed in haste are likely to prove difficult to implement.</td>
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Ana-Maria Boromisa (Croatian Energy Regulatory Council)

Readiness of Croatian public administration for the EU accession

The Madrid European Council in 1995 formulated institutional membership criterion as effective application of legislation through appropriate administrative and judicial structure. However, there are no explicit elements for evaluation alignment with Madrid. Namely, Copenhagen political criterion (stability of institutions guaranteeing democracy and the rule of law) coupled with the legal criterion (adopting the acquis) implies the need for effective institutions. Requirements defined by the European Council in Madrid hence can be regarded as interpreting Copenhagen, highlighting the need for institution building in the pre-accession period.

The European Commission was evaluating progress of candidates in institution-building based on methodology defined by Agenda 2000. Progress reports, accession partnership, PHARE projects and action plans for administrative and judicial capacity in various candidates are indicative for identifying what kind of issues EU considers as priorities. However, there are no unified solutions. The Commission formulated explicit recommendations concerning individual institutions (organisation, tasks, staffing, budget) only in cases if the candidate failed to meet some of the Copenhagen membership criteria.¹ Such individualisation on very specific subject, without clear criteria can create perception that the recommendation is form of political pressure, and not result of objective evaluation. However, general conclusions of the Commission are mainly comparable with results obtained by using different governance indicators or evaluations developed by different institutions.²

For Croatia, the EC evaluates the efficiency of the public administration according to two basic criteria:

ability to fulfill obligations set out in Stabilisation and Association Agreement, priorities being defined in Interim Agreement (concerning enabling free movement of goods, competition, intellectual and industrial

¹ For instance, the European Commission insisted on improvements in childcare institutions in Romania, in Turkey on civil control over the army and minority rights (Kurds), while in Croatia the basic questions relate to co-operation with the ICTY.

² Such as Heritage Index of Economic Freedom, Fraser Institute World Index of Economic Freedom, Corruption Perception Index developed by Transparency International, and analyses of public administration conducted by various international organisations – OECD, World Bank.
property rights) progress in adoption, implementation and enforcement of the acquis.

In the Opinion on the application of Croatia for membership of the European Union the European Commission noted progress made, but also identified numerous challenges that public administration has to face. On the "strategic" level, the Opinion identified lack of single body responsible for providing a coordinated overview of policy to decision-makers which leads to politicised and fragmented policy planning and coordinating (EC Opinion 2004, p.16). On the “operational” level there is multitude of service management standards, deficiency of the rules governing recruitment, selection and promotions; salaries are too low to attract young and educated professionals etc.

The basic conclusion concerning public administration, as formulated in the Opinion, is that its reform is not yet completed and needs to be vigorously pursued. Administrative capacity is uneven, and enforcement of legislation needs to be improved. Therefore administrative structures have to be strengthened.

In addition to the EU requirements, there is also domestically identified need for public administration reform. The process of institutional restructuring is closely related with transition, which is not over yet. Institutional framework suited for socialism and collective property cannot function properly in market economy and sufficiently protect private property rights. In this sense domestic goals of public administration reform are identical to the membership criteria developed by the EU: the institutions have to be credible, efficient, enabling proper functioning of market economy, and respect the basic principles of democracy and rule of law. The EU fosters improvements in areas it considers as priorities by linking the financial and technical help with achieving specific goals (principle of conditionality). The importance and sequencing of individual measures as viewed from the EU or other donors do not necessary coincide with “domestic” perception. Sequencing of individual measures can have a significant impact on pace and success of various reforms. Therefore, in applying individual actions the possible implications on the whole process should be taken into consideration, i.e. coherent action plan should be developed.

Government’s strategic approach and the view of the EC are comparable: reform of public administration is necessity. The Programme of the Croatian Government for the Mandate Period 2003-2007 identifies that public administration reform is prerequisite for economic growth, while the EC formulates this as prerequisite for adjustment to the EU system.
Next, the Government programme includes analysis and proposing of new organisation of state administration in order to improve its efficiency and savings, having in mind main purpose – fast and quality service for citizens. Again, this is, in different wording, included into the EC Opinion, which says that Croatia must (...) create the necessary implementing structures, to bring its administrative and judicial capacities to required level and to ensure effective enforcements.

