



Alternative **Delivery** Service

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Introduction

This book is about alternative public service delivery arrangements. Public service delivery concerns services in the public interest, directly or indirectly provided by local, regional, national or supranational governments. A government may finance, manage and provide the legal structure for instance the provision of basic services, such as water and electricity in order to ensure that all people have access. Indirectly governments can subsidize, regulate or in other ways support private or non-profit organizations to provide their people with food, clothing, housing, medical care and social services. Public service delivery is also about governments providing safety through, for instance, the building of dikes against flooding, in the old days, the building of walls around cities against outside threats - and nowadays walls between countries. It is about protecting people from injustice and harm through making and upholding laws, be it through the protection of their property rights, the protection against discrimination, or protection against exploitation through laws regulating the increasingly complex living conditions. It is also about taking care of safety through the organization of the military, the police, fire brigades, prosecutors and judges. Governments vary to the extent they provide services to enhance human development in their territory, through basic education, social housing, socio-economic development and human development.

Nowadays, the role of government in all these areas is considered to be pretty classic task for them in all developed countries. Nonetheless, this has not always been the case. Moreover it will not stay the case in standard classic format - discussions about alternative service delivery arrangements started about thirty years ago. Questions if the way governments deliver goods and services is the right way and whether alternative public service arrangements should be considered (i.e. collective action in cooperation with the private sector in public-private partnerships, cooperation with citizens resulting in co-creation and coproduction, cooperation through creating policy networks involving combinations of private business, experts, NGO's and citizens, or leaving the public side of such services for what it is and having the services provided completely by the free market, through outsourcing, privatization, or through many another mode of alternative service delivery) are more and more frequent. Our goal is to contribute to this discussion through this book.

Many issues concerning the merits of such alternative service delivery are at stake. Would it indeed be more efficient to have the mentioned services provided by the free market, with its competition, its clear performance indicators, its service delivery prices based on supply and demand, and with people free to exit, voice or show loyalty? What are the consequences in terms of economy, efficiency, effectiveness, environment and equity? That is what this book is all about.

The book consists from five core parts. The introductory chapter first highlights the challenges of alternative methods of public service management at different levels of governance and afterwards puts the theories and notions on such ASDA's in a historical and interdisciplinary context.

Three following chapters introduce three different selected forms of alternative service delivery arrangements – externalization (contracting, outsourcing, PPP, privatization, etc.) as the oldest one, E-government services and partnerships as the more recent developments. Cases studies included highlight several important issues connected with the use of modern methods of public service delivery.

The last chapter summarizes main organizational factors determining results from the use of alternative service delivery arrangements and discusses if selected tools and forms deliver planned and expected outcomes – if not why?

Juraj Nemec, Vincent Potier and Michiel S. de Vries
Editors

Part 1: Alternative service delivery

The challenges of alternative methods of public service management at different levels of governance

Vincent POTIER

The search for effective and efficient public action has led to the piloting of alternative methods of public service management, which have an impact on the levels of responsibility between national, regional and local institutions, diversify the arrangements for resorting to private companies and mobilise non-profit organisations and the general public. It is hoped that these new methods will address the challenges of poverty, access to vital resources and climate change, whilst ensuring the management of various levels of complexity. Consequently, the design and management of this revamped public action is a major challenge, which requires both skills as well as values and principles to orientate the development of public services.

1. Alternative methods for addressing global challenges through the management of various levels of complexity

At international level, the United Nations has observed that despite the tremendous progress in the achievement of the Millennium Goals for development, “millions of people still suffer from hunger and don't have access to basic services” (UN, 2015). The 17 goals for sustainable development have assumed the mission of the Millennium Development Goals over the 2015-2030 period to meet these global challenges: 800 million people still live in extreme poverty and suffer from hunger, 57 million children of primary school age are out of school, the maternal mortality rate is 15 times higher in developing countries than in developed countries, 2.4 million people do not have access to basic sanitation, over 880 million people live in slums, one person out of five does not have access to modern electricity. High income countries are also targeted, since as the OECD points out, they have experienced increasing inequality that the resumption of economic growth has not been able to reverse (OECD, 2016b).

These challenges relate to urban services that are essential for human development and dignity (water, energy, housing, waste) on the same lines as the United Nations' Human Settlements Programme. They fall under the rationale of global public goods (Kaul, Grunberg and Stern, 1999), a concept that comes close to the concept of the common good (Potier, 2015). They cannot be designed solely in terms of meeting the individual needs of “customers-users” as the private initiative does not create non-profitable goods and services and does not manage the goals of equality of access, or certain negative external effects (Duran, 1995).

For the manufacture and management of these goods and services, public intervention is essential but it must also be capable of playing a regulatory role by tackling various levels of complexity.

The protection of water resources is an example of the difficulties associated with reconciling the various needs on the territory. Water is a vital resource both for personal use, agriculture, energy production and economic development, but the interests of the latter uses differ between the upstream and downstream points of the waterways and the level of the river basins (pollution, depletion of resources). Its management requires going beyond individual interests, both on an individual and local scale and on a global scale (Kramer *et al.*, 2013). The Nile Basin Initiative, supported by the UNDP and the World Bank, thus develops a cooperative approach between 11 bordering countries for fostering a climate of trust, by analysing projects both in terms of their

national and regional impact and by sharing information on the respective interests of the public (World Bank, 2015).

This coordination is also necessary for mastering the interplay between public policies. The World Health Organisation recommends, for the purpose of enhancing the results of nutritional policies, simultaneously taking action on water quality, sanitation and hygiene (Water Sanitation Hygiene: WHO, 2015). The aim of the public regulation is to engage in a global reflection, as pointed out by the Executive Director of the United Nations Human Settlement Programme: “Only the collective government of the city can effectively oversee its common elements, including public space. Local governments therefore have a preeminent role to play” (UN, 2015).

The management of public services is therefore particularly delicate. The extent of current needs in a context of budgetary constraints involves the use of private sector capacities and mobilising all of the collective intelligences: non-governmental organisations and civil society. The recommendations for developing alternative methods, i.e., “increasing the private sector share and non-governmental organisations in the delivery and management of the public services” (World Bank, 1999), are fully consistent with the quest for innovative and sustainable solutions.

However, these methods require coordination and appropriate intervention by the public authorities.

2. Adopting the most appropriate alternative method requires a high level of public responsibilities, values and principles

An alternative method is not a turnkey solution. There are a number of possible scenarios, which alter the extent and types of recourse to the private sector and involve civil society at different levels and different stages. Its design requires a comparison that cannot be expressed in terms of cost-benefit, but also in terms of values and principles.

First and foremost, the performance relating to the private sector and to the public sector depends on a host of factors. A study on the management of water in Uganda, for example, indicates that a public undertaking has achieved equivalent results, if not even better results, when it has internalised the service provision, in comparison with contract periods with the private sector (Jammal and Jones, 2006). This is also reflected in the “water wars” in Bolivia, which took place following the privatisation of the water works sector. The setting up of a concession aimed to resolve the significant mismanagement of the previous public governance structure, but the events of Cochabamba suppressed using violent means in April 2000, illustrated a similar weakness and highlighted the failures associated with unsustainable price increases and the calling into question of the pre-existing community organisations on the distribution of water rights (Bustamante, 2000).

A certain trend towards the reinternalisation of the public management of water was moreover noted, which was prompted by a lack of alignment with public policy objectives and a lack of transparency on costs and benefits (Lobina, Kishimoto and Petitjean, 2014). Global institutions now recommend taking into account social aspects and the level of public acceptance, when considering the use of the private sector, particular in respect of public-private partnerships. The World Bank also attracts attention on the costs incurred by these contracts in the context of the contraction of the financial market.

Management choices can have negative external effects, which need to be managed. For example, in terms of waste, the use of specialised international companies can deprive inhabitants of their incomes, who had previously performed this service on an informal basis, without improving the service due to their unsuitability for the local context (Huysman, 2014). Comparisons of experiences in Egypt, India and in Brazil have demonstrated that it was necessary and possible to integrate these informal workers to maintain their incomes, improving their working conditions and the public service. By way of example, the municipality of Santo André in Brazil helped to structure

two worker cooperatives, which performed the sorting of waste collected by a private company and made collections in less accessible streets (GTZ, 2010).

The coordination between public policies and the actions of non-governmental organisations is also an issue. In terms of education, the question then arises of the capacity of the activities of these organisations to foster the integration and social development of young people. It was noted in Bangladesh that children that benefited from non-profit programmes for primary schools did not continue their secondary school studies for very long, due to the lack of and remoteness of the schools, but also as a result of the differences in teaching methods and the social environment. For a genuine complementarity, public policies must be integrated in terms of objectives, the role of these stakeholders and must build bridges with the national education system (Rose, 2009).

The choice of management method requires the public authorities to develop new skills and new approaches. By way of example, the poor results achieved in the fight against poverty in the Philippines has led local authorities to rethink their methods of intervention by garnering a better understanding of needs via a Community-Based Monitoring System. By direct discussion with the families, they were able to propose further initiatives. Aware of the fact that families spent their modest resources on travel for the purpose of finding employment, they organised meetings with employers in the districts, which raised the employment rate and allowed for training to be offered to unsuccessful job seekers (Hibler, 2015). These efforts have since developed into a national network.

The use of the private sector is often prompted by the specialised skills that it has to offer as it is more difficult for the public authorities to acquire specialised skills given the diversity of their fields of activity. Nevertheless, the support may come from a high level of public sector expertise. The Dutch Water Authorities network, which brings together the local water management authorities in the Netherlands, thus places its expertise at the disposal of the public authorities on a national and international level.

After the choice has been made, the challenges remain enormous throughout the entire management process. The public authorities should remain in control of the objectives and priorities of the service offered to the public. They should be capable of controlling the quality and cost in order to avoid the incorrect allocation of public funds, or even fraud.

The public authorities continue to bear democratic responsibility. To this end, the alternative methods fall necessarily within the ambit of ethical values and principles, which go beyond just a technical and financial comparison of the management models. A number of countries, regional governments and public institutions are now formalising this need.

The Government of Wales adopted its action plan in March 2016 for alternative management methods. It provides a framework for ensuring transparency vis-à-vis the public, civil servants, companies and other partners, in respect of the principles that will guide government decisions. These methods are also based on the beliefs that: “Public services are essential, public officials and individuals that act in the public interest are in the best position to deliver the public service”. They engage the public authorities to analyse the range of public services on offer, whether under direct management or under privatisation, and to ensure transparency on the results of this analysis before selecting the management approach (Welsh Government, 2016). In addition, Wales consulted the stakeholders in advance for developing its action plan.

In Canada, consultations also exist for charters specifically dedicated to public policy. The Canadian Treasury Board stated that “In the creation of alternative arrangements for service delivery, decision-makers must ensure that their purposes in public policy are fulfilled in a manner that is consistent with Canadian values and expectations, and that any new governance framework reflects the appropriate sets of values and ethics that are expected from those representing the government” (Canada, 2002). These values include: “ensuring no conflicts of interest, respecting the public service value of acting in the public interest, supporting common values (such as being honest,

open and co-operative, equitable and fair, standing behind commitments, treating people fairly, proactively protecting the environment, mutually contributing to doing things better) and maintaining high performance standards”.

In France, the National Centre of Territorial Public service (www.cnfpt.fr) designed a repository for its training initiative for public officials. The result of consideration on concepts that give meaning and ensure good governance, it clarifies their application by discerning values, principles and responsibilities, in order to provide a framework for the performance of its public service tasks.

Alternative methods of public service provisions may only find their niche in accordance with what lies at the foundation of public action. One of the major challenges for these new methods is therefore to ensure the primacy of ethical values and principles that must be complied with in respect of public action, through the empowerment of the different stakeholders.

II

Contextualizing alternative service delivery arrangements

Michiel S. De VRIES and Juraj NEMEC

This chapter puts the theories and notions on such ASDA's in a historical and interdisciplinary context. Historical, because as will be shown below, although this new attention for ASDA looks indeed new and innovative, it is not a novel idea at all. Ever since the state is in existence, scholars, and especially political philosophers have been theorizing about the need of the state. They also theorized about the alternative, that is, absence of state interference. As of the 18th century the political philosophers were joined by scholars in the disciplines of Sociology and Economy, e.g. the basic disciplines underlying the study of Public Administration, where theories in favour and against public service delivery by national governments equally confronted one another.

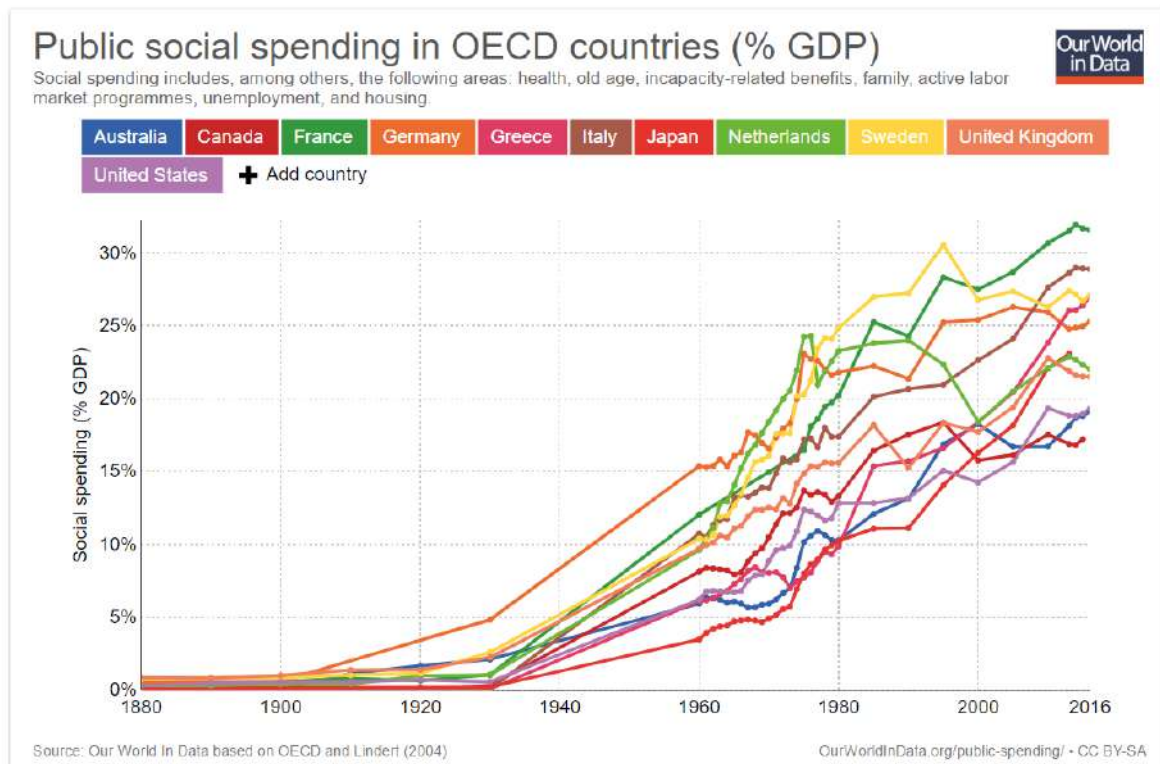
As will be argued below, such theories are often appealing, coherent and very convincing, but hardly ever corroborated by empirical evidence in support of the argument why governments should abstain from intervention or why they should steer societal developments more intensively.

In Sociology, Mancur Olson's theory on collective action is classic. Olson (1965) wrote this classic book on collective action in the 1960s. He argued that public service delivery is about collective action to solve collective problems, that is, problems an individual cannot solve by him or herself alone. He argued that such collective action is always under scrutiny. Problems and conflicts over the provision of collective goods or public services arise first of all, because of the basic characteristics thereof. This refers to 1) their *non-excludability*: If one person is capable of using it, its use cannot be denied to others; 2) their *non rivalrousness*: Many people can make use of the service without diminishing the value of the good; and 3) their requiring a *collective contribution* in their production and maintenance. This results, according to Olson, into continuous discussions about what a collective good is compared to a private good; whether we need or want more collective goods; how to solve the free rider problem; how to solve the risk of overproduction and overconsumption; how to deal with efficiency issues; and with the tensions collective goods create, for instance between the poor and rich. Because the myth is that rich contribute more through taxes, while poor profit more, thus creating the risk of "Exploitation of the great by the small" (De Vries, 2016).

Olson was neither the first nor the last to comment on collective action, or as it is nowadays described, public service delivery. His analysis developed in the midst of an era in which, in economically developed countries, the welfare state was created and the role of government rapidly increased from just providing justice and safety to an almost all-encompassing government taking care of all the needs of its population 'from the cradle to the grave', among others, through risk prevention and providing social benefits, by elevating the population to higher levels of human development and by having more services publicly provided than ever before.

Figure 1 gives the trends in government expenditures as a percentage of the Gross Domestic Product in some OECD countries. It shows that after the great depression of 1929 and especially after World War II, government expenditures and thus the provision of collective goods, exploded from percentages often below 5% to percentages up to 30%.

Figure 1. Public social spending in OECD countries (% GDP)



Source: OECD

Partly this expansive growth in public expenditures was due to moral and social considerations and driven by the need to enhance human development. The approval of the Universal Declaration of Human Rights in 1948 was in that regard an important impetus to expand government's activities. It forced governments to provide their population with the right to life, liberty and security, to provide them with education, housing, social benefits, nationality, justice, the right to social security to guarantee the economic, social and cultural rights indispensable for their dignity and the free development of their personality, the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay, the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control, the right to education. According to the Declaration, education shall be free, at least in the elementary and fundamental stages, as should be the right freely to participate in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits. These commitments and the resulting development of the welfare state in many OECD countries contributed to the increase in public spending.

Partly the expansion of collective action was also due to economic growth (Wagner's law) and due to a change in the economic thinking about the proper role of the public sector and the then popular Keynesian theory (1925). This economic theory argued against the until then dominant 'Laissez-faire' dogma that government by way of collective action should control the risks and uncertainties of the financial sector, be complementary to societies' savings and investments, and control the growth of the population.

When the public expenditures rose and especially when these expenditures became higher than the public revenues, the negative consequences there of also became apparent. This happened

in the beginning of the 1980s, with a combination of a savings and loans crisis in the USA, economic stagnation and huge inflation rates in Europe and North America, and the Latin America Financial crisis of 1982, resulting in huge unemployment. It forced states to reconsider their policies. The Washington consensus with its policy prescriptions to make reforms in crisis-wracked developing countries, included measures such as fiscal discipline, redirection of public spending, notably reducing the indiscriminate subsidies, tax reforms, privatization, trade liberalization, and deregulation. Simultaneously, the IMF and World Bank demanded that government expenditures needed to fall and the way in which governments provided goods and services needed to change.

Although these two measures to diminish public services and to change the way they are delivered - are seemingly independent, they are strongly related in many a theory or ideology. For instance, in the economic theory of the Chicago school and especially in the theories of its frontman, Milton Friedman (1962), who opposed the Keynesian theory and propagated a government as small as possible, with as little regulation of free enterprise as possible, freely floating exchange rates and preferably limiting the money supply in order to keep inflation rates low. Government should only provide those goods and services, that business is not able to provide, and should stop its social spending as this creates welfare dependency. Government should leave most service delivery to business, as it performs much better than any government agency could. This theory/ideology is a mixture of criticizing collective action as such, as well as criticizing the inefficient way collective goods are provided. Nevertheless, empirical support for the argument that privatized or outsourced service delivery (public private partnership projects, too) is more efficient than public service delivery is at worst lacking and in the best case inconclusive.

The technical developments and more “modern” governance theories provide space and incentives for two other forms of alternative service delivery arrangements discussed in this book – IT supported and delivered services and partnerships (including co-creation, co/production).

All this results in the conclusion that it is not the case, as so often thought, that who is providing the public services – the public sector, the private sector or a combination thereof - determines the desired or undesired impact, but rather, how these public services are provided, that makes them meet criteria like efficiency, effectiveness, equity, and reducing inequality. This claim is warranted by a contextual analysis arguing that the relation between what has been theorized and argued about the who and what, is firstly unrelated to what has been found through empirical investigation, and secondly misses the point in neglecting the ‘how’ question. That conclusion called for the purpose of this book, namely to find out what works under which circumstances and what fails, by giving examples of how services are provided in different contexts.

1. Externalization: outsourcing, contracting, privatization, public private partnerships projects

The New Public Management Theory and Practice focused (between many aspects) on small governments and proposed that externalisation of production of public services can have really important potential. The basic idea behind this was explained for example by Cullis and Jones (1992) who tried to explain possibilities how to change classic state approaches to public service delivery. They accept privatisation in the public sector as a tool to improve performance, but not as the ultimate goal, and propose to broaden the approach to its concept. They also propose that the privatisation of public monopolies cannot deliver positive outcomes. According to them, any change in the public sector delivery form (ownership, financing sources) may, but must not, improve efficiency and effectiveness and, what is most important, any decision on the change of public service delivery arrangements shall be based on careful evaluation of concrete socio-economic conditions and not on the basis of subjective ideas and needs and is done on the case by case principle.

The work of Cullis and Jones (1992) and also of other authors such as Stiglitz (1989) or Bailey (1995) suggest that two core 'how' questions, see below, should be responded to prior to any decision about changes of public service delivery modes (Table 1):

1. How to produce public/collective services?
2. How to pay for public/collective services?

Table 1. Production and financing of public-collective services

Resources		Production
Private	Public-collective services	Private
Mixed		Pluralistic
Public		Public

Source: Own construction on the basis of Cullis and Jones, 1987

Under a contracting arrangement, the “government retains responsibility for provision of the service, but hires private firms to produce the service” (Nemec *et al.*, 2002, p. 14). Contracting can also be explained as a binding agreement in which a public institution pays a private firm or non-profit organisation to provide a specific and qualitative public service. The government is paid either by means of taxes or fees by citizens, as clients, and the government in turn pays the contractor. According to Savas (1987, p. 88), since the provision function is retained by the government, contracting represents a conservative approach in terms of an increasing role for the private sector.

Contracting for services (outsourcing of internal services) begins with the “organisational decision to make or buy goods or service” (Prager, 1994, p. 176). As such, it is a fundamental decision faced by both public and private sector organisations. “To make or buy” is the question faced by public organisations when considering how public services should be delivered to their citizens. Public organisations must decide whether to produce goods and services internally or to acquire them from external sources-contract out public service. Contracting out public goods (mostly public services) is the opposite of internalising the production of public goods, which is very often used in the public sector of transitional countries. To put contracting out in perspective, it is necessary to consider the pros and cons of internal and external forms of delivery. However, many studies indicate that such ex-ante evaluations are not realized.

Concerning the positive potential of contracting, the relevant literature suggests that contracting may, but need not, improve individual choice, cost- effectiveness and the quality of delivery, equity, and, to some extent also expenditure control (Bailey, 1999, pp. 278-280). Many, if not most empirical studies (e.g., Bel and Costas, 2006b), are, however, unable to confirm the effect of the mode of production on costs.

Moreover, some authors stress the barriers to effective contracting as well as the negative impacts connected with the use of competition and contracting (Bailey 1999; Pollit and Bouckaert 2004; Lane 2000, and many others). Lowery (1998), for example, discusses three types of quasi-market failure, two of which, market formation failure and preference error, are closely connected with contracting out. Market formation failure results from a lack of competition, often due to the small number of potential suppliers for many public services. If privatisation merely substitutes a private monopoly for a public one, then savings are likely to disappear after the initial contract. Preference error failure is connected with limited information, and one of its dimensions - principal-agent theory - is discussed below.

Establishing and maintaining a legal contractual relationship between principal and agent is connected with many problems and risks. According to Shetterly (2000), this process occurs in three phases: pre-solicitation, contractor selection and contract management. All three phases potentially suffer from the classic “principal-agent” problem situation in which the relevant characteristics and actions of agents are not directly observable by principals. Arrow (1985) notes two subsets of the principal-agent problem: moral hazard or the problem of hidden action and adverse selection or the problem of hidden information.

Moral hazard can occur in contracting, because the behaviour of the private partner is imperfectly controlled, and the private partner does not bear the full risks of its own action or inaction. These conditions create a situation in which either shirking in the performance of duties or inappropriate choices by the private partner adversely impact the goals (and, potentially, the reputation) of the public partner.

In the adverse selection problem, agents within the private firm have information that is not shared with the public sector organisation, and they use that information to make decisions that affect the public organisation. The public organisation, however, cannot check to see if the information is serving the public interest. For example, consider a public sector organisation that wants to hire the best private partner. The private firms bidding for the contract know more about their own qualifications than the public sector organisation ever will, and this information asymmetry may render impossible a full ex-ante evaluation of the private offers.

An additional matter is the transaction costs associated with contracting out, and furthermore, the relationship of these costs to benefits derived from external delivery are essential elements of the contracting relationship. When contracting for services, governments incur contracting costs which are implicitly or explicitly part of the make or buy decision. The transaction costs of contracting are of two types: “those associated with the contract formation stage and those associated with the contract performance stage” (Hirsch, 1991, pp. 56–57).

Changing service delivery from public production to contracting out involves changes to both production and management systems, all of which entail transaction costs. These changes require establishing new performance criteria, constructing monitoring systems, changing job responsibilities, and reducing the number of public employees. Activities such as crafting requests for proposals, establishing systems and protocols for reviewing proposals and selecting vendors, crafting contracts, negotiating with vendors and installing contract monitoring systems must be undertaken before the internal delivery system can be taken off-line. These transaction costs are important to the make or buy decision.

Public private partnership projects (PPPPs) started to be realised (without so much attention) also already in the New Public Management period, but become broadly discussed especially during the period of major fiscal constraints within the developed and the developing countries caused by the recent crisis. The infrastructure need accumulated required massive investments in trillions of EUR, but the capacities of public budgets were insufficient for this. PPPPs started frequently to be considered as a vehicle that has the potential to trigger an increase in public investment - the major reason for supporting the use of PPPPs was the economic climate constraining the use of public finance for investments. However, PPPPs are not extra source of resources, PPPPs only may but must not increase efficiency of investing.

2. Information technologies, e-government and alternative service delivery arrangements

Next to externalization and the hollowing out of the state's public service delivery the last decades have also witnessed a radical change in the way governments internally provide services. A main development that furthered this change is found in the development of Information and Communication Technology (ICT) and the resulting e-governance. The European Commission defined e-government in 2003 as “the use of information and communication technologies in public administrations combined with organisational change and new skills in order to improve public services and democratic processes and strengthen support for public policies” (European Commission, 2003, p. 7). The expectation was that increased use of ICT could improve government's activities in terms of democracy and participation, internal cooperation, production networks and public service delivery (Schedler *et al.*, 2001, 2003). The increasing use of ICT was seen by some as a panacea for almost every problem governments encounter, while others pointed to the limitations,

barriers and exaggeration of expectations (Winkel 2004; Lucke, 2004). The truth lies, of course somewhere in the middle, although with a bias to failing ICT projects in the public sector. In 2003, Heeks estimated that out of total e-government projects in developing and transitional countries, 35% are total failures, 50% are partial failures, and 15% are success (Heeks, 2003). Not so much has changed. In 2016, a Dutch investigation by a parliamentary commission pointed out that failure of ICT projects in the public sector in the Netherlands is much more common than success, estimated to result in waste of money of 1-5 billion Euros a year.

Again, the question is not whether or not ICT is furthered in service delivery, but 'how' ICT is implemented. Leitner identified already in 2003 five critical factors for eGovernment implementation: (1) adequate use of tailor-made ICT resulting from cooperative processes involving vendors and users; (2) sufficient funding, possibly requiring public-private partnerships; (3) strategic frameworks based on cost/benefit analyses and demand; (4) a well suited legal and regulatory framework; and (5) adequate change management schemes anticipating psychological resistance and factual obstacles (Leitner, 2003, p. 37).

Heeks (2003) pointed to the gap between the current reality and the contents of ICT designs, in terms of available information, the state of technology, processes, objectives, staffing skills, management systems, and other resources like time and money.

Rupakhetee and Heshmati (2011, p. 42) pointed out for a developmental country like Nepal that such conditions translate in success and failure factors for the implementation of ICT projects given in the development of physical infrastructure, human resources, organizational capacity, sound policies, and legal requirements. They conclude that "E-governance as a condition for sustainable development requires genuine commitment from political leadership, a proper regulatory framework to ensure information exchanges within and between government, citizens and businesses positive attitudes, knowledge and skills, proper resource planning, investment in sound technological infrastructure and proper management systems".

3. Partnerships and coproduction/co-creation as a materialization of the social contract

One of the main forms of ASDA propagated nowadays (based on one of core "governance" principles - partnership) is the coproduction and co-creation of public goods and services, as described by Ostrom (1999, p. 497) as "...the mix of activities that both public service agents and citizens contribute to the provision of public services.", or more narrowly "as the involvement of individual citizens and groups in public service delivery". The groups and individuals involved are not just seen as costumers receiving the services needed, or as interest groups determining what should be done and then leave it to public officials to implement it, but as partners who together solve the problems at hand in the provision of public services. As the cited authors claim, coproduction, positively influences the efficiency and quality of service delivery, as well as the democracy and accountability of the service delivery as such and is beneficial for citizens as these are recognized as being different and see that the planning is real for their circumstances (Susskind and Elliot, 1983, p. 300). Such co-creation and co-production interpreted in several ways.

The first way in which co-creation and co-production could be interpreted is that it is a novel way of materializing the social contract which according to many a political philosopher is the *raison d'être* of the state. This theory can be traced back to the positive philosophy on the need of government as such and found in many a classic philosophical text. In the positive philosophical stream, government and hence public service delivery emerged, because primitive life was too miserable, violent, dangerous and cruel. Organized social relations came about out of a utilitarian origin, that is, the needed defense and cooperation in order to survive. Unregulated society was prone to descend into disorder and the people needed to organize themselves – create a

government - to provide order and justice necessary for the increase of human comfort and even the very existence of human life.

In the 16th century this kind of thinking culminated in what is now called social contract theory. The idea was that, because primitive life was dangerous, people started to cooperate and organize, making, as it were, a kind of social contract about what should be done collectively to protect themselves, even though in those days it also implied their submission to a collective political authority and the end of their individual responsibility. One of the most well-known proponents of this idea Thomas Hobbes in 1651 argued that without such a political authority – a Leviathan - life would be one of universal misery, in which there is no place for industry, because the fruit thereof is uncertain, no culture of the earth, no navigation, no arts, no society, and only continual fear, and danger of violent death (op cit.). The same idea is visible in Spinoza, talking about primitive life where the adage ‘might makes right’ dominates and everyone can pursue his desires as long as he has or is in power. People without such power are lost and their only alternative is to organize themselves and thus let rationality reign. The temporary culmination of the idea came from Rousseau, who although sympathetic toward the characteristics of natural man also depicted the natural state of man as barbarous and unsafe. He saw the change from the primitive state to the civil state as a change from instinct to justice, from lacking morality to dominant morality, resulting in ennobling and uplifting of feelings, and from being stupid to becoming intelligent.

Co-production changes this social contract in a way that it does not imply the submission of the people to a Leviathan, and does not end their individual responsibility, but rather, widens their individual responsibility, as they remain involved in such collective action and not as submitted nationals, but become active partners. Co-production could be seen as the modern day answer to the critics of social contract theory who emphasized the lack of historical evidence for the existence of such a social contract and criticized it for being a fairy tale. Originally, this criticism was countered by proponents of the social contract theory by arguing that it is sufficient to point out the rationality inherent in the theory. Nowadays one can point to the reality of social contracts in collaborating in public service delivery with each partner being aware of and committed to contribute to the improvement thereof.