Further, the Programme of the Croatian Government includes chapters on fight against corruption, code of conduct for civil servants, state administration, development of real estate registers and cadastres. In these areas the has monitored progress of 10 CEECs carefully and further integration was conditional upon results achieved. On the implementation level, part of the National Programme of the Republic of Croatia for Integration into the European Union 2004 dealing with reform of public administration is based on documents prepared by World Bank (Country Economic Memorandum), CARDS 2001 and Public Administration Reform Document submitted to the Government. It foresees legislative measures, some new structures (departments in ministries), and employment. Comparable measures are proposed in European partnership.

Finally, it seems that there is a consensus that the public administration needs reform (i.e. public administration in Croatia is not ready for integration into the EU), that there is a need for immediate action in various administrative organizations and that numerous (short-term) actions should be co-ordinated and sequenced in order to avoid multiplying and iterating reforms. The question, however, remains, how the various policies will be co-ordinated and who will ensure their consistency. In brief, who will and how formulate medium term agenda?
The Civil service Reform in Croatia

In general any public administration consists of three main elements: (i) Organized Structure; (ii) Human Resources; and (iii) Rules and Procedures.

The process of administrative reform in Croatia has started with the project CARDS 2001 funded by the European Union, has been concentrating on the rules and procedures and administrative structures responsible for managing and developing human resources in the public administration.

The Objectives

The reform initiative supported by the EU has mainly focused the Civil service legislation, its management structures and the capacity building for a better functioning and more effective public administration. In this respect goals have been set to attain modernised civil service legislation and related practices, sounder institutional and organisational capacity to define policies, rules and procedures for effective personnel management and a continuous training system for different categories of civil servants.

The Analysis

The implementation of the project has started with an in depth analysis of the situation concerning the Croatian Civil service. In this respect the CARDS project has set a few benchmarks against which to test the state of the civil service and eventually to propose formulas for future reform and improvement. Those benchmarks were drawn from common standards adopted among OECD countries and the best European practice and they are: the recognition and reward of merit and professional competence, the quality of individual performance and services, the consolidation of a unified body of rules and procedures in managing and developing human resource, the cost effectiveness of the public administration and the satisfaction of client citizens in their relationship with the public administration.

The analysis has revealed some critical shortcomings in the way of managing and developing the human resources under the rules and procedures currently in use. In particular the following has been found:

- The separation between political and administrative management in the Civil service is not a consolidated principle with consequent political interference in the ordinary administrative decision making;
- Recruitment and appointments are far from being managed in a unified way and rules and procedures vary from one administrative body to another allowing to the detriment of legal certainty and fair and objective treatment of candidates;

- The recourse of political appointment especially to high level positions within the Civil service is a legal and well regulated practice to the disadvantage of a merit based system that should promote competent and deserving civil servants;

- Merit based on results and good professional performance are not considered as key elements for appointment and promotion. Decisions on promotions are taken in consideration of seniority on post and academic qualifications. Promotion mechanisms are slow and promotions are not means for rewarding the best performance of staff that looses motivation and is encouraged to indulge in mediocre performance.

- Performance over the years of service and specific proven competence are not given the appropriate consideration in such decisions. The absence of objective tools for performance appraisal are the cause of subjective judgment on professional competence and suitability for promotions of candidates to the advantage of unqualified candidates and the detriment of skilled ones.

- Performance management is not used as a tool for professional development of civil servants and is not considered as a crucial tool in the improvement of service delivery;

- Civil servants’ roles and responsibilities are not individually defined with consequent uncertainty about the assignment of tasks, individual accountability and inconsistency in the management of procedures and delivery of services;

- Functional titles and job classification reflect exclusively educational/technical qualification rather than being based on the attribution of managerial and professional responsibilities;

- Pay and other financial benefits are not granted according to performance and competence and according to a unified pay scale common to all branches of the public administration. This practice causes frustration and de-motivation among civil servants and is cause of financial inefficiency;

- Training needs to be used more as a career development tool in order to enhance effectiveness of the public administration and higher quality in service delivery.
The proposals made for the Civil service reform

The actions so far conducted with the assistance of the EU in reforming the Croatian Civil service have resulted in the formulation of new drafts of primary and secondary legislation setting norms addressing all the shortcomings identified during the analytical phase. Namely new rules have been introduced to eradicate political interference in administrative decision making and management by suggesting the end of political appointments and the integration, through recruitment by competition, of state officials into the Civil service. According to the proposed draft, State Officials are not to be allowed to occupy positions in the civil service thus cumulating titles and benefits from the two orders. The proposed regulations foresee that none of the high level executive positions, so far reserved for political appointment, shall be assigned to personnel who has not been appointed in the Civil service through regular recruitment procedures.