Secondly, co-production can be conceived as an alternative to the options citizens normally have when being dissatisfied about public service delivery, namely exit and voice (Hirschman, 1970). As Voorberg, Bekkers and Tummers conclude on the basis of a meta-evaluation, co-production aims at gaining more effectiveness, efficiency, customer satisfaction, and citizen involvement in public service delivery. It is achieved conditional on organizational and citizen characteristics. On the organizational side its success depends on the existence of inviting organizational structures and procedures, the mindset or attitude of politicians and administrators towards involving citizens, a modern instead of a conservative administrative culture, and the availability of incentives for creating a win-win situation. At the citizens side, their knowledge and skills are important, as is the idea of becoming an owner of the service delivery, the presence of social capital, and the degree of risk aversion (Voorberg *et al.*, 2015, p. 1342). Most important is, however, their conclusion that hardly any information exists about the actual outcomes of coproduced services and whether such service delivery does indeed become more effective and efficient, and results in increased consumer satisfaction.

Part 2: Changing ownership of PSD

III

“Marketisation” of public services

Veiko Lember

Marketization of public services in its various forms from contracting-out to outright privatization has been in the toolbox of governments around the world for more than several decades. Nevertheless, the debates on the merits and shortcomings of the marketization phenomenon are still ongoing. Contributing to these debates, the chapters in this section address three different, yet central issues how public sector engages with private sector in providing and delivering public services.

In the opening chapter of this section, Dobra and De Vries analyze the process and consequences of the privatization in Kosovo. They describe the influential role the international donor community plays when radical marketization policies are designed and implemented and highlight the importance of establishing strong institutions before opting for the marketization journey. Despite the theoretical and ideological arguments for marketization, the case on Kosovo demonstrates that the radical privatization reforms often bring very limited gains while creating a whole set of new problems. In the second chapter, Jett and Shick provide a comparative overview of the US and Chinese child welfare systems and show how the functions and responsibilities in these systems are shared between different sectors. The chapter demonstrates how the contextual and historical factors provide the governments very different platforms for experimenting with marketization reforms. In the final chapter of the section, Remy focuses on evaluation of private operators' performance in case of outsourced public services. Using the comparative cases of public employment services in Belgium and Switzerland, the chapter illustrates how the enforcement of public service contracts triggers various gaming strategies among service providers.

As a whole, the section points towards two central, if not paradoxical, issues. Firstly, marketization is still perceived by many governments and thinkers as one of the main alternatives to choose from in case a public sector faces systemic challenges in providing public services. As many countries have suffered from poor provision of public services for long decades, the marketization idea is deemed as helpful for achieving, e.g., better service quality, equal access to services and cost-efficiency. This is especially so in contexts where governments find themselves cash-trapped and suffer from shortcomings such as deep corruption or lacking administrative and policy capacities. Secondly, and in spite of the high hopes associated with the marketization idea, the case-studies provide evidence on the challenges and failures emerging from using the various marketization tools such as privatization and contracting-out. Here, the abovementioned problems often remain not only unsolved, but marketization may actually reinforce these problems. As such, the chapters point towards the need for careful, deliberative and context-based approaches when choosing between in-house and marketization strategies.

IV

The need for strong institutions: privatization in Kosovo

Bardhyl DOBRA and Michiel S De VRIES

1. Introduction

In the economic and public-administration literature, there is a debate on the merits of privatization policies (Lipton and Sachs, 1990; Laffont and Tirole, 1991; Stiglitz, 2008; Roland, 2008; Savas, 2000; Bozeman, 2007). On the one hand, neoliberal theorists praise privatization and its positive effects on socio-economic development in general. They suggest that although employment might first decrease, it will eventually increase after the necessary adjustments have been made by the new management. Then, privatization will attract foreign investments that in their turn will further contribute to economic and social developments and the improvement of local entrepreneurship. On the other hand, institutional and regulation schools of thought suggest that in order for this model to work, strong institutions are crucial (North, 1991) and that adaptation of privatization models to the specifics of the context of the country is needed. Their idea is that only in such a case the model can be effectively implemented.

The main research question answered in this chapter is whether the privatization promoted and implemented in Kosovo were successful, despite the lacking institutions to guide this process. What effects of privatization in terms of governance, employment and social well-being are seen in this case, and what does this imply for the two contesting theories on privatization?

In post-communist societies, privatization processes were conceived to be, at least at the start, the ultimate action towards growth and development, and a break from the past (Hanley and Dawson, 2016). Sometimes such attempts did have the promised results, at other times they did not (cf. Dan and Pollitt, 2015; Drechsler and Randma-Liiv, 2015).

The Kosovo case study is based on document analysis, reports of local research institutions, available reports and data produced by institutions within Kosovo, by international institutions such as the International Monetary Fund (IMF), and with the assistance of semi-structured interviews with local experts. It is also based on specialized literature, especially on the reasons for privatization as used in Kosovo within the context of privatization processes in Central and Eastern Europe during the time of transformation in the 1990s.

First, this chapter briefly introduces the theories on the impact of the institutional setting on privatization. Subsequently, it gives an overview of the weak institutional setting in Kosovo at the start of the privatization process in 1999. Then it assesses the privatization process in this fragile state, and finally it gives an assessment of the effects thereof.

2. Two views on privatization

History knows many eras in which processes of privatization, by which governmental organizations transfer tasks and responsibilities to the private sector, became popular (Nemec and de Vries, 2015). The last upheaval of such practices started in the UK and USA under Thatcher and Reagan, respectively.

Such privatization is the preferred policy within Neo-liberal theories, as privatization results in the disappearance of state monopolies and the creation of a large number of private competitors

that compete and thus create a market based on demand and supply, which is assumed to be favorable for the population (Labaronne, 2001). The idea is that such a transfer of state monopolies suffices to create an environment favorable to competition, consequently having a positive impact on consumption, employment, growth etc. Privatization is seen as a way to replace the dominance of decisions by planned economy hierarchy into a dominance of decisions made by private agents based on the incentive that being responsive to market signals results in maximizing profit (Harvilyshyn and McGettigan, 1999). This neo-liberal view is also reflected in the theory on New Public Management, favoring a mixture of the delivery triad of privatization, contracting-out and public-private partnerships (Drechsler and Randma-Liiv, 2015). Partly this is ideology, but there are also several sociological and economic theories supportive of privatization, such as the theories on property rights, public-choice and agency.

Contrary to these “one-size-fits-all” theories promoting privatization in general, the perspective of neo-institutional theories is that privatization can be supported, but only after strong institutions have emerged. In this theory, the neo-liberal theories are criticized for their neglect thereof. Already at the time of transition in CEE countries, it was argued that such practices were doomed to fail, because they did not take into consideration that the institutional framework in CEE-countries was fragile and that these countries needed gradual reforms, strong institutions and regulators (Tirole, 1991). North (1991) argued that economic performance depends ultimately on a strong institutional framework.

The implication from this perspective is that transferring the formal political and economic rules of successful Western market economies to Third World and Eastern European economies is not a sufficient condition for good economic performance according to these theorists. Privatization is not a panacea for solving poor economic performance. The institutional mainstream recommends a gradual process of privatization, which, in other terms, is easily managed, controlled and, if needed, modified. Institutions will frame the process and ensure its effectiveness. In addition, when necessary, institutions may correct, avoid or take measures against issues such as corruption and mismanagement (see Tirole, 1991; Komisar, 2011; North, 2014)

The above makes it clear that contesting views exist regarding the general benefits of privatization and the dependence of its success on contextual features.

3. Privatization in Kosovo

This section describes the privatization processes that occurred in Kosovo between 1999 and 2009. First, we present the context in which these processes took place. This will show that Kosovo lacked an adequate institutional setting. This part of the analysis argues that the case of Kosovo is a critical case. If privatization processes work out even under the circumstances as witnessed in Kosovo, this would be a strong argument in favor of theories promoting privatization in general.

Next, we present the actual privatization processes that took place in Kosovo, and in the third subsection we assess the effects thereof. The outcomes will constitute the empirical basis for the argumentation whether the claim made by theorists being in favor of privatization in general is indeed valid.

3.1 The context

The Balkan region is well-known for its complex history, which has always been characterized by hostile relations between and within the countries involved.

In 1945, the Socialist Federal Republic of Yugoslavia (SFRY), under the commandment of Tito, was a socialist country. From the 1960s onwards, a process started to grant larger autonomy to Kosovo and Vojvodina within the Federation, which was also explicitly stated in the Constitution of 1974 (Pavlovic, 2013, pp. 1-3). The new constitution not only brought about an important

advancement in terms of democracy, it also contributed to softening the economic policy and gave more liberty to local entrepreneurship and to the employees of the until then public enterprises by creating so-called “socially-owned enterprises” (Garde, 2000; Brossard and Vidal, 2001).

With the “announced” fall of communism, Slobodan Milosevic took over the leadership of the Communist Party in Serbia, concentrated power and annulled the previously granted autonomy of Kosovo. On 28 March 1989, he was able to abolish Kosovo’s autonomy completely. In parallel with the changes of the political spectrum in Yugoslavia, Milosevic also changed the economic policies (Castellan, 1994; Brossard and Vidal, 2001). With so-called compulsory/emergency measures (the decree of 23 March 1989), three policies were introduced: 1) the firing of the majority of Albanian public servants and workers of the Socially Owned and Public Enterprises, 2) the transformation of all socially-owned enterprises into public enterprises administered by his loyalists sent from Belgrade, 3) transference of property rights of SOEs in Kosovo to Serbian public enterprises (Malcolm, 1998).

After Kosovo had gone through a decade of violence and a war, the situation stabilized in 1999 with the intervention of NATO and the establishment of a UN mission having as a specific assignment “peace-building and state-building” in Kosovo. A Special Representative of the UN Secretary-General (SRSG) became de facto and de jure the highest authority in the country. The UN mission, under the leadership of the SRSG, took control of local governments, courts and national institutions. In parallel, it created provisional institutions of self-government that were, however, in practice hardly self-governed, since each decision had to be approved by the UNMIK representatives at their different levels. It appears that in the aftermath of the war, as of 1999, newly created institutions lacked qualified personnel and infrastructure. Furthermore, the judiciary system, the police, the customs, local-government institutions and national agencies needed to be restructured or newly created.

The SRSG and the UN team decided that such state-building could only be successful if it went hand in hand with economic development in which privatization had to be the core policy. As Knudsen (2010) noted:

Economic reconstruction and development, the responsibility of the EU-led pillar in Kosovo, was a daunting task at the start of the international state-building project. ... International officials quickly made it clear that large-scale privatization of Kosovo’s enterprises would be the main economic strategy of the state-building operation (Knudsen, 2010, p. 12).

An overview of what was present in those other CEE countries, but absent or in some cases newly created, in Kosovo is summarized below in Table 1. The table shows that basic institutions were not present in Kosovo. Most important was that the legal framework was not yet finalized in 1999. In a report published in 2008, the OSCE pointed out difficult legislative issues with regard to the functioning of KTA, to the Special Chamber and the legislation that was used in the process of privatization.

Table 1. Administrative and institutional situation before prerequisites – A comparative view on CEE countries and Kosovo

CEE countries	Kosovo
<p>Relatively strong central and local institutions</p> <p>Relatively strong education system – inclusive</p> <p>Relatively strong judicial system (courts, contracts)</p> <p>Strong police and customs services</p> <p>An administrative culture (although bureaucratic)</p> <p>A clear perspective to join NATO and the EU</p> <p>Remaining dominance of national government</p>	<p>Provisional institutions for self-governance</p> <p>Weak education – exclusive during the 1990s</p> <p>Weak judicial system in need for reconstruction</p> <p>Newly created institutions in police, customs, statistics, and tax administration</p> <p>Lack of administrative culture</p> <p>Ten years of isolation had destroyed trust in government</p> <p>Government was taken over by the international</p>

Sources: Ekiert, 1997; World Bank, 2005; Meyer-Sahling, 2009; Knudsen, 2010; Lipton, 2014; Doli *et al.*, 2012

We will assess the public-sector reforms and more specifically the privatization against this complex contextual background.

3.2 *The process of privatization in Kosovo*

How did the process of privatization in Kosovo start and how was it conducted by the UN administration and others institutions in charge? After the Balkan war ended, international institutions such as the World Bank, the IMF, USAID, the European Commission and the United Nations Mission in Kosovo (UNMIK) published several reports and organized numerous conferences in which the process of privatization was argued to be only beneficial for Kosovo (World Bank 2001a, 2001b).

Next to the more general arguments in favor of privatization, specific arguments for Kosovo were also given. First of all, there were the financial incentives of privatization, namely, providing the State with the much needed revenues, bringing in foreign currency by attracting Foreign Direct Investments and putting an end to the expensive subsidies to public enterprises. Secondly, there were economic arguments pointing to the need to improve economic effectiveness and to maximize the profit of enterprises and to facilitate macro-economic stability. Thirdly, there were arguments pointing out that privatization would restore property to former owners, privilege company employees, distribute state property to the entire population, reduce the power and pressure of unions and elaborate a kind of new social contract. Fourthly, there were political arguments, saying that privatization would push out the hated “nomenklatura”, would minimize the influence of the State and would consolidate democracy by introducing popular (mass) shareholding. Last but not least, the arguments in favor of privatization were ideological, namely to create an irreversible situation in favor of free markets and to demonstrate “the superiority” of private property (cf. Labaronne, 1999).

It is therefore not surprising that already in 1999, the European Commission, together with the World Bank, stimulated the UNMIK to proceed with privatization (European Commission and the World Bank, 1999). Most arguments used consisted of pointing out that the socially owned enterprises were in bad shape and needed investments which could only be provided by private owners (i.e. FDIs, employment and social welfare).

The pressure to proceed with privatization, did not prevent the occurrence of several issues. The first problem was how to deal with the complicated issue of liability and undefined ownership over the Socially Owned Enterprises (SOEs) and land properties. Because of Serbian claims of ownership over all Kosovo assets, at first several investigations were conducted, mainly in order to find a way to proceed with mass privatization without getting in a liability contest situation and without being “suable”.

Upon the request of UNMIK, the IMF and other international institutions assisted the mission in the process of institution-building and economic policy implementation (Demekas *et al.*, 2002). The IMF considered that compared to the status quo at the time, any other solution was better than the status quo. Hence, it supported the decision to continue with privatization, although being aware of the legal issues implied by the process (A. Domi, personal communication, 11 February 2010; Economists of Government, personal communication, 8 February 2010).

In all cases, the Special Representative of the Secretary General (SRSG) started planning privatization by combining several models of privatization that had also been used in other CEE countries, notwithstanding the differences between the starting position of Kosovo compared to those CEE countries. Although imperfect and having suffered 50 years of communism, the institutions previously mentioned in Table 2, as well as the human resources which were able to

accompany and steer the transformation, were present in other CEE countries, albeit at different levels. The technical and financial assistance from international institutions such as the World Bank, the International Monetary Fund and the European Union – as well as the perspective of joining the EU – played a vital role in CEE countries. This was not the case in Kosovo, because of the decade of oppression perpetuated by Milosevic’s regime, and the war it subsequently caused. In Kosovo, UNMIK received the mandate to rebuild all institutions from scratch, thus significantly diminishing the contribution of the above-mentioned institutions.

In June 2002, the part of UNMIK in charge of Reconstruction and Economic Development, managed by the European Union (EU), launched the creation of the Kosovo Trust Agency (KTA) (UNMIK regulation 2002/12). The “creators” of KTA describe it as follows:

The KTA has been established to preserve or enhance the value, viability, and corporate governance of socially owned and public enterprises in Kosovo. For Socially Owned Enterprises the KTA initiates ‘Spin-offs’ and Liquidation, its preferred procedures for privatization. The Regulations establishing the KTA were promulgated on 13th June 2002 (<http://kta-kosovo.org/html/index.php>).

From June 2002 to May 2003, the mission and the self-governed institutions approved other regulations and basic legislation to proceed with privatization, including the creation of a Special Chamber which had, among others, the exclusive jurisdiction for all suits against the Agency (KTA n.d.). It created a Board of directors to manage KTA, which was composed of four international directors (one of them being the Managing Director of the Agency and three Deputy SRSB) and four Kosovars (three ministers and the President of Trade Unions) (UNMIK Regulation 2002/12; Knudsen, 2010). The daily work was done by a mixed team of internationals and local experts.