The proposed legislation also intends to reduce the risk of conflict of interests for Civil servants by regulating the mater in the new drat law on civil service, avoiding to spell those rules in a separate code of ethics that otherwise would risk of being treated as a morally and not necessarily legally binding prescription.

The law intends to establish a merit based system for the management and development of human resources and dedicates several of its provisions to the concept of “merit” by setting rules that link it to results and that are to be formally acknowledged and rewarded by the public administration.

The draft law sets conditions and terms for a unified recruitment system as well as promotions procedures across the state administration in order to avoid admission to the Civil service of candidates through procedures that vary from office to office.

Merit and performance are to be assessed, according to the draft law, against objective and measurable standards. For this reason the new legislation is proposing to classify positions in a simpler and clear way by attributing to civil servants well spelled individual tasks and responsibilities. Performance, in the new draft law, is considered a key management tool as well as a tool to build professional career development.

The reform process that the CARDS project introduces is also concentrating on initiatives in the area of functional review by providing the conceptual basis for organising a central management system for the Civil service as well as developing a network of fully fledged Personnel Departments in four pilot Ministries and the CSOA. So far some results have started to be achieved. The administration of the Civil service is no longer the responsibility of a
department of a line ministry but belongs to a State Office directly reporting to the Prime Minister.

Training initiatives have been launched to define a Training Strategy for the Croatian Civil service and prepare future trainers to undertake the tasks related to human resources development in the Civil service. Assess training needs across the Croatian State Administration. A Civil service Training Centre is being established for the preparation of training plans and the delivery of training events.

**Expected Development**

The reform process is expected to progress toward a system in line with the best European standards as a guarantee for citizens, domestic business and foreign investors.

Rules and procedures cannot be drawn without having previously formulated a set of programmatic guidelines in the format of “policies” and action plans. For this purpose formulation and adoption of a Government policy for the reform of the Public Administration and Civil service is expected prior to any further future action.

As a first step towards the formulation of a still missing policy, the new draft law on Civil service can be used as an inappropriate, but useful, policy surrogate. Therefore Parliamentary approval of the draft new Law on Civil service is to take place shortly.

The practice of political appointments to executive positions in the Civil service is to be ended and the implementation of the new proposed rules and procedures for recruitment, appointment and promotion of Civil servants are to be introduced in order to ensure the start of a new professional, independent and well managed Civil service.

A new model of individual job descriptions and a new method of job classification and new functional titles needs to be implemented in order to define in a more reliable and transparent way the actual roles and responsibilities of civil servants and set the terms of their accountability through the introduction of a new Performance Management System according to the proposed Law on Civil service.

Adoption of a new, unified and simplified pay system for Civil servants, is also expected, to introduce more transparent accounting, fair treatment to civil servants across the entire State Administration and eliminate financial inefficiency.
Fully staffed, organised and functioning departments for human resources planning/management and for staff development in the CSOA are to be fast established as well as organised and functioning Personnel Departments within line Ministries and other State Administrative bodies.

A training strategy and plan of action is to be adopted in order to provide a framework of operational guidelines to the Centre for Civil service training that is being established.
### Suggestions for Public Administration Reform in Croatia

- **PowerPoint presentation** -

#### 1. Rationalisation of public administration
- To rationalize the central state administration
- To simplify the territorial organization of the state administration below the central level
- To eliminate functional overlapping
- To introduce modern regional self-government
- To rationalize the structure of the basic local self-government units (towns and communes)

#### 2. Strengthening of the institutional capacity
- To strengthen Government’s professional capacities
- To separate ministries and executive agencies
- To regulate and ensure the functioning of the (quasi)independent regulatory bodies
- To computerize and network the whole public administration
- To create managerial and entrepreneurial work methods
- To create horizontal relations and prefer matrix organization with more flexible labour arrangements
- To establish the mechanisms of harmonising public policies and coordinating and integrating the whole public sector
- To introduce e-administration and records management

#### 3. Strengthening of the professionalism and ethical standards. Depoliticization of the administrative service:
- To introduce a comprehensive system of administrative education
- To establish reliable records of the civil servants and employees
- To introduce the in-service training system
- To introduce pre-entrance exams
- To re-train inadequately educated civil servants
- To introduce efficiency remuneration system and peer review
- To establish an efficient system of disciplinary responsibility
- To depoliticise public administration and reduce the number of politically appointed officials
- To regulate the legal status of local civil servants
4. Debureaucratization
- To simplify and accelerate administrative procedures
- To provide e-access for citizens and entrepreneurs
- To develop entrepreneurial administrative culture and proactive attitude of the civil servants
- To introduce more flexible labour contracts
- To educate civil servants in the spirit of service to public interest
- To create an efficient system of supervision that would monitor legality, quality of services and civil servants’ morality. To strengthen inspection services.
- To inform citizens and entrepreneurs about public administration