On 15 May 2003, KTA decided to start the privatization of socially-owned enterprises. At the time, the Board of Directors decided to proceed with full privatization and did not follow the examples of other countries where the enterprises were sold by shares, i.e. individuals could buy shares of an enterprise x or y. In Kosovo, the KTA decided to sell complete firms by tender. Although three specific methods were used – Regular Spin-off (the highest bid) (KTA, n.d.), Special Spin-off (privatization with specific conditions, mainly in the field of operation, investment and employment) and Liquidation, the idea in all three models is similar, namely to have a complete transfer of the ownership of enterprises to one new owner.

As for the profits of these privatizations and the question how these should be divided, the agency decided that “the closest” owners of these organizations were the former employees. Hence, it was decided that 20% of the revenues of the privatized organization would go to these former workers. Taking the complexity of property rights into consideration, the Agency published open calls for claims for each enterprise going through the process of privatization.

Table 2 shows that seven organizations were to be sold, on which the agency received 17 bids, however, at prices that barely reached half of the real value of the companies. The seven companies include companies that produced compartments for energy production, heating systems, engineering and construction, limestone extraction etc. The table also shows that the difference between the value of the company and the money involved in the transfer is unrelated to the number of acceptable bids. The company with the most bids (Energo Invest) had five bids, but was privatized at a price of less than one-third of its value, while Termosistem had only one interested party, but was sold at the price of its real value.

Table 2. The first wave of privatization

New Cos	Acceptable bids	Value of the company (in 1,000s of €)	Value of the accepted offer company (in 1,000s of €)
Energo Invest (Assembly)	5	2,354	750
Energo Invest (Fuses)	4	1,866	525

Lepenci	3	650	650
Montage Kosovo	3	600	210
Përparimi	3	3,573	2,298
Termosistem	1	200	200
Ringov	0	-	-
Total	17	9,245	4,634

Source: Mustafa *et al.*, 2008

Socially owned enterprises (SOE) were privatized in a regrouped manner, i.e. in what the KTA called “a wave”. Hence, each wave regrouped a certain number of SOEs, the latter being regrouped not in function of the branch of activity, but in function of their ability to be sold, in function of internal logic and operational modes of the KTA. According to Dobruna (2007), in the first 22 waves of privatization, a total amount of 332 million Euros was involved. Out of this, local investors invested 139 M€ (42%), followed by international investors for an amount of 80 M€, financial institutions (Western bank branches in Kosovo) for 78 M€ and finally the Kosovar diaspora living in Western Europe and the United States, who invested 34 M€ (10%). Around 76 M€ was distributed to former employees, and the remainder of the revenues was placed at the Central Bank of Kosovo, which, under the leadership of UNMIK administrators, decided to place the privatization funds at European banks (Gerxhaliu, personal communication, 12 February 2010). Between 2003 and 2014, it is estimated that privatization in Kosovo has generated a total revenue of 660 M€ (PAK, 2015).

From its beginning, the process was several times interrupted because of questions regarding the legal framework, issues of political decisions etc. As explained earlier, the issue of whether documents issued during the 1990s by the regime of Milosevic could be seen as valid forced the KTA to stop the process several times as external parties sued the KTA for having privatized their properties and not having considered such documentation. Despite these interruptions, KTA continued the waves of privatization until its transformation into the Privatization Agency of Kosovo in 2008 (PAK, 2009). Sometimes the process failed, as was the case with the Post and Telecom of Kosovo (PTK). Opposition in parliament blocked this privatization, as it judged the PTK value to be under-evaluated by the bidder and the government, because of its potential for corruption, and because they feared the deal would have negative impacts on the economy and the employment. The case is now subject to international arbitration (TopChannel, 2015).

Although the PTK case suggests that the privatization was well thought-through, in all cases suspicious deals were sealed with “important organizations for the country” having been sold for symbolic amounts. Ferronikel, a giant producer of nickel, was sold for a minimal sum of 32 million euros; and the electricity distribution network for only 26 million euros, whereas comparable networks were sold in Montenegro, in Macedonia and Albania for several hundreds of millions. Thousands of hectares of agricultural land were privatized and transformed into real estate below their real value.

Ferronikel went through a special spin-off privatization, i.e. with specific employment and investment conditions. However, in order to seal this privatization, the buyer negotiated a fixed price for electricity, which covers half of the production cost (Knudsen, 2010). This implies that this contract severely damages the profitability of the Kosovo Energy Corporation (KEK), a State-Owned company managed by KTA, as Ferronikel consumes around 10% of the electricity of the country (Knudsen, 2010).

Financial issues are not the only ones at stake. Ferronikel produces nickel. The production thereof requires the filtering of evaporating rests, because they may be toxic and even very carcinogenic (KFOS, 2012). However, Ferronikel produced nickel for several years without using filters and because proper judicial institutions are lacking, environmental and health issues have become a serious challenge for the population. Cancer has exploded in Kosovo and particularly in the areas near the Ferronikel production site.

The UN administration can claim to have been successful in its basic mission, namely to conduct the process of privatization, but the success came at a cost. The next subsection will further address the main effects seen twelve years after the start of the process of the privatization.

3.3 *The effects of the privatizations*

Did the privatizations improve the economic environment and produce positive results in terms of governance, employment and social well-being in Kosovo? This section addresses that question and gives evidence that allows us to draw provisional conclusions on socio-economic development.

The academic discussion so far has been fixed predominantly at giving arguments in favor of privatization, based on the supremacy of private ownership and the positive effects of market economy. The interviewed Kosovo economists and IMF official also strongly supported privatization. They affirmed that for the Kosovo government, this was a method to “get rid of” public and socially owned enterprises in which one could not invest, to get the much needed finances and in the end to induce change and a better life (Ahmeti, 2010, personal communication, 5 February 2010).

However, as we described in the previous subsection, the finances government received for the privatized companies were much lower than their real value. Furthermore, in society, the process was accompanied by important economic and social suffering. Unemployment is still exceptionally high, namely a 35.3% of the active population in 2014 (Trading Economics 2016). Youth unemployment (15–24) is around 60.2% (<http://www.ks.undp.org/content/kosovo/en/home/countryinfo/>). This issue represents a challenge for society as Kosovo’s population is the youngest in Europe, with more than 50% of the population being between 15 and 30 years old, and each year between 30,000 and 50,000 students graduate from higher-education institutions. The labor market is unable to create jobs for such a high number of new entrants, and unemployment continues its rising trend (IMF, 2013; KAS, 2014a).

The third unintended outcome is that the trade balance is extremely unbalanced in favor of imports of about 2.2 billion Euros for 2014 (2.5 B€ concern the imports and 0.3 B€ the exports (MTI, 2015). More specific for the privatized companies is that around 30% thereof are now out of function/off the market (Mustafa *et al.*, 2008) and an equal percentage of owners have rented out the real estate or workplace they previously bought. In other CEE countries, international investors expressed a great interest in buying themselves in, but in Kosovo international investors did not show a great interest in shares of the privatized companies. The reason most often mentioned is Kosovo’s unstable political status, issues around ambiguous ownership and the lack of an institutional framework including a strong judicial system (Kullashi *et al.*, 2005).

There are many serious issues regarding the daily life of Kosovo citizens and basic public-service delivery, including healthcare, quality education and social security. The bad shape of all these policy areas have pushed a high number of them to migrate to Western Europe and seek for a better life (cf. Gerxhaliu, personal communication, 12 February 2010, Musliu, personal communication, 4 April 2015). Although these are general economic developments which cannot all be blamed on the process towards privatization, they do show that the dominant economic policy of privatization did not have any positive effects in this regard.

More specific effects of privatization are pointed out by Musliu (personal communication, 4 April 2015). In this communication, Musliu concluded that the privatization has been subject to an enormous mismanagement (bureaucratic decisions, political interferences, issues with property rights even after the companies were privatized etc.). This is a surprising assessment for a mission that wanted to create an independent agency. The management of KTA was appointed by and accountable to the SRSg (Ante, 2010). Four members of the Board of KTA were members of the team of SRSg, acting out of the position of Deputy SRSgs (Knudsen, 2010). This situation raises questions about the responsibility and accountability of the agency’s leadership.

In addition to a limited term of office, the leadership of the mission and agency benefited from total immunity. With the benefit of hindsight, one can conclude that this enabled them to manage the process in a way favoring their own personal interest instead of the common interest.

Privatization did not reduce corruption. Corruption and inequalities have reached unprecedented levels. Data from the World Governance Indicators point out that Kosovo scores much worse than other European and Central Asian countries on indicators for good governance, such as voice and accountability, government effectiveness, regulatory quality, rule of law and the control of corruption. With regard to all six indicators for good governance, Kosovo belongs to the lower half of all countries in the world, and the situation has not improved between 2008 and 2014 (<http://info.worldbank.org/governance/wgi/index.aspx#home>).

Although such statistics are not fully reliable, the indicators are supported by the managers of privatized enterprises. In 2008, 82% of them considered corruption to be widespread in Kosovo (Mustafa *et al.*, 2008). The justice system is considered to be too weak, albeit strongly controlled by the UN until 2008 and then by the EU. The majority of Kosovo citizens also consider local judges to be corrupted and that claimants hardly had a chance to have their affairs be addressed properly. Consequently, trust in public institutions is low, resulting in turnouts at elections of less than 50% of the population. New populist parties have emerged, building their political program around the rejection of the views of the traditional parties and of the international mission. These are considered to be corrupt, untouchable and harmful to society.

It has not been proven that UN agents were involved in corruption affairs or were aware of corruption affairs during the process, but the process has been accompanied by suspicious affairs of corruption, abuse of information and power (Ahmeti, 2010, personal communication, 5 February 2010). Peterson (2014) argues that:

Both the international community as well as domestic actors have used the process to further their own aims in the territory, preventing the potential of privatization to be used effectively – to positively transform economic relationships (Peterson 2014, p. 135).

If privatization was meant to end state monopolies, in fact it just transformed them into private monopolies. Privatization in Kosovo has helped the establishment of a few giant companies that have close ties with politicians and control large sectors of the economy (Gerxhaliu, personal communication, 12 February 2010). The assumption that privatization would bring an end to state monopolies, ensure competition and liberalize the market has not been realized in Kosovo. There is still no competitive market, but rather a market full of private monopolies controlled indirectly by representatives of the dominating political parties. Mustafa *et al.* (2008) have conducted a survey on 103 companies privatized between 2003 and 2007, showing that 31% of them were not active at the time of the study. The authors observed that the annual turnover of the newly privatized companies increased from €21,360,424 in 2006 to €41,886,251 in 2007. The statistics resulting from the survey state that the average annual turnover of micro and small privatized companies compared to other businesses is around 50% lower, and 20% lower for medium businesses. It appears that a high percentage of the privatized companies have been transformed into storage buildings, building lots, restaurants and hotels. Concerning the effects of privatization, Haxhi Arifi, member of the Board of directors of the Privatization Agency of Kosovo, argues that the privatization process led to a net loss of 40,000 jobs in Kosovo – statement supported by the head of the Kosovo Chamber of Commerce, Safet Gerxhaliu and other economists (Loxha and Elshani, 2016). It is worth mentioning that the high degree of informal economy and the attempt of managers to minimize the level of illegal activity have distorted the available data. In addition, the lack of reliable statistics since 1989 has also hampered an appropriate performance analysis of privatized enterprises and, more generally, economic activity in Kosovo.

Privatization also did not prevent inequalities and can even be said to have contributed to the concentration of wealth in the hands of small groups (cf. Starr, 1988). In 2011, general poverty

affected 29.7% of the population with 10.2% being in extreme poverty (KAS, 2014b, <http://www.ks.undp.org/content/kosovo/en/home/countryinfo/>).

It appears that the privatization was a policy to disengage the State and, more importantly, to avoid any further use of public and state-owned enterprises by politicians as political and campaign instruments. However, the privatized companies seem to be as strongly related to politicians and political parties as the public enterprises once were. The main difference is that, because it concerns privatized companies, the institutional checks and balances have diminished further. The NGO “Çohu” conducted an investigation on the privatization of Jugoterm, a radiator manufacturer, in which it has pointed out the involvement of two ministers and their relatives who acquired company shares despite the conflict of interest (<http://www.cohu.org/sq/zyre-antikorruption-reagime/Nje-privatizim-qe-korruptoi-gjysmen-e-kabinetit-Ceku-101>). The privatization of Fabrika e Amortizatorëve (shock absorbers factory) is another example of a public property going into the hands of private owners with political ties. After the war, the company restarted its production and was in the process of renewing its 1980s era contract with Renault when it went through privatization; the new owners transformed the facilities into a customs terminal, a TV studio and offices that were rented to the Customs of Kosovo (Loxha and Elshani, 2016). The connections between politicians and several of the richest businesspeople in Kosovo have been revealed by a series of leaked telephone tapping recorded by EULEX. One of the recordings shows the connection and arrangements between the new owners of Fabrika e Amortizatorëve and the political elite, including the closest collaborators of the current President of Kosovo and the former leader of the parliamentary majority (<http://www.insajderi.com/biseda-te-cilen-kurti-e-permend-grabovcin-qe-ankohet-per-tharje-fyti-te-devollet/>). The lack of institutions able to investigate criminal activities, corruption, conflicts of interest, and collusion between politicians and businesses has reinforced the power and financial capacities of some individuals while deteriorating the business climate and the living conditions of the majority of the population.

4. Conclusions

This chapter assessed the effects of the privatization processes in Kosovo between 1999 and 2008, during which a UN mandate governed Kosovo (Lemay-Hébert and Murshed, 2016).

The case study points out that the privatization processes did not bring about the positive effects expected from such a policy. Overall, it cannot but be concluded that privatization in Kosovo was an experience with only negative effects. The expected incomes for government were far less than might have been the case, as the government owned firms were sold far below their actual value. The expected economic and social development, as argued by orthodox theories and the international administration that drove the process, has also not been achieved. Nowadays poverty affects one-third of Kosovo’s population. Increasing inequalities are visible and continue to increase. Unemployment is extraordinarily high, and there are signs of self-enrichment of politicians and unfulfilled campaign promises that discourage citizens from participating in the democratic process. Trust in public institutions is consequently low.

In sum, on the one hand, privatization processes are in need of a supportive socio-economic, political and institutional context. On the other hand, the international privatization model implemented in Kosovo neglected the absent institutional context and the country’s poor socio-economic and political situation. The lack of appropriate institutions, of a legislative framework and of a proper strategy are judged to be the main cause for the failure of the process of privatization engaged by the international administration of UNMIK in Kosovo.

If neo-liberal theories praise privatization in general for its positive effects on socio-economic developments, the reality in Kosovo does not confirm these expectations. Rather, major irregularities and a lacking strategy characterized the privatization processes, which therefore resulted in a deterioration of the lives of Kosovars (S. Musliu, personal communication, 4 April 2015). This

outcome is supportive for the institutionalist approach to privatization. It results in the plea to international organizations to ensure that the institutional context in a country is adequate before one starts such far-reaching processes as the privatization of major state-owned companies.

V

Provision and outsourcing of child welfare services: United States and China

Quintus R. JETT and Robert SHICK

1. Introduction

The respective roles of the public and private sectors in the delivery of social care services vary throughout the world; the participation of each sector varies according to the prevailing political system and history of each country. Supply and access to a particular service in an economy is subject to the prescribed roles and functions across both the public sector (i.e., governmental organizations) and private sectors (i.e., commercial and nonprofit organizations) (Steinberg, 2006). However, there is considerable variety added to the potential cross-sector delivery of services, when evaluated from a national comparative perspective. Because nations vary with their expectations and functions of their public sectors in relation to their private sectors, an assumption of global homogeneity in the cross-sector provision of a particular service can be quickly disproved. For example, Kendall, Knapp and Forder (2006) illuminated how social welfare services for seniors and children varied greatly by sectors, when comparing selected European countries and the United States. Thus, there is a need for more academic research to address the delivery of social welfare services from a comparative perspective.