5. Orientation towards results, transparency and openness:
- To hire public managers in executive agencies
- To introduce strategic planning
- To introduce project budgeting
- To publicise budget and annual budget balance statements and to enable citizens to have access to public spending
- To ensure access to the public sector information

6. Decentralisation
- To modernize the territorial structure
- To constitutionalise local self-government
- To strengthen the financial capacity of local self-government units
- To widen local self-government scope
- To strengthen democratic political legitimacy of the local bodies and the professionalism of local public administration
- To ensure a more efficient legal protection of citizens and entrepreneurs

7. Partial privatization in public administration
- To privatize parts of public companies, particularly utility services
- To apply other methods of strengthening the private initiative in the public sector – outsourcing, etc.
Reform of the State Administration: A View from the Trade Unions of Public Service

The concept of state administration in the Croatian situation does not include the public services. However, public and state services, and state administration in the narrow sense, share similar problems due to the similarity of their work in the administrative and clerical sense. Therefore, talk of reforms of the state administration, in the nature of things, also relates to the organization of the public services.

The situation in the state administration, seen from the point of view and needs of the unions, is marked by inefficiency and irresponsibility in solving the problems of union members, which means employees whose employer is the State or citizens and voters of any government.

There are hundreds of examples, and we can mention here simply to illustrate: a normal letter takes a whole month to write, records of court rulings are inaccessible, letters to ministers never reach them… You get the impression that with the administration it is impossible to solve one single problem.

We notice that the situation in the state ministries is characterized by the following hallmarks:

- the state administration has a great deal of work and things to do (in contrast to the stereotype);
- jobs are frequently not completed or they are finished inexcusably late with damaging consequences;
- of course, the reason for this is not the lack of employees, but that a significant number of people actually do very little, inefficiently, without qualifications or, which is most often the case, without any motivation;
- a small number of capable and motivated people work very hard;
- the best staff do not stay long in state administration;
- work done is not a measure for evaluation, and employee assessment is a mere formality;
- in the public eye there is an impression of the existence of an excess of employees, however, although this assessment is accurate in some segments of the state administration, it is still a generalization;
- what is true in general for the entire state administration is there is an excess of unqualified employees.
Reform of the state administration, under the influence of undifferentiated pressure from abroad on the level of state spending, will certainly set a mistaken and generalized goal: to reduce the state administration as the primary task, and to increase its efficiency incidentally if they succeed.

Croatia should have its goal expressed in precisely the opposite terms: to increase the efficiency of the state administration, and reduce it, if the needs of the country allow.

Therefore the primary aim of the reform of the state administration should be: to replace the existing number of inefficient employees with qualified and motivated people.

In this sense, I see the problem of motivation for joining, working and remaining in the state administration as the crucial problem. Motivation has both intrinsic and extrinsic forms. The problem with intrinsically motivated people arises when for extrinsic reasons they lose their will to work, which is very often the case in state administration. Therefore, the emphasis needs to be on their extrinsic motivation, which depends on the pay structure, the system of performance evaluation and the employment status.

Up until now the employment status has inclined towards excessive security for employees in state administration, which creates an atmosphere where they do not need to pull their weight. However, a larger degree of employment security than in the private sector should be maintained and, because of the nature of the civil service, the proposal for the introduction of contract-based employment instead of status-based employment should be considered with caution. Status-based employment could be restricted to a smaller number of experts who have proven themselves by their work. However, it is certainly necessary to create a balance between the need for job security and insecurity, where there is at present an imbalance at the expense of the necessary and useful level of insecurity. A civil servant is at the moment safe from redundancy regardless of lack of work or effort. Job security must be guaranteed only if the employee achieves the expected results in his or her place of work. Insecurity must arise as a threat in cases of results below what may be expected.

The present system of assessment should be abandoned as soon as possible. It is only useful in its confirmation of the old truism, from the time of socialism, that in any public system there is no true motivation for anyone to make any serious or objective assessment. Assessment involves offending someone in one way or another, and the bosses in state administration do not get involved in it since they do not have any lever to change the situation, nor do they see any personal interest in accurate assessment.
Similar weaknesses are even present in the public systems of science and higher education. Naturally, this problem does not exist in the countries where there is a high level of competitiveness.