Our research question is: How does the public provision and outsourcing of child welfare services compare between the United States and China? This inquiry explicitly extends research beyond an assumed division of social welfare services between public (government) sectors and private (profit and nonprofit) sectors, instead considering a shared delivery by public and private sectors. Among social care activities, we choose to focus on child welfare because it involves the well being of a vulnerable population that is less subject to questioning across nations and societies as worthy of some fundamental protections. Addressing public-sector responsibilities of children calls attention to a society's social contract and what its people consider to be the most essential responsibilities (and limitations) of government. When examining the public provision and outsourcing of social welfare services, the United States of America (USA) and the People's Republic of China (PRC) are at different ends of a spectrum. The United States operates based on a political philosophy, which emphasizes private autonomy above public authority, and the privatization of public services has been a rapidly growing movement in recent decades. In contrast, China operates on a political philosophy that gives more emphasis to public authority; its private sectors are less than forty years old, and large portions of China's private sector organizations remain partially owned by the state and lack political autonomy. Comparing these two countries public provision and outsourcing of social welfare services care can illuminate different institutional (e.g., political, historical) contexts of public-sector responsibilities and modes of implementing the fulfillment of these responsibilities. There are many issues that can be explored in this paper and others that can be examined in future research. These issues include the difference in responsibility of government and the private sector in delivering services, how effective the delivery of these services are in the two countries, and best practices that have been learned from these two delivery systems.

Our goal and intended contribution is to better understand the role of public outsourcing, when addressing the differences in the provision of social welfare services from a comparative perspective. This further the work of Wen (2017), Loevinsohn (2008), and Okma and Crivelli (2009).

Considering social-welfare provision as either exclusively public or private fails to acknowledge the ways that public sectors may delegate, contract, regulate, or collaborate with private entities to implement what is, essentially, a joint public-private delivery system: where the public agencies leads by funding and specifying standards of service performance, while the private entities implement service delivery by these standards. Public outsourcing is distinct from privatization, in which government functions are transferred as a whole from public responsibility and control to the ownership and management of private entities, albeit with some government regulation. Public outsourcing refers to government funding or contract, where a public agency maintains accountability and control through its management and oversight of private actors performing the delivery of services. Comparing the United States and China from this perspective today is relevant and timely. Both countries are large industrialized nations, whose governments must necessarily rely on some outsourcing with direct provision of services, but there are key differences. National and more local governments in the United States have greater precedence and continuity of exercising contractual control over private entities. In contrast, China's national and local governments has legislatively enacted only in recent decades; its public sectors exercise considerably more control of private organizations than the United States, and significant portions of private entities in China either have government representation in corporate governance or are partially government owned. Consequently, the important qualitative difference between the two countries offers a productive intellectual contribution on the public provision and outsourcing of social welfare services.

2. Theoretical framework

Social care has distinct features as a service, and the extent to which the public sector or private sector delivers social care will vary depending on the political-institutional environment of a nation. However, social care delivery can further be operationalized as an inter-sector partnership, not simply as a service provided exclusively with a public sector, a profit sector, or a nonprofit sector. In a government outsourcing model, a service can be partially or completely contracted out from the public sector to a private entity. Instead of providing direct provision of a service, a government may provide a service indirectly (e.g., contracting).

2.1. Social care in comparative perspective

Social-welfare responsibility and implementation has variety throughout the world, given the human dimensions of what proper social care entails. Delivering social care extends beyond the economic and transactional (Kendall, Knapp and Forder, 2006). Its function and purpose is relational and aimed toward supporting the autonomy and/or dignity of those under care, fostering (in its most ideal form) an interpersonal mutually rewarding dynamic between caregivers and recipients.

There is further diversity among countries with respect to social welfare services, due to varying governing national political systems and the prevailing needs for social welfare within each country. It is not uncommon for public and private sectors to vary in their respective contributions to delivering a particular social welfare service within a country. Kendall, Knapp and Forder (2006) illustrate this in their study of social care provision in the Western developed world. In Table 1, their data (circa 1990) show that day care for children has different cross-sector shares by nation. In Sweden, for instance, about 92% of child day care is provided by the public sector. In contrast, the United States has negligible levels of government-provided childcare; provision is provided near exclusively by the private sectors (nonprofit and for-profit). Indeed, there is worldwide heterogeneity in the public sector provision of social care. It is important to consider social welfare from a comparative perspective, because the extent of public versus private responsibility will vary by country – and can also vary within a country across particular kinds and niches of social welfare service.

Table 1. Cross-sector provision of day care for children in the Western developed world (circa 1990)

Day care for children		Public (%)	For-profit (%)	Nonprofit (%)
Austria	Nursery	72	3	25
England	Preschool	12	6	82
Germany	Preschool	64	1	35
Norway	Preschool	68	0	32
Sweden	Preschool	92	<1	7
United States	Preschool	0	41	59

Source: Kendell, Knapp, and Forder, 2006, p. 422

However, it is not simply the case that one sector (public or private) must be the sole provider of social welfare services. The public sector, for instance, can provide social welfare services through funding and contracting, without direct provision of services to recipients. Returning to Table 1: While the United States rarely operates government-run day care centers, its public sector(s) do sometimes fund and support day care services for economically-distressed families, either through vouchers to families or through service-provision contracts with private entities. Thus, considering provision exclusively in terms of public or private overlooks complex arrangements between public and private sectors. In terms of public-sector participation, a government can either provide direct care to those with social-welfare needs, or instead provide care to them indirectly through a contract with a private organization.

2.2. Outsourcing and contracting of public services

Governments can provide public services directly or indirectly. If directly, a government agency will, for example, use public employees and publicly owned equipment and facilities to provide services (i.e., owning and controlling the complete chain of activities to deliver the public service). If indirectly, a government might provide monetary vouchers to private individuals, so that they can acquire needed services on their own or a government might provide service indirectly through contracts, paying a private (profit or nonprofit) organization to implement specific kinds, levels, and standards of performance to particular service recipients. The spectrum of indirect government provision of public services has been broadly described as a *collaborative service delivery* between public and private sectors (Jing and Savas, 2009).

Public contracting has a long history and political-legal precedence in the United States. Government contracting has been applied to many kinds of public services, from home health care services to homeless shelter services. Perhaps as a result, there is significant literature on government contracting within the United States. For approximately the past two decades, relevant academic research in the United States has occurred within the context of the country's privatization movement, in which there is increasing political pressure to reduce the funding and scope of government in order to (it is argued) enable more private liberty and (also argued) to enable market forces to produce more efficient results than government.

In this paper, we explore these differences between the United States and China, focusing on the public provision and outsourcing of social welfare services.

3. Methods

How does the public provision and outsourcing of child welfare services compare between the United States and China? We approach this question with an exploration of each country's social welfare activities, in general, and child welfare provisions, in particular. This exploration also includes

the ways in which public and private sectors interact and jointly operate in each country, from both contemporary and historical perspectives.

The United States of America (USA) has a long uninterrupted tradition of nongovernmental actors providing social care, in addition to operating under a political philosophy, which emphasizes private autonomy above public authority. It further established patterns of governments outsourcing services to private entities. In contrast, the People's Republic of China (PRC) has been public-sector dominant for decades. Its profit sector is approximately thirty-years old. Further, many of its private-sector organizations (for-profit and nonprofit) remain partially owned by the state and lack political autonomy.

3.1. *Methodology and evaluation*

For evidence, we relied on prior academic research relevant to our topic, in addition to government documentation and reporting addressing public-sector roles and functions for child welfare in each country. We are assembling this documentation from academic and government sources, so that we can more precisely target areas of qualitative field investigation that are most promising for research contribution(s).

When evaluating this evidence, the second author is especially suited to examining government provision and outsourcing practices. He has extensive experience as a senior administrator in a municipal government in the United States. He has also managed the contracting-out of government services, including: the decision to contract, the solicitation and selection process of the contractors, managing the contracts, and monitoring and evaluating the performance of contractors. In this capacity, he was involved in setting policy, financial decisions, interacting with contractors, and understanding and carrying-out the responsibilities of government to ensure that contracts were implemented successfully.

The first author, through a growing team and network of Chinese nationals, is identifying documentation and sources relevant to a proper comparative investigation between China and the United States.

4. Results of comparison

The following issues are arising in this comparative research: how each country's public sector conceives and defines child welfare; the particular vulnerable populations addressed by each government's child welfare services; the particular government functions engaged in child welfare services; and the roles of different levels of government within each country.

While both the United States and China employ a shared public-private delivery of child welfare services, there are important qualitative differences in the services being delivered and how these services may likely change within the coming decade. Today in the United States, child welfare frequently refers to an array of protection services to ensure a child's safety and well being within private families. The processes for government to contract private entities for these services are well established and mature. Today in China, there has been greater prevalence of government responsible for direct provision of child welfare (including a more recent history of providing government custody to children through orphanages). The country's policies, legislation, and systems for child welfare services are undergoing rapid change, and are less settled than the corresponding services in the United States.

4.1. *United States: Settled institutions of public provision and outsourcing*

In the United States, it is not uncommon for the government to provide services indirectly through designated arrangements (i.e., contracts) with private entities. While there is today a

vigorous and sustained movement to privatize public services, indirect service provision by government through contracts predates this movement. There is especially a long history of the public sector contracting with nonprofit organizations to deliver social-care services.

In the United States, child welfare policy and some funding are established by the national government, including goals and services. Below national government, state-level government are responsible for setting policy and determining how child welfare services are to be delivered, while more local government levels are accountable for supplying these services. At these local government levels (i.e., either county or municipal levels), government leads harm-preventive services and foster care services, without taking physical custody of children. Government systems determine the criteria and assessments for when children can be removed from families to safeguard their well being, as well as the private households for their relocation on a temporary basis. Governments specify private contracting organizations to deliver harm-preventive services such as: family and individual counseling, parenting classes, substance abuse treatment, domestic violence intervention, support for pregnant and parenting teens, and home care.

For example, New York City (NYC) describes its mandate for children as “responsibility for protecting the safety and promoting the well-being of NYC's children and strengthening their families by providing child welfare, juvenile justice, child care, and early education services”. NYC funds and delivers a wide range of these child welfare services through contracts with nonprofit organizations, including, preventive services to stabilize families at risk of a crisis and foster care services for children not able to safely remain at home. NYC also funds and provides vouchers for programs that provide early childhood education programs. In NYC, there has been a long history of having social care services delivered by private organizations. Using private organizations that have developed expertise in these service areas has enabled government to segment the different roles and responsibilities, and coordinate and manage these services.

Table 2 shows a typical division of responsibility between government, the contractor, and the families receiving child welfare services in the United States. Government controls the responsibilities that determine eligibility or who shall receive the services, assessment of which services each family will receive, the standards of the care, the qualifications of the contractors who provide the care, and the selection of which contractors supply the care. The assignment of the care provider and the delivery of the care is the responsibility of the contractor. Families are involved in the delivery of care as they receive the services, and then use these services to care for their children. Government, the contractor, and families are involved with inspecting and evaluating the care that is provided.

Table 2. Preventive Services (Child Welfare) in New York City

Service Responsibilities	Government	Contractor	Family
Eligibility	X		
Assessment of Needs	X		
Standards of Care	X		
Funding	X		
Qualifications of Providers	X		
Selection of Providers	X		
Assignment of Care Provider		X	
Delivery of Care		X	X
Inspection and Evaluation of Care	X	X	X

Source: own research

4.2. China: Unsettled institutions of public provision and outsourcing

In China, public outsourcing is state affiliated and the state's role in child welfare is undergoing change. Although the scale and development of the country lead its government to delegate service-delivery authority to non-government entities, the significance and autonomy of private actors is generally not comparable to the United States. Many private organizations are partially state-owned or accountable to the state through some other form of corporate governance. Further, when the government delegates authority to a private organization, the process is more political and state-oriented as compared to the market-competition processes employed by United States governments when contracting to private organizations.

The Chinese government's policies and service-delivery systems with respect to child welfare also varies from the United States, both in historical and contemporary terms. Shang and Wu's (2003) historical evaluation of child protection in China's Jiangxi province emphasizes how abandoned children and the need for orphan care have shaped government policy and practices. In other words, conditions in China in recent decades have led the government to emphasize children abandoned due to economic circumstances (or a child's disabilities), in contrast to the emphasis in the United States on removing children from an environment where they are unsafe and relocating them to a foster-care family. As a result, the Chinese government has a more recent experience with taking physical custody of children and managing them through an orphanage system. It also has experience with having an overseas adoption system that places children with families abroad. When a local government delegates authority to an outside organization for child protection, it has similarities to an economic contracting arrangement but has more political elements. The delegation occurs through the private organization's affiliation with the government, rather than through the market-oriented processes employed in the United States for contracting arrangements.

There have also been rapid changes with child welfare in China, however. In recent decades, there have been changes with the country's economic and social developments. These changes include: less emphasis on foreign adoption, the use of monetary vouchers to families to serve as foster homes, and growing formal policies and regulations with respect to child protection (e.g., national guarantees passed for orphans since 2010). Thus, while there are growing similarities to the United States in terms of using government-directed service collaborations with private organizations (and families) in providing child welfare, the priorities and forms of these outsourcing arrangements are different.

5. Reflections and conclusions

When examining social care activities in a comparative perspective, comparing between child welfare services in the United States and in China quickly illuminates important underlying issues. Each country has a government based on a political philosophy, which shapes how public and private sectors are defined and operate in relation to each other. The point of this research is to examine these issues in terms of public-private delivery, rather with initial categorizations of social care as exclusively either public or private. However, at an implementation level, there are exchanges and divisions of responsibility across these sectors to achieve implementation of the social service.

This division of responsibilities places government in the role of leading a joint public-private division of social welfare services. Government provides the funding, determines who receives the services, and which services are provided. A contracting organization is the vehicle to supply these services under parameters and standards set by the government. Depending upon the terms of the government-contractor agreement, the government can exercise considerable influence on the operation of the contractor. This outsourcing mechanism places government in an oversight role, and where contractors are acting, in effect, as agents of government, with a more limited independent role than would be the case with a privatization arrangement.

6. Further steps

In completing the research addressed in this paper, we anticipate a start addressing several issues. First, there is addressing how social welfare performance is measured in the United States and China, within the child welfare context we study. Due to the personal and relational features of delivering social care (Kendall, Knapp and Forder, 2006), performance measurement issues are more challenging. Second, there is addressing public outsourcing more elaborately in terms of what is called “governing by contract” (Cooper, 2003). Government contracting illuminates the ways that the public sector delivers services without direct provision, by using standards, monitoring, and reward structure to govern the performance of private entities for public benefit. Third, there are the nested systems of governance within each country to consider. In large industrialized countries such as the United States and China, there are different levels of government that operate in relation to each other (e.g., national, provincial, municipal). Social care services in many countries operate across these different government levels, where specific implementation processes are at more local levels rather than at a national level. Thus, developed theorizing about public outsourcing and outsourcing for social care must employ a multi-level perspective of government. Finally, we believe adequately addressing the previous three issues requires a grounded-theory field methodology (e.g., Strauss and Corbin, 1998), in order to capture the procedural and interpretative elements of social-welfare policy and implementation across comparative contexts.

VI

Evaluation of private operators' performance by public employment services for the accompaniment of the unemployed

Céline REMY

1. Introduction

This chapter focuses on the conduct of the evaluation of external service providers (e.g. limited companies, private limited-liability companies, associations) by the public employment services (PES) in Belgium and in Switzerland. PES in these two countries outsource a part of the support of the unemployed to private operators at the request of the European Commission and because PES cannot provide in-house services for all jobseeker profiles.

According to Alford and O'Flynn (2012, p. 85), two major forms of government outsourcing arrangements have dominated as forms of engaging external partners in public service delivery: contracting out of services and public-private partnerships (PPPs) for infrastructure. Collaborations between public and private sector as studied in this chapter can be classified as contracting out of services in the sense of "the transfer of activity from the public sector to external parties, and involves government organizations entering into contracts with others, with specific distribution of roles" (Idem, p. 86). For these authors, it constitutes service-delivery partnerships, in which government organizations and nonprofit/voluntary organizations share the work of achieving some agreed social purpose. In this perspective, outsourcing requires particular conditions that external providers can deliver the service more cheaply or effectively than in-house producers, with a competitive market of potential suppliers and an easy monitoring of the service (Idem, p. 122).

As a result of outsourcing, PES must "regulate" the private operators who develop accompaniment and/or training projects for jobseekers. PES develops tenders and rules to define the terms of collaboration with the providers and also how the problems arising from the partnership must be solved. These public-private collaborations are at times severely tested as a result of relational, financial, administrative and other problems. An important moment is the evaluation of the private operators' performance by public employment services agents. The result of this evaluation determines the amount of the subsidy received by the provider for the accompaniment of job-seekers.

We refer to the work on inter-organizational partnerships to understand the sets of players within them. The hardship in a partnership can be seen as the breakdown of a machine in a production company. It appears as a "zone of uncertainty", in the sense of Crozier and Friedberg (1981), because it prevents the achievement of the objectives of the partnership. In this perspective, we assume that the sets of players have more impact in the resolution of the hardships than the "framework of collaboration" defined by the PES. We will test this assumption in institutional contexts where the terms in the creation of partnerships differ.

Three case studies were carried out with two Belgian PES using the technique of a call for projects (approximately 18 000 trainee spots for a total of 310,000 unemployed compensated people) and one Swiss PES which uses the call for initiatives (about 1,300 trainee spots for 17,000 unemployed) to establish public-private collaborations. The call for initiatives leaves more

opportunities for negotiation with the provider than the call for projects. Support projects for job-seekers are co-constructed and negotiated between the PES and the operator. On the other hand, the call for projects contains a stricter specification, where the operator must apply the rules. Choosing institutional contexts where the terms of creating partnerships diverge will allow us to test our initial hypothesis that the sets of actors have more impact in the resolution of the hardship than the framework of collaboration (call for projects or call for initiatives).

The first part of this chapter focuses on partnerships literature to understand the stakeholder games. The second part shows how private operators are evaluating their performance. It highlights the strategies developed by private providers when facing to situation of immeasurable results. A concluding section ends this chapter.

2. Stakeholder games in collaborations

Many authors have studied inter-organizational partnerships, whether there is collaboration between private, public or private and public organizations. What we are interested in are the works that account for the relational games between the members of a contractual partnership and, more specifically, the relations of strength that emerge between them. We want to understand how stakeholders interact and develop strategies, what difficulties they encounter and what sort of informal arrangements emerge between partners.

According to Alford and O'Flynn (2012, p. 122), without all the outsourcing pre-conditions being present, there is a risk of failure of the service-delivery and development of opportunistic behaviors. Some strategies developed by private employment providers are well-known in literature as creaming and parking jobseekers (Dockery and Stromback, 2001; Considine, 2005; Brodtkin, 2005; Behagel *et al.*, 2009). Some government behaviors interfere also with the relationship: failure to pay the full costs of services and administration, changing terms of contracts mid-stream, late payment of funds, complexification of contracting processes and complexification of reporting requirements (Alford and O'Flynn, 2012, p. 119). Scharle (2002) highlights the development of strategies between partners as the presence of rivalries and "gambling problems" which result, in particular, in the negotiation of the initial rules of the "game". Estache *et al.* (2009) identify the same phenomenon in the case of a partnership with a public administration. When selecting candidates, the administration will modify the procedure and criteria for assessing the applications in order to establish a contract with the applicant it wants. In this type of partnership, the administration controls its partners then this power led it to undertake acts of corruption.

Considering the partnerships as an "organized action", in the sense of Crozier and Friedberg (1981), Lauzon and Therrien (2008) analyze the partnership as a game containing all the verbal and non-verbal interactions of the stakeholders. By what it is, each actor reports his interests, wishes and intent for the partnership. At the time of the meeting, each one can make a representation of another partner. The actors are on the lookout for behaviors and discourses that will abound in their perception. Taking a utilitarian perspective, these authors consider that the stakeholders want to satisfy their interests, which can produce relational problems from the very beginning of the partnership. These tensions lead to conflicts of interest or even judgment on people's alleged intent. Schermerhorn (1975), Williamson (1975) and Provan (1984) highlight the negative effects of partnering several organizations such as increased complexity, loss of autonomy in decision-making and asymmetry of information between the members of the partnership.

Stakeholders will then develop strategies that reflect these power relations. In his typology of internal and external risks to a collaboration in the form of partnerships, Préfontaine (2008) identifies as an internal risk the one concerning relational difficulties arising, in particular, from the bureaucratic nature of the public sector. The power of public authorities through rigid administrative procedures frightens some contractors. Several studies in the field of management and accounting show that the strongest actor imposes his point of view on the agenda and the course of discussions

and that he alone defines the type of bureaucratic control (Dekker, 1993; Carr and Ng, 1995; Seal *et al.*, 2004). In his work, Préfontaine (2008) shows that private companies join forces to put pressure on the public sector to use a simplified document, in this case a letter of intent. By dint of insistence, the public sector finally accepted this compromise.

Looking at the balance of power in inter-organizational collaboration necessarily leads to the introduction, according to Nooteboom (1996), of the question of trust and opportunism, both of which play an indispensable role in the internal governance of the partnership. Nooteboom highlights the issue of stakeholders' control over each other. When confidence is no longer enough, partners may sometimes adopt "defection behaviors" (Hirschman, 1970) in the sense that they temporarily or permanently terminate the game, thus preventing the continuation of collaboration. In his work on consulting firms, Arend (2009) shows the impact of opportunistic behavior in the failure of partner alliances.

Some authors, such as Mouritsen and Thrane (2006), point out that it is more interesting to study relations from the point of view of power, because this posture helps to restore the moral obligation of trust. Moreover, confidence is fragile whereas power relations are not (Bachmann, 2001). For example, a relationship based on power allows the provider to control customer data information with a view to exerting pressure to reduce costs and look for gain (Cäker, 2008). In his work on industrial partnerships, Neuville (1997) studied the power relations in terms of opportunism. He opted for an original perspective by adopting the supplier's point of view rather than that of the principal, the manufacturer, as the authors generally do. He studied the games between actors from the point of view of trust and mistrust. The supplier is described as "performing" by the principal. But, behind this qualifier a double strategy is hidden put in place by the supplier, which is to generate trust in the principal and then to abuse it by opportunistic behavior.

"Clandestinely" reducing the production costs. Thus, he supplies lower quality material by reducing, for example, the quantity of raw materials necessary for the manufacture of the product. Moreover, he seeks to hide product failures by inviting the 'assembly' service at the customer to withhold information from the 'purchase' service (of the same customer). These acts show that he is abusing the trust that is granted to him. Cäker (2008), through his case studies in the industrial sector with a client and two of his suppliers, highlights similar strategies, informal arrangements, in cases where the customer is dominant. These arrangements between actors allow some of them to have power and to be the dominant partner in the partnership.

According to Neuville (1997), these strategies impede collaboration from the moment when the partner discovers and interprets them as opportunistic. Otherwise, they have no impact in terms of trust. They clearly reflect the relations of power within the partnership. Marchington and Vincent (2004) support this by specifying that each stakeholder lives differently from the partnership. For example, the signature of a contract with a precise regulation in terms of transport of chemicals is perceived by the customer as the establishment of a kind of trust, and for the suppliers a constraint. These authors emphasize that only the interpersonal relationship between the actors can help to maintain and sustain the partnership. To demonstrate this, they look at the influence of institutional, organizational and interpersonal forces in inter-organizational partnerships. They show that the dismissal of workers in one of the companies is detrimental to the partnership. In the case of small non-dominant firms, Cheng (2012) shows that they can use alliances to gradually acquire power over the dominant partner. But, according to Ramonjavelo *et al.* (2006), recognition of common rules, including acceptance of the regulatory framework and the signing of a partnership contract, fosters trust between partners and institutional trust that is at the basis of any collaboration.

3. Evaluation of the performance of private operators

For more than a year and a half, between April 2011 and November 2012, we studied the collaboration between public employment services and private operators in Belgium (Actiris in

Brussels and Forem in Wallonia) and Switzerland (Cantonal Office for Employment (COE) in Geneva). The use of labor intensive observation by “tracking” (Zimmerman, 1981) the partnership service officers in their daily work allowed us to seize the crucial moments in the life of partnerships from beginning to dissolution. We were able to participate in the “monitoring committees” between the stakeholders and conduct semi-structured interviews with the PES officers (N=52) and private providers (N=31).

3.1 *Immeasurable results*

The PES agents carry out quantitative and qualitative evaluations of the performance of the private operators. However, the latter have the impression that the quantitative dimension is more important, in the granting of financing for example, than the qualitative dimension of the work of accompanying the unemployed. PES operators are not always at the level of achievement of quantified objectives. Different quotas are specified in the partnership agreement and in the specifications for the call for tenders. The operator needs to recruit a number of candidates and get a rate of positive outcomes¹, but the challenge of the results is not always very clear.

“For results, you have to either go back to work or start a training leading to qualifications. It is not very clear in terms of the results to be achieved. I do not know the percentage of positive outputs that I have to do. It changes all the time.” (Operator E. of Actiris).

Some operators see the negative consequences of an essentially quantitative evaluation of the project. Having not met their numerical targets, they have had part of their subsidies withdrawn. This has a significant impact on the volume of activities and workers in the organization. The reduction in the budget may lead to the discontinuation of some projects for training and / or supervising jobseekers and the job cuts.

For example, a Forem agent met an operator as part of a monitoring committee devoted to the evaluation of the project. Together, they review the deliverables (certificate of training or employment) for each candidate. Several trainees have dropped out of the course along the way. These withdrawals have an impact on the financing of the project. The operator and the agent do not agree on the method for calculating the subsidy. According to the operator, the Office should withdraw 167 euros per person who left the project. The claimant explains how he figured this amount but the agent disagrees. To clarify the situation, he contacted headquarters for the method of calculation to be used. In the end, the operator will lose the sum of 1550 euros per candidate. The difference is significant for him.

Other providers, collaborating with Actiris and the Cantonal Office for Employment express rather similar remarks in relation to the consequences of the difficult measurement of results. The withdrawal of financing is experienced by the external operators as a threat to their organization.

“We did not quite fulfill our agreement last year. We lost part of the subsidy without negotiation. We did not have enough people in Phases 2 and 3. That was the amount that was withdrawn.” (Operator K. of Actiris).

“For now, we have eight courses cancelled and eight courses partially completed which means partially financed. Overall, it is as if we had cancelled sixteen courses. If the measure is stopped, our referent to the COE must tell us quickly because we have to lay off staff.” (Operator D. of the COE).

¹ Positive outcomes correspond to candidates who have found a job or who have enrolled in a training leading to qualifications following the participation in the training. For some measures focusing on mobilization and orientation, the candidate must have a competency report or a professional project.

3.2 *Low quality, overbooking, traffic and negotiation strategies*

The operators are ready to do everything to arrive at the quotas fixed in the agreement and obtain their funding. As to the certificates, Forem defines the type of evidence to be provided by the operator. Nothing is specified in terms of the quality of the certificate. Some Forem operators took advantage of this lack of clarity in the rules. During a discussion with a PES officer, he told us that some operators do not deliver good quality proof. One of them gave the PES one CV without much content and full of spelling mistakes. Another gave a certificate of work where the candidate worked one day as a waiter. The operators concerned have obtained their funding for these candidates but the agent raises the question of the quality of this job and the quality of the operator's work.

In order to achieve the goals, operators sometimes resort to the technique of "overbooking" which consists in accepting more candidates than the number required per training session. It aims to reduce the financial risks for the operator in the case of a high dropout rate, which one PES officer calls "losses on fire".

"There are just two trainees who did not get their certificates but because we took on more people to compensate for the potential losses, we got to our quota. I have overbooked because there are a lot of people dropping out of training on the way. If we have a session of twelve people, we take fifteen. If we have three withdrawals, we get the whole budget." (Operator E. of the Forem).

The operators of Actiris do not seem to practice this technique. This may be due to the job management database of the unemployed in which they must encode information about the candidates. On the other hand, they use the technique of "traffic of participants" (Remy, 2016) as do the Forem providers. The service providers organize branches in-house, that is to say, they make the unemployed pass from an accompanying action and / or formation of a specific call for projects to training inside the organization or training sessions related to other calls for projects. This practice of "internal channels" is forbidden by the PES but some providers use it because it helps to smooth the jobseeker's career path of and to obtain a better socio-professional reintegration.

"If the person who is in an accompaniment of specific public measures wants to go on a job search, he or she will be directed to the active job search measure that we have in our organization." (Operator D. of Actiris).

"We have more or less half of the trainees who undertake one of our internal workshops after following the training session of the call for projects. And the others are redirected to other related trades. Normally, one cannot make internal channels. We are not supposed to have modules of the call for projects that promote our internal trainings. [...] The ultimate goal is to train jobseekers. It is obvious that our idea is that people be reinserted." (Operator E. of the Forem).

On one hand, the strategies set up by the COE providers are different. They do not practice the traffic of participants nor the overbooking of candidates because they do not have control over the recruitment of candidates. On the other hand, they undertake negotiations with the agents of the partnership service when evaluating the results but also of the contract review. At meetings, operators have the opportunity to discuss all aspects of the collaboration. They then attempt to negotiate the number of candidates that must be considered by the PES as a "positive outcome". The result of these negotiations is crucial because it will define the budget they will receive from the COE.

At a meeting organized between an agent of the COE and a service provider, we observe the exchanges around the question of the candidates' certificates and the budget. The operator must provide the PES with a competency report for each candidate. However, three candidates do not have a report due to too much absenteeism. The negotiations will focus on the number of days on which the candidate is present in training. The whole issue revolves around the elements of justification put forward by the operator. The latter argues by telling the difficult personal situation of the candidates (problems of health, housing, etc.). The provider encourages the accumulation of factors extrinsic to the candidate's goodwill. Finally, the agent gives in to the agreement of these

stories. He knows that the operator has done his best with the candidates and that the financial situation in the organization is tricky. However, the agent told us before the meeting that he would not change his mind.

This strategy is implemented by providers whose funding is largely linked to the achievement of results. In these delicate situations, some operators protect themselves by negotiating guaranteed financing from the first meetings with the agents.

"I asked for a per day package. I did not want to take too much risk. Whether there are two or twelve people in training, I have the same costs. It is not the same thing for me if they compensate me for two or twelve people. We have a fifteen-day program. We have a two weeks package for the training." (Operator C. of the COE).

Thus, facing the issue of immeasurable results, private operators develop various strategies. Some are risky for the collaboration such as lowering quality, overbooking and traffic of participants. Others strategies are more temperate such as negotiations with the PES agents.

4. Conclusion

In this chapter, we focus on how the members of a collaboration between public employment services and private operators, solve the critical situations encountered about evaluating the operator's performance. This difficult situation particularly affects private operators because they can lose a big part of their funding. Our initial hypothesis supports the idea that stakeholder games have more impact in solving the hardship than the framework of collaboration defined by PES (call for projects in Belgium and call for initiatives in Geneva). Research projects carried out with three different PES allow us to test this hypothesis as the modalities of creating partnerships diverge: the two Belgian PES (Actiris and the Forem) use the call for projects, and the Cantonal Office for Employment in Geneva resort to the call for initiatives.

Our analysis highlights the sets of players and, in particular, two categories of strategies used by the operators to mitigate or overcome the hardship of the evaluation. The first category contains "moderate" acts: as in the negotiation with the agents of the PES, in the case of Geneva's providers. The second category corresponds to "risky" acts: such as the low quality of the service, the traffic of participants and the overbooking of candidates, as with Belgian operators. These strategies are risky because when agents of PES discover them, trust is broken between stakeholders. The agents consider that the private operators are opportunist then they remind them of the rules of partnership with the PES. They can sometimes warn operators who are too opportunistic and impose sanctions on them. Sanctions could be financial or ending the collaboration when strategies are toxic for job-seekers' career.

We note that these "risky" strategies are manifested only in the case of management of the partnership by a call for projects. Operators whose collaboration with the Employment Office forms part of a call for initiatives resort to "moderate" strategies. This can be explained by the fact that this collaborative framework provides operators with a greater trading space. They may be less tempted to undertake risky actions because they have the opportunity to discuss and negotiate at length with the agents of PES.