The key question for the success of the reform of the state administration, in line with the aim I defined at the beginning, is: **How, in a small country, within a closed and inefficient system of state administration, can we create the force of competitiveness and open the way for it to take effect.** Only in these circumstances does assessment make any sense.

Therefore, I offer a few axioms for the reform of the assessment system and the introduction of a quality measurement system:

- assessment of the work of civil servants must be a key criterion both for promotion to and for holding on to senior positions;
- in the same cycle of assessment, for example, it is necessary to carry out changes in salaries, status and positions for a certain time period, related to the outcome of assessment;
- assessment in a work unit needs to be carried out on two levels: absolute and relative assessment;
- absolute assessment is carried out using assessment methods on a scale or with methods for the recognition of characteristics, and is only the starting point for relative assessment (absolute assessment is also the starting point for promotion);
- relative assessment acts as a corrective and motivating measure for the assessor not to give all employees the highest grades;
- relative assessment is carried out in categories, that is, the employees are divided into four levels of quality, expertise and effort (Grade A has, for example, only 10% of employees and only the best enter this category, B has a larger number than A but less than C, whilst C has a larger number than B and less than D into which for example 40% of the weakest employees fall);
- Grade D implies that the head of the unit has the right to fire the employee for unsatisfactory work and employ someone else to do his or her job;
- assessment should not be too frequent, but for example once a year;
- the assessor should also be assessed by a higher and/or external body and assessors also need to be grouped in categories;
- the work unit should be assessed by a specialized agency for quality control (where possible from outside the public sector)
Whilst job security may be greater than in the private sector, promotion to and holding on to senior status or positions must be much less secure, limited to a certain time period, and indicate a recognized excellence in relation to other employees (relative excellence). The ranking system for the specific employees in a particular working environment must be the basis for the assignment of positions and higher-ranking jobs.

Salaries must be divided into the basic salary for a job and a bonus, where the largest bonus in one assessment cycle is given to employees in Grade A, and those in Grade D receive no bonus. The level of the bonus for each individual is also assigned according to the ranking of the work unit (or the ranking of the assessor), where each unit must have some funds assigned for the pay bonus. This is how competition may be encouraged within the state administration by extrinsic motivation, and therefore more effort and improved work. This is how work becomes the measure of value and status, since the assessor will also be in competition.

Of course, for this the method of financing work in state administration needs to be changed radically, as well as the salary system itself. In this undertaking, it is difficult to count on the support of a conservative and uncreative union in state administration, who, taking care of itself, takes care of the comfort of the majority, mediocrity, without any interest in improving excellence. This kind of union, which does very little or nothing for professional and quality staff, will certainly not want to be a partner in this kind of undertaking. The top staff in the state administration are not members of this union, or they are numerically marginalized.

Apart from the fact that the payment of work in the system of state administration is in no way related to the work results and characteristics of the employees, the level of salaries can also not be maintained. The low and absolutely uncompetitive salaries for professional and responsible positions in the state administration are particularly scandalous. For effective work of the state administration, the salaries for these people, the power behind all that goes on in the state administration, are of enormous significance (advisors, inspectors, heads of departments etc.). It is strange that there have been no changes here so far, since giving these people a raise would be a very small expenditure from the state budget (a small number of people).

Moreover, the differences between the salaries in local administration and self-government are also untenable. Here, the principles of the rights of local self-government cannot in any way justify the paradoxical relationship between salaries. It is vital to intervene with legislation, so these differences would be reduced to at least an acceptable range. Salaries in city
administrations are irritatively higher than salaries for the same jobs in the state administration.

And finally it is necessary to protect the absolute level of all salaries, periodically bringing the pay base of state budget beneficiaries into line with the rise in salaries in other segments, according to the practice of some very successful countries.

Zagreb, June 2, 2004

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Following the Commission’s recent positive opinion, Croatia stands at the beginning of the March to Europe on a road taken by the 10 new member states and on which other countries are still traveling or hoping to travel.

One of the main obstacles on this road is administrative capacities. The capacities required are primarily sectoral (e.g., veterinary services, market regulations, regulatory and oversight bodies environmental requests, etc.). But the effectiveness of sectoral capacities depends on cross-governmental systems of public administration. This is the importance of general public administrative reform.

Since 1999, Sigma has been assessing the Candidate countries PA, with the latest assessment being for the Comprehensive Monitoring Report. The 2003 assessments contains a track record. More recently we have finished PA surveys of the remaining candidate countries and the Balkans countries. I will hereby try to situate Croatia relative to its neighbors and to where the new member states were at a similar point in their March to Europe.