Ramonjavelo *et al.* (2006) highlight in their work that the framework of collaboration through partnership contracts and rules and procedures help partners to trust each other. Our analyzes moderate this result in that the modalities of the framework influence the confidence of the stakeholders and the presence or absence of opportunistic behaviors. In this way, the collaborative framework can alter the quality of the partnership relationship. It has a decisive influence on how the events are managed by the members of the partnership. Actors' games are conditioned by the collaborative framework in which stakeholders must interact. It would be interesting to analyze the

strategies put in place for these two tests in an institutional context where the partnership is created with a tender type system.

Part 3: Innovative ways of using ICT in PSD

VII

Digital governance as alternative public service delivery: From e-government to government digital services

Hiroko KUDO

1. Introduction

Information and Communication Technology (ICT) is considered to be introduced in public administration along with other new managerial techniques, especially under the New Public Management (NPM) concept in the Nineties. However the history of “modernisation”, thus “computerisation” and/or “electronisation” in public administration tells us that the use of ICT first started with data processing and information dissemination when mainframe computers were introduced in business as well as in public institutions in the Sixties and the Seventies, until the end of Eighties. ICT related technologies were considered to be an important instrument which enables to deal bigger data faster and accurately. Hand-written or typed documents gave way to electronic documents kept in the servers. The first objectives were, though, to transform the data without sophistication of managerial instruments.

With NPM, the use of ICT started to focus more on the managerial process of public administration. Various managerial tools enabled by ICT were introduced to improve the speed and transparency of administrative procedure. Exchange of documents and elaboration through multiple actors became easier, thus improving interaction and collaboration among stakeholders. Processing and dissemination of information became easier thanks to the system and its support. Not only the internal managerial issues, but also the public service delivery utilizing and benefitting from ICT, especially web-based technologies became popular. Many former counter services were transformed into on-line services, making citizen possible to access directly to information as well as public services.

Indeed, the computerisation stage was surpassed by the internet-based technologies and services during the Nineties. Then, the web-based services started to be replaced by various new techniques and technologies enabled by the digitalisation, Big Data, IoT (Internet of Things), and AI (Artificial Intelligence). The digitalisation process was embraced by the expansion of web-based technologies, enabling various on-line solutions for the public services; however now it is moving quickly to other advanced innovations.

So, what are and would be the possibilities of ICT in public sector? What are the possible “alternative service delivery” through ICT? What are the “alternatives” enabled by the ICT, especially digitalisation and web-based technologies?

To indicate some responses to the above questions, two chapters are included in this part of the text. The first chapter tries to summarize the theoretical and practical aspects of e-governance in relation to public service delivery and to connect to the chapter above mentioned.

The second chapter by Meričková and Muthová explores the innovation capacity of Slovakian local governments. ICT can not only improve managerial aspects of public sector with its impact on managerial architecture, but also service delivery, especially improving the interface and thus the relationship with the service users, who are citizens and businesses. The work highlights several interesting issues, which are: 1) the process of development and implementation of innovation in

public services fails because of innovation capability of the providers of local public services; 2) there is a strong correlation between the implemented mechanisms utilised in innovation within the framework of the strategy of development and existing innovations in the provision of local public services; and 3) innovation allows the local governments to more intensively monitor their citizens' needs and adapt to these needs by the nature of innovation and the course of the innovation process. The authors also note that the innovation comes from the network and results in improving communication with citizens. This article, thus, tries to explore on these issues from slightly different perspectives.

2. E-government to e-governance and digital governance

Digitalisation has become an important concept as well as practice in public administration. OECD Council, for example, adopted in July 2014 "Recommendation of the Council on Digital Government Strategies", in which its Public Governance and Territorial Development Directorate analysed and explored the possibilities and issues of digital governance.

It defined E-Government as the use of information and communication technologies (ICTs) by the governments as a tool to achieve better government, while Digital Government refers to the use of digital technologies, as an integrated part of governments' modernisation strategies, to create public value. It relies on a digital government ecosystem comprised of government actors, non-governmental organisations, businesses, citizens' associations and individuals which support the production of and access to data, services and content through interactions with the government (OECD, 2014a), thus, it is possible to say, relying on the network.

Digital technologies is defined as ICTs, including the Internet, mobile technologies and devices, as well as data analytics used to improve the generation, collection, exchange, aggregation, combination, analysis, access, searchability and presentation of digital content, including for the development of services and apps (OECD, 2014a). Even the previous concept of E-Government aimed at improving the government performance and thus included public services using ICTs, the transformation of public services was not yet its main objective, as the technologies did not include data analytics and digital content. Digital technologies, especially with the data analytics, have transformed the services and the relationship with the stakeholders. Thus, it is fair to say that the characteristics of public service delivery have been transformed by the introduction of digital government using digital technologies.

It might be worth noting that the recommendation also refers to public value as "various benefits for society that may vary according to the perspective or the actors", which include: 1) goods or services that satisfy the desires of citizens and clients; 2) production choices that meet citizen expectations of justice, fairness, efficiency and effectiveness; 3) properly ordered and productive public institutions that reflect citizens' desires and preferences; 4) fairness and efficiency of distribution; 5) legitimate use of resource to accomplish public purposes; and 6) innovation and adaptability to changing preferences and demands (OECD, 2014a). Innovation creates public value, which, in turn, would contribute to innovation and change.

The recommendation is a fruit of several conditions and backgrounds. The integration of new technologies into the lives of people, businesses and governments is helping to open up governments and giving rise to new forms of public engagement and relationships that transcend public, private and social spheres. The new digital environment offers opportunities for more collaborative and participatory relationships that allow stakeholders to actively shape priorities and collaborate in the design of public services and participate in their delivery to provide more coherent and integrated solutions to complex challenges. Digitally enabled participation and production of public services is changing people's expectations about their relationships with governments (OECD, 2014a). This description reminds us the New Public Governance (NPG) literatures, which stress the importance of participation of stakeholders including citizens. NPG has indeed developed the

concept of co-production with the citizens and other stakeholders of civil society in public service delivery, while NPM concentrated mostly partnership with private sector.

It notes that new public governance approaches are needed to support a shift from governments anticipating citizens' and business's needs to citizens and businesses determining their own needs and addressing them in partnership with governments (OECD, 2014a). This analogy can be found in NPG literature in the discourse of co-design, co-creation, and co-production. The diffusion and adoption of technologies is also changing expectations on governments' ability to deliver public value.

The shift to use technology to shape public governance outcomes, and not simply to support government processes, as it was the main objective under e-Government concept, requires coherent and strategic planning of policies for digital technologies use in all areas and at all levels of the administration. Government institutions, however, remain organised around units, each with clear responsibilities and processes, as well as problems to integrate their ways of working. This is one of the major challenges to integrate digital governance into public sector reform strategies. Governments should understand the level of organisational maturity of the public sector in relation to project management methods and approaches and are able to achieve appropriate levels of maturity in relation to their needs and ambitions, to optimise the impact and results of digital government investments (OECD, 2014a).

The recommendation aims to help governments adopt more strategic approaches for a use of technology that spurs more open, participatory and innovative governments. The Recommendation suggests establishing more effective coordination mechanisms, stronger capacities and framework conditions to improve digital technologies' effectiveness for delivering public value and strengthening citizen trust. While the level of trust strongly depends on history and culture, the Recommendation aims to help governments to use technology to become more agile and resilient. Public trust could be improved through better performing and responsive services and policies and is considered possible to mobilise public support for ambitious and innovative government policies.

It suggests the followings among others: ensure greater transparency, openness, accountability, and inclusiveness of government processes and operations by addressing the issue of "digital divides" and avoid the emergence of new forms of "digital exclusion", among others; encourage engagement and participation of public, private and civil society stakeholders in policy making and public service design and delivery; create a data-driven culture in the public sector; secure leadership and political commitment to the strategy; and ensure coherent use of digital technologies across policy areas and levels of government.

The importance of transparency and accountability has been noted previously, but with the rise of stakeholder participation, its importance seems to be much more strongly recognized. So is the issue of digital divides.

Previously to this recommendation, OECD published series of publications regarding e-government and its followings. "The e-Government Imperative" (2003), "E-Government for Better Government" (2005), "Rethinking e-Government Services: User-centred Approaches" (2009), "M-Government. Mobile Technologies for Responsive Governments and Connected Societies" (2011), "Open Government Data" (2013), and "Social Media Use by Governments" (2014b). Until 2005 publication, the titles suggest NPM driven perspectives. The notion of services appears with user-centric approach in 2009, which perfectly matches with the rise of NPG literatures, while it followed by data issue in 2013, when the Big Data started to be discussed not only in science and technology spheres, but also in general societal issues and that the so-called 3Vs² model of Big Data³ was updated.

² According to Gartner, it stand for: volume (amount of data), velocity (speed of data in and out), and variety (range of data types and sources).

Digital government related publication appears rather late, since 2002 is considered to be “beginning of the digital age” and shortly after the digital storage dominated the global information storage. This might results from the difficulty of governments benefiting from digital revolution.

It is worth noting that the NPM and post NPM, especially NPG, thus New Public Service literatures were launched with the digital government related literatures. Attention and stress on public service delivery, indeed, intensified with the rise of New Public Governance. In the next section, the chapter tries to summarise the service delivery discourse in relation to the digital governance.

3. New Public Governance and public service delivery

The shift from e-government to digital government has been accompanied with digital technologies as well as service delivery literatures. In this section, the author tries to review the New Public Governance (NPG) related literature to find the analogies (Kudo, 2015; 2016). Attentions on public service delivery and the role of citizens and social sector in its process lead to NPG. It was also proposed as critiques to NPM, which merely stressed efficiency, effectiveness and managerial techniques.

Some authors started to point out issues of NPM and propose modifications to NPM. They have discussed that because NPM emphasised too much the viewpoint of private management techniques in public sector, elements, such as citizen participation and other forms of democratic decision-making, have been undermined. The contents and characteristics of accountability have, indeed, changed from the initial period of NPM and social audit and accounting have been necessary to consider (Osborne and Ball, 2011). Some pointed out that since NPM concentrated on performance measurement and evaluation, monitoring, and auditing, it has considered little the viewpoint of public policy in general and decision-making, thus has strengthened the short-term political interest, not the outcome of long-term and strategic policy and plans, creating situations contrary to what NPM originally aimed.

These authors have tried to modify the concept of NPM, which stressed the viewpoint of private management in public administration, emphasised the importance of citizen participation and role of social sector in public service delivery, and focused on much broader public governance, which includes public and private partnership. They have focused on co-production between the citizen and the public and social sector as service agent and stressed the importance to co-produce the services.

While NPM is based on neo-classical economics and particularly of rational/public choice theory and has an emphasis on implementation by independent service units, ideally in competition with each other and a focus on economy and efficiency, NPG is rooted within organisational sociology and network theory and it acknowledges the increasingly fragmented and uncertain nature of public management (Pestoff, 2011).

Osborne ironically argues that NPM has actually been “a transitory stage in the evolution (from traditional public administration) towards New Public Governance” (Osborne, 2006, p. 337). He agrees that public administration and management has gone through three dominant stages or modes: a longer pre-eminent one of PA until the late 1970s/early 1980s; a second mode of NPM, until the start of the 21st Century; and an emergent third one, NPG since then. The time of NPM has thus been a relatively brief and transitory one between the statist and bureaucratic tradition of PA and the embryonic one of NPG (Osborne, 2006; 2010).

³ “Big Data is high-volume, high-velocity and/or high-variety information assets that demand cost-effective, innovative forms of information processing that enable enhanced insight, decision making, and process automation.” (Gartner)

Bovaird argues that the emergence of governance as a key concept in the public domain is relatively recent, and he traces the evolution of the concept in public administration. He suggests that “governance provides a set of balancing mechanisms in a network society, although it is still a contested concept, both in theory and in practice” (Bovaird, 2005, p. 217). By the end of the 1990s various concerns about corporate governance, local governance and network society had crystallised into a wider focus on “public governance”, which he defines as “... the ways in which stakeholders interact with each other in order to influence the outcomes of public policies” (Bovaird and Löffler, 2003, p. 316).

4. Digital divide and transparency

Many authors as well as institutions have mentioned digital divide as one of the most crucial issues of digital governance. But, what really is digital divide? There have been and are various definitions; however some were already overcome mostly due to technological changes and advancements, partially thanks to efforts carried out by various actors. Here are some definitions and observations on them worth considering (*italic by the author*).

The term “digital divide” refers to the gap between individuals, households, businesses and geographic areas at different socio-economic levels with regard to both their opportunities to access information and communication technologies (ICTs) and to their use of the Internet for a wide variety of activities (OECD, 2001).

The concept of the digital divide keeps evolving and broadening with new technological developments: some studies have looked into further digital divides emerging among internet users who use multiple mobile devices like tablets and smartphones to access the internet. (...) as digital technologies continue developing, some users embrace them and enhance their online experiences, while others have a limited internet use or do not use the technology at all (EU, 2015).

In part the digital divide is about differential access to hardware. In this sense, the digital divide is a simple extension of the century-old goal of “universal service” (...) Another aspect of the digital divide refers to software and the uses of information technology. (...) Still another aspect of the digital divide refers to access to the full range of services through the consumer’s network connection and is called the “equal access” issue. (...) The presence of gaps in access and usage of IT among various socioeconomic groups... (Noll, Older-Aguilar, Rosston and Ross, 2000).

...the ‘digital divide’ is originally and persistently plural. This plurality has at least two consequences. *First, there is not one digital divide;* there is a constellation of different and intersecting social, economic, and technological differences, all of which are properly named ‘digital divide’. (...) *Second, despite the value placed on consistent and precise use of terminology, lexical multiplicity is not necessarily a deficiency. It is not always a semantic problem to be resolved by prescribing, even provisionally, a univocal and noiseless definition.* Because IT has evolved at historically unprecedented rates, the various problems that are associated with it also experience accelerated change. This is one reason for the variability in the NTIA reports. *The changing definition of the digital divide is not the result of capriciousness or an inability to be precise. It has varied because the technology in question has changed considerably* (Gunkel, 2003).

But viewed analytically, there is not one, there are three digital divides -- and emerging in many nations a fourth. The first divide is that which exists within every nation, industrialized or developing, between those who are rich, educated, and powerful, and those who are not. (...) A second digital divide, less often noted, is linguistic and cultural. (...) The third digital divide follows inevitably from the first two -- it is the growing digital gap between the rich and the poor nations. (...) The critical question about the fourth digital divide, however, is whether the prosperity of this new digital elite spreads to the rest of society, especially to urban poor and to rural villagers, or whether it creates an increasingly separate, cosmopolitan, knowledge-based enclave. (...) The point is that “the digital divide” is really at least four divides, all closely related... (Keniston, 2003).

...the digital divide refers to *social stratification due to unequal ability to access, adapt, and create knowledge via use of information and communication technologies (ICT)* (Warschauer, 2011).

The theory of diffusion of innovations provides an adequate framework to classify the diverse methodological approaches that have been taken to study the digital divide. (...) four perspectives on the digital divide. Two of them are concerned with the type of node: (...) The other two concern the diffusion of innovation: (...) (Hilbert, 2011).

As Gunkel (2003) puts it; “critical examinations of the digital divide appear to be in short supply. The few commentaries that have been published are little more than reactions and editorials which argue, mainly through anecdotal evidence and personal opinion, that the divide is a myth, political hyperbole, bunk, non-existent, or rubbish. What is needed, therefore, is neither uncritical adherence to, nor simple reaction against, the digital divide but a *critique* that exposes and investigates the problems inherent in both”. The author refers to myth, but does not take the stance above mentioned; as EU, even based on a recent redefinition of 2015, still focuses to improve broadband connectivity and internet usage through funding and regulation, that is, targets on infrastructure and skill, the paper tries to offer a critical and different approach to digital divide, mainly through theoretical analysis, supported by exploratory experiments.

Researches suggest that the effects of transparency on understanding are contingent upon the way information is presented: more detailed content will negatively affect understanding and this negative affect will be stronger when the information is structurally fluent. The results of literature review demonstrate that effects of transparency on information understanding are heavily dependent upon presentation – citizens exposed to more detailed information understand the information worse than those exposed to less detailed information. This relationship is strengthened when the information is structurally fluent. These research results suggest that guaranteeing citizen the access to information does not necessary mean that they understand it, because of cognitive constraints, according to the cognitive load theory (Sweller, 1998).