It is clear that Croatia has to seriously start PAR, i.e. set priorities, develop action plans and make more determined efforts to implement them. From the outside it seems that Croatia has not yet full awareness of the profound reforms needed to meet the SAA and later to assume the burdens of Membership. Croatia, has the great advantage, relative to the New Member States (except Slovenia), of having a basic general legal framework close to European standards and which could be easily modernised. However, in our first report, we could only identify very few islands in the Croatian PA where reform has seriously started and gone beyond the easy stage of passing laws.

Croatia seems rather resistant to the pressure from the Commission and the Member States, to seriously addressing reform. There seems to be some reluctance to take on foreign assistance. Croatia should learn to use the identification of reform needs not as criticism to be rebutted, but for “transformational energy”, as did Lithuania after it was given “second wave” status in 1997.

The main goal, as the New Member States are finding, is not just becoming a Member, but to be well prepared for being a Member. That is the opportunity that the pre-accession period gives and must not be wasted.
H.E. Jacques Wunenburger (EC Delegation to Croatia)

Closing Remarks

Excellencies, Ladies and Gentlemen,

I am pleased to be here today to close this conference “Public Administration Reform and European Integration in Croatia: Towards a Medium Term Agenda”.

I hope that you have had fruitful discussions on public administration reform both as the prerequisite for economic development and as a prerequisite for European integration. In this respect, I believe that experiences shared by our colleagues from two new Member States – Latvia and Slovakia – have been most valuable.

In these closing remarks, I would like to underline the link between public administration reform and EU accession and the challenges ahead for Croatia.

As you are aware, the EU Member States are expected to decide in the European Council meeting in Brussels in a few days, whether accession negotiations will be opened with Croatia.

This follows the Commission’s positive Opinion on Croatia’s application to EU membership on 20 April.

In the Opinion public administration was not covered under a specific chapter, because there is no one Community model for public administration. But the Member States have an obligation to implement and enforce EU legislation and guarantee results through national administrations. Therefore it can be said that there is “soft” *acquis* also in this area.

This is why the Commission assessed Croatia’s state administration system, ability to take on the obligations of membership and administrative capacity to implement and enforce EU legislation.

The Commission concluded among other things that

- There is a need for enhanced inter-ministerial coordination to guarantee a coherent approach in different Community policy areas.
- A number of functions – for example internal audit, fight against fraud, human resources management – expected from an EU Member State, are currently missing.
- The current civil service law is inadequate in terms of respecting the merit principle and it does not provide modalities for the conversion of the status of political appointees to that of civil servants.
- There are no coherent civil service management standards nor well-established management structure due to large number of rulebooks in different ministries and inconsistencies between them;
- There is currently no civil service training system in place, nor a stated Government strategy or programme on it.
- Corruption continues to be problem and affects various aspects of society.

In overall, the Commission concluded that Croatia would be in a position to take on the obligations of EU membership in the medium term, provided that considerable efforts are made to align legislation with the acquis and ensure its implementation and enforcement.

Ladies and Gentlemen,

The EU membership requires more, not less, from national administrations. The EU brings benefits, but it also brings costs. Implementation of a widening range of European policies and participation in the formulation of new policies requires administrative capacity.

If a country wants to benefit from the EU membership, it needs to build administrative capacity on the basis of a comprehensive public administration reform programme.

The required public administration reform in the pre-accession period is not just minor adjustments to existing structures. It is a reform of larger systems, where governance and management interact. Not only new capacities in the various EU policy areas have to be build. New institutional frameworks have to be developed as well.

What should then be the way forward for Croatia?

- First, there has to be a strong political commitment for public administration reform. The public administration reform does not always raise interest among politicians, as it deals with difficult issues that do not produce immediate and spectacular results. But politicians should be aware that in the pre-accession phase, there is no longer room for any lack of interest.
- Second, administrative capacity building in the different Community policy areas such as competition, customs or environment is not enough. Sectoral issues should not take attention away from the broader picture. Administrative reforms required for EU accession can only succeed if a number of supporting general systems have been properly set up: policy planning capacities across the sectors, inter-ministerial coordination, government decision-making, civil service regulations and human
resources management, adequate budget procedures and overall control mechanisms. These supporting structures are needed to ensure that the “sectors” perform their functions professionally and efficiently.

- Third, a public administration reform strategy endorsed by the Government is needed to give a clear general direction to the reform. It is for Croatia to decide, which directions it wants to take. But Croatia can learn from experiences of the new Member States and other countries in the process of implementing their public administration reform agendas.

Ladies and Gentlemen,

Experience from the new Member States and current candidate countries show that public administration reform – even in the most favourable conditions – is not done over night. It is bound to take a number of years.

I would underline that the European Commission together with all the other donors present in this conference today attach a great importance on public administration reform in Croatia.

For the period 2001-04 the Commission has earmarked 22.5 million EUR under the CARDS programme to support various aspects of public administration reform. This figure demonstrates by itself the importance we attach to this issue. We are determined to further support your efforts.
Problem statement:
- World Bank and EU assessments show that the public administration system remains one of the weakest points in the institutional system of Croatia. If Croatia is to become a more competitive states and is to be ready for EU accession by the target date set by the Government, success in reforming the PA system is essential. Experience shows that PAR processes can take a long time (7-10 years is no exception) and there is therefore an urgent need to speed up the reform process if key results are to be achieved by the target date for EU accession.

Why:
- Reforming the public administration system will help reduce public expenditure and facilitate private sector-led growth.
- Improving the quality of the administration is an important factor in improving the investment climate.
- Administrative capacity to implement the Acquis is key to a successful EU accession process and crucial for becoming a successful member-state.

What are the current problems?
- Croatia has an overstaffed and overly costly administration: Croatia spends more on public sector wages than any other CEE state, except Montenegro.
- Institutional fragmentation has caused sub-optimal policy decisions, which in return has led to increasing and unsustainable public deficits.
- The Civil Service as is does not reflect European principles such as merit, impartiality and professionalism, the legal basis is outdated and management capacities need strengthening.
- The lack of a body in charge of professional development of civil servants has aggravated capacity problems in the administration.
- It will take significant time to address this complex set of problems, but Croatia cannot afford to wait as EU accession and the need to build a more competitive economy require urgency.

Opportunities and lessons
- Fiscal pressures at the same time can bring opportunities for reform.
- The cases of Lithuania and Slovakia have taught us that successful reforms in the public sector, combined with the right mix of policies to attract investors, can be instrumental in turning states from laggards among the EU candidate states to front runners among the new member states.

- In Slovakia, public sector restructuring, creating a less costly, but more effective and client-friendly administration, has been combined with innovative tax policies. These are key factors in attracting strong foreign investment, which are driving strong economic growth and have started to address high unemployment rates generated by the same restructuring process.

- In Lithuania, fiscal pressures brought about by the Russian crisis were used to an innovative strategic planning process to rationalize and prioritize public expenditures. Lower public expenditures and a leaner administration are widely seen as a significant contributing factor to the exceptionally high growth rates in the country over the last years.

- Reforms adopted now will benefit those who remain in the Civil Service, by creating fiscal space for a better wage system that will reward performance, while improved economic growth levels will create the private sectors jobs needed to absorb those staff that will inevitably lose their positions.

The essential steps to move forward

- The creation of the Office for State Administration and the initial steps to rationalize the number of administrative structures are an encouraging start to the reform process.

- The adoption of a medium-term strategic reform program, endorsed by the Government as a whole, is key to a successful reform effort, as reforms will need to be implemented in a 4-5 year timeframe.

Key elements of a program

- The Civil Service needs to be transformed into a merit-based, professional and impartial institution, through adopting a new modern Civil Service Law, the creation of strong Human Resource Management systems and the development of a performance-based salary system. When we look at the transformation of the public service we are looking at the medium term here.

- Key actions required are the development and implementation of a job classification system, to facilitate the introduction of merit-based recruitment and promotion systems. The transfer of key management
posts at the level of Secretary and Assistant Minister to the Civil Service system is needed to initiate steps towards de-politicization.

- The development of a professional and well-paid civil service will require the reduction of its size. However, this should be done based on a thorough assessment of areas where there is overstaffing and areas where there are capacity gaps, as well as through the development of a well-balanced retrenchment plan to retrain redundant staff and prepare them for the expanding private market.

The World Bank will, together with our partner organizations, continue to support the Government in its efforts to address the deep systemic problems in the public administration system, through the inclusion of the PAR agenda in the Programmatic Adjustment Loan program that is under discussion with the Government, as well as through the continued provision of advisory support to our Government counterparts, including the provision of support to the development of a balanced staff retrenchment plan, which will lead to a smaller and more efficient public service while retraining of staff will prepare them for the expanding market.

Conclusion:

- Underscore the importance of fostering partnership between the Government of Croatia and international development institutions, notably the European Commission, DFID, SIGMA, World Bank, etc.

- Express hope that the level of discussion and engagement expressed today continues. Reinforce that today’s forum is the first of a series focusing on policy reform in Croatia, which will include forums or workshops on health financing and FIAS recommendations on reducing barriers to investment.
The World Bank Press Release

Public Administration Reform and European Integration in Croatia: Towards a Medium Term Agenda

Zagreb June 7, 2004 – In a significant step toward reforming the public administration, the Government of the Republic of Croatia, in cooperation with development partners, the European Commission, Department for International Development (DFID), SIGMA, and the World Bank, joined together with representatives of trade unions, leading experts from Croatia and abroad to examine the medium term challenges and opportunities for public administration reform and European integration in Croatia.

Speakers strongly emphasized that implementation of a comprehensive public administration reform programme is the prerequisite both for economic development and further European integration.

The Head of Delegation of the European Commission, Mr. Jacques Wunenburger, reminded that following the positive Opinion of the European Commission on 20 April, the European Council is expected to decide on 16-17 June whether Croatia will become a candidate country. Should the decision be positive, Croatia would have to engage in a comprehensive public administration reform programme, both to be able to conduct negotiations and to fully benefit from the future EU membership.

Mr. Wunenburger emphasised that public administration reform in the pre-accession period is not about minor adjustments to existing structures. A comprehensive reform, fully endorsed by the Government is needed. “Administrative capacity building in the different Community policy areas such as competition, customs or environment is not enough. Sectoral reforms required for EU accession can only succeed, if a number of supporting general systems have been properly set up: policy planning capacities across the sectors, inter-ministerial coordination, government decision-making, civil service regulations and human resources management, adequate budget procedures and overall financial control mechanisms.”

“Croatia is embarking on public administration reform in order to adjust to European standards,” said Mr. Antun Palaric, State Secretary for Public Administration of Croatia. “We want to have Croatian public administration at the service of all Croatian citizens, as well as to contribute to economic growth of the country. The objective of the reform is to ensure a professional and efficient public administration. We support the open discussion through this forum on the current situation and the efficiency of the Croatian public
administration, as well as a discussion in future directions of reform. The assistance of international development partners therefore plays an important role in achieving the final aim: Croatian public administration adjusted to European standards,” said Mr. Palarić

“The Croatian Government has embarked on the important road toward European integration with an ambitious reform agenda. One of the key areas that Croatia needs to tackle is the reform of the public administration. These reforms underpin other critical reform areas that the Government has undertaken, including judicial reform. Today’s forum, the first in a series focusing on policy reform in the country, represents a significant step towards sharing best practice in public administration reform from other transition countries in Central and Eastern Europe. A fully functioning public administration and civil service is not just one of the criterions for European integration, it is an indispensable part of good governance and competitiveness of the economy,” said Anand K. Seth, World Bank Country Director for South Central Europe.

Mr. Seth also emphasized the relation between the high fiscal deficit in Croatia, competitiveness of the Croatian economy, and the lack of reform in the Public Administration. Croatia’s spends more resources on the public sector than any other country in the region after Montenegro, and stands at around 11 percent of GDP. Administrative barriers for investors as indicated by the Cost of Doing Business (CODB) indicators and the Administrative and Regulatory Cost Survey (ARCS) are higher in comparison to the new EU member states.

However, regardless of its high cost, the performance of the state administration has been sub-optimal. This is mainly due to distortions in the salary system, a lack of performance incentives for civil servants and the high level of politicization of top level civil service posts. There has been no system or institution promoting the professional development of state administration in Croatia since independence, which has further reduced the quality of the state administration.

The examples of Slovakia and Latvia, which were represented by high level officials at the workshop, prove that is possible to turn around a situation of high fiscal deficits and low public sector performance over the medium term, provided that a solid public sector reform program is adopted and fully implemented. This, however, requires the full support of the highest political authorities, as public sector reform is both a difficult and often a painful process.
It is important that the new Government has made some initial steps in reforming the state administration, but experience from other states shown that deeper and more radical reforms will be needed to create an affordable and professional Civil Service, able to serve Croatia and its citizens in the long and difficult road towards EU membership.

Key priorities highlighted during the workshop were the adoption of new legislation on the Civil Service and on Civil Service Salaries, the rationalization of administrative structures as well as the reduction of the size of the state administration and changes in the law-drafting and policy formulation process, to ensure that the cost of new legal and policy initiatives are properly considered in the decision-making process.