As it is stress in the recommendation mentioned above, transparency is another important concept in relation to the digital governance. Transparency has long been extolled as means of ensuring that public institutions function effectively (Hood and Heald, 2006). This is because transparency constitutes a key means of reducing information asymmetries between government and the public (Stiglitz, 1999). By reducing information asymmetries, transparency can empower citizens to better understand what their government is doing, thus permitting them to make decisions that more closely reflect their best interests and, in turn, fostering more accountable and responsive public organizations (Fung, Graham and Weil, 2006; Hood, 2010; Porumbescu, 2015).

Many literatures have begun to examine the extent to which transparency is actually capable of achieving the goals often attributed to it (Piotrowski, 2014). Findings of these studies have helped to advance understanding of transparency by offering greater insight into how transparency relates to constructs such as trust in government (Benito and Bastida, 2009; Grimmelikhuijsen and Meijer, 2014; De Fine Licht, 2014). However, despite these contributions, the field still lacks direct insight into how transparency affects citizens’ understanding of government (Cook, Jacobs and Kim, 2010). Throughout the literature, transparency’s ability to improve citizens’ understanding of government is often assumed (Etzioni, 2010). We indeed know very little about how transparency works because we do not know how transparency shapes citizens’ understanding of their government and how this understanding in turn bears upon outcomes of interest such as trust in government.

Digital divide is an important issue in implementing digital governance; however it is a complex issue and so is the transparency. At the same time, it is worth noting that the digital divide itself might not be the ultimate problem, nor the various solutions proposed so far are the real solution to overcome the issues of digital governance.

5. Findings, implications, and reflections

NPM had introduced collaborative government and co-production in public service delivery. New Public Governance concepts explain the conditions of the stakeholders involved in these processes.

In case of e-Government, e-Governance, and Digital Governance, both NPM and NPG strategies have been employed, although they have several unique characteristics which are not typically observed other areas (Kudo, 2010). Strong privacy concern, security issues, and data protection, along with open data, big data, and network/ubiquitous, remind us of the importance of finding the right equilibrium/balance among these. Recently recognised issues of ICT; security and/or safety vs. privacy, open and big data vs. data protection, and critics related to NPM; efficiency and/or effectiveness vs. participatory democracy, private sector driven management vs. network governance in big society, seem to confirm the NPG. Even e-Government, then e-Governance has been challenged with “digital era governance”, which goes beyond the NPM (Dunleavy *et al.*, 2006) and stresses the active role of taxpayers as well as IT corporations in society. In this view, all stakeholders are related in public governance network. It is worth noting that the same authors wrote a paper with a provocative title (“New Public Management Is Dead—Long Live Digital-Era Governance”) the year before (Dunleavy *et al.*, 2005), thus, it is fair to say that the digital governance is associated with post NPM or NPG, thus with new public service delivery.

The introduction of NPG in public service delivery is an important turning point as concept as well as practice. Citizens and communities are invited to participate not only in the decision-making process, but also the service delivery process, thus realizing co-design, co-creation, and co-production. They are redesigning the structure of local service delivery.

Digital services of governments have become an importance aspect of technology and/or innovation driven public services. This concept as well as practice was enabled through various elements, including co-design and co-production with citizens and other stakeholders, digital technologies enabling data analytics, thus better designing services, based on data and evidences, NPG helped the realisation of co-production with citizens and other stakeholders, while NPG encouraged ICT to be an effective and efficient instrument of government.

There are examples of digital services offered by the governments in the world. Many of these services are not only a result of technological innovation and advancement, but also a product of institutional reform and revolution. ICT, per se, is not a solution, but could offer and become an opportunity.

The question of whether ICT and digital governance helps the alternative delivery of public services, it is possible to summarise that the ICT and digital governance can help alternative public service delivery.

VIII

ICT based innovations on PSD on local level: Innovation capability of public service providers - Slovak Case

Beáta MIKUŠOVÁ MERIČKOVÁ and Nikoleta MUTHOVÁ

1. Introduction

Innovation in the system of public services can be seen as the development of public services towards better meeting needs based on the modification of the status of entities / actors in the provision of the system (Osborne, Brown, 2005; Mulgan, Albury, 2003; Hartley, 2005). These entities are then able and willing to learn, improve their operations and work together (Von Hippel, 2007).

Electronic public services in the strict sense are perceived as deeds, efforts or performance, the supply of which is mediated by information technologies such as the Internet, information kiosks, and mobile devices (Rowley, 2006, p. 341). In a broader sense, they are construed as customer-driven interactive, content-based web client services and integrated in relation to the organizational processes of client support and technology to strengthen the relationship between client / citizen - service provider / operator of public administration (De Ruyter *et al.*, 2001, p. 186, Lindgren and Jansson, 2013).

Many innovations of public services are based on the use of information-communication technologies and such technologies can significantly contribute to the realization of one of the key conditions for successful implementation of innovations in the system of public services which is the direct involvement of a citizen as a consumer of public services in the innovation process of this service (Von Hippel, 2007). A stimulus for innovation is identification with the new idea of not only all those involved externally in the provision of public services, i.e. building social capital, but also from those within the body itself. Failure to adopt innovation of public services, respectively its frequent understanding as “extra work” by public employees themselves, is often behind the failure of such innovation (Considine *et al.*, 2009). From this perspective, it is important to address the innovation capability of public organizations as providers of public services which determines the supply of public services innovation. The case focuses on evaluation of the innovation capability of municipalities as providers of local public service innovated by ITC.

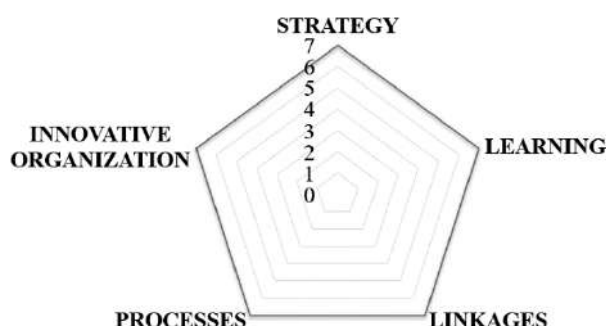
2. Theoretical framework - evaluation of the innovation capability of organization

Current evaluation of the innovations on offer of gives priority to the evaluation of the innovation capability of organizations. Research into the characteristics of organizations which have an impact on their innovation capability has been carried out in numerous studies (Burns and Stalker, 1961; Damanpour, 1991). There are a large number of studies of the other features of organizations influencing their ability to innovate. A summary of 83 studies published concerning this issue in the period 1980-2003 was attempted by the authors Vincent, Bharadwaj, and Challagalla (2004) using meta-analysis; they defined 15 factors of the innovation capacity of organizations: economic (competitiveness (+) turbulence (+), uniformity (-), urbanization (+), organizational (hierarchy (+), complexity (+), formalization (+) functional coordination (+), specialization (+), demographic (age (+),

management education (+), professionalism (+), number of employees (+) and processes (dichotomous evaluation of innovation (-), an inter-sectoral evaluation of innovation (+).

In the evaluation of the various combinations of the above-mentioned factors, several models evaluating the innovation capability of an organization have been devised: the diamond model (Tidd, Bessant and Pavitt, 2005), the innovation channel model (Hansen and Birkinshaw, 2007), the innovation funnel model (Barber, 2011). The diamond model works with five areas of evaluation: strategy, processes, organization, networking and learning (Tidd, Bessant and Pavitt, 2005). Evaluation of each area is represented by the individual axes of the diamond. The greater the area of the pentagon, the higher the organization's innovation capacity (Figure 1).

Figure 1. Evaluation of the innovation capacity of an organisation – Diamond model



Source: Author's own based on Tidd, Bessant and Pavitt, 2007

Hansen and Birkinshaw (2007) perceive the process of innovation as a value chain. The process involves three stages: the generation of ideas, development of ideas in the form of innovation and finally, the diffusion of innovation. Figure 2 shows the three phases of the innovation process along with the identification questions and indicators of the individual phases.

Figure 2. The process of innovation as a value chain



	Creation within the organization's departments	Inter-departmental cooperation in the organization	Organization's external cooperation	Allocation of funding sources	Initial results	Diffusion of innovations
Questions	Are department staffs the authors of their own creative ideas?	Are creative ideas generated at work within the organization?	Does the organization support acceptance of creative ideas from external sources?	Is the organization effective in creating resources for funding creative ideas?	Is the organization effective in developing creative ideas into new products and/or processes?	Is the organization effective in the dissemination of creative ideas?

Indicators	Number of creative ideas within the department	Number of creative ideas within the organization	Number of creative ideas gained from external sources	Percentage of funded creative ideas to their total number	The percentage of creative ideas that bring economic effect to the number of those funded	The percentage of penetration of the target markets dominated by target consumer groups
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Source: Adapted from Hansen and Birkinshaw, 2007

The questionnaire to evaluate the innovation capability of an organization through the value chain (Figure 2) normally contains statements to 2-3 questions from each part of the value chain with possible answers: Disagree = 1 point, Agree = 2 points. They are completed by employees from different departments of the organization. The lower the score the worse the outcome of the evaluation of the innovation capability of the organization. Subsequently, the average from the responses for each part is compiled and the area with the lowest number of points is the one to which the organization should give priority when building their innovation capability (Hansen and Birkinshaw, 2007).

3. Methodology

The objective of the paper is the evaluation of evaluation of the innovation capability of Slovak municipalities as providers of local public service innovated by ITC. We use the concepts of evaluating the innovative capability of the organization – Diamond model and Value chain.

In relation to the fulfilment of the stated objectives, a scientific background in the form of research questions is formulated, the authenticity of which is the subject of the application part of the case: The development and implementation of innovative concepts of public services fail because of weak innovation capability providers of local public services. In evaluating the innovation capability of providers of local public services which translates into innovations offered by these services, we will use the concept of the diamond model and value chain. The innovative capability of local governments will be assessed in five areas, as identified by the diamond model (Table 1), transformation of qualitative data to quantitative, the same as in assessing the value chain concept (agree = 2, disagree = 1).

Table 1. Evaluation of the innovation capability of the executive branch of local governments

Field	Criteria
Strategy	Development strategy of a municipality
	Innovation as part of the development strategy of a municipality
	Mechanisms for implementation of development strategy of a municipality
Processes	Innovation of local public services
	Monitoring the needs of citizens
Organisation	Initiating new ideas in providing public services by local government employees
	Implementation of new ideas in the provision of public services by local government employees
Networking	The existence of relationships with external organizations; individuals bringing new information; exchange experiences; building social capital - public-private-civic mix and co-creation in the innovation process
Learning	Education of local government employees
	Learning from own and transferred experience (e.g. from other local government, organizations)

Source: Author's own, 2017

The basic methods of scientific research are those of classification analysis, comparison and abstraction in the development of theoretical and methodological framework for dealing with; methods of causal analysis and comparison in the application part, and methods of synthesis and partial induction in drawing conclusions of the research.

The subject of the research is specific innovation projects of local public services which use information-communication technologies. Specifically, the projects under the appeal Electronisation of municipality services “eMestá” launched in 2013 to obtain non-repayable grants (hereinafter NPG) in order to provide access to municipal electronic services. The main aim should be the electronisation of those local government services that are genuinely within the competencies of local government.

Data collection methods in the primary research, with respect to the applied evaluation concept of the diamond model, is a structured questionnaire. The questionnaire was distributed to all 32 towns which participated in the appeal Electronisation of municipality services “eMesto” to obtain NPG, however, completed questionnaires we returned from only 25 towns (Bardejov (BE), Humenné (HE), Košice (KE), Levice (LV), Liptovský Mikuláš (LM), Lučenec (LC), Michalovce (MI), Nitra (NR), Nové mesto nad Váhom (NM), Nové Zámky (NZ), Partizánske (PE), Piešťany (PN), Považská Bystrica (PB), Prešov (PO), Ružomberok (RK), Senica (SE), Snina (SV), Spišská Nová Ves (SN), Šaľa (SA), Topoľčany (TO), Trebišov (TV), Trnava (TT), Vranov nad Topľou (VT), Zvolen (ZV) and Žilina (ZA). Seven of the surveyed towns, despite repeated written, telephone, and even personal requests for the requested information refused to cooperate. Nevertheless, the selected sample can be considered representative. We transcribed the information received through a numeric code following which we statistically processed using statistical methods:

1. Chi-square test (tests the representativeness of the selected sample),
2. Multiple response analysis and Spearman correlation coefficient (evaluates the innovation capability of the executive branch of local government within the diamond model and innovation offered by local public services based on information-communication technology).

For evaluation, we use statistical software IBM SPSS Statistics19; for testing we consider the significance level of 0.1.

4. Results and discussion

The analysis of innovation capability local public services providers leads to testing the scientific hypothesis of the low innovation capability of providers of local public services, which is one of the reasons for the failure of the creation process and successful implementation of innovations of local public services. The key is the evaluation of the innovative capability of the executive branch of local governments in the following areas: strategy, processes, organization, networking and learning, as identified in the evaluation of the diamond model. Each individual area is provided with statements to which the employees of the assessed organizations express their affirmative or negative arguments. The qualitative features in the form of statements / responses are transformed into quantitative indicators as in the value chain concept: agree / yes = 2, disagree / no = 1. For each question, in the event of a “yes”, the local government is permitted an “open” answer with the possibility to give a more detailed description, respectively to provide examples to the issue of local public services where innovation is implemented. These responses are evaluated separately.

We evaluate the innovation capability of 25 from 32 towns involved in the appeal for the electronisation of local public services in the e-Mesto project. The information obtained from the research questionnaire is processed and evaluated by means of multiple response analysis and is based on the responses to questions asked of local governments based on the evaluation concepts of

the innovative capability of the organization - value chain and diamond model. Table 2 clearly illustrates the towns' answers to the questions.

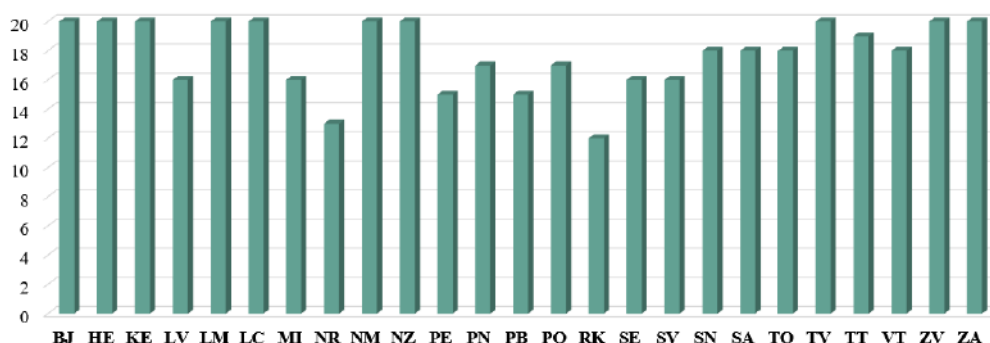
Table 2. Evaluation of the innovation capability of the executive branch of local government – innovation offered by local public services.

Evaluated field	Question	% of surveyed towns which responded "YES" to this question
Processes	Do you monitor the needs of your citizens?	96.00%
Networking	Has your local government established relations with external organizations and / or individuals who generate new information and exchange of experience?	96.00%
Learning	Has your local government inspired other local government by their successful innovations, innovative techniques and projects?	96.00%
Learning	Are your local government employees continuously educated by trainings, etc.?	92.00%
Organisation	Do your local government employees initiate new ideas in the provision of public services?	84.00%
Organisation	Do your local government employees implement new ideas in the provision of public services?	80.00%
Strategy	Is innovation part of the development of the municipality?	76.00%
Strategy	Does your town have a prepared strategy for the development of the municipality?	72.00%
Processes	Is it possible to state there is existing innovation of local public services in your municipality?	72.00%
Strategy	Are the mechanisms for implementation of the strategy for development of the municipality innovative?	52.00%
	Are you involved in any other project dealing with electronisation?	24.00%
	Did you submit an application for NPG for the project: Electronisation of municipality services "eMestá"?	20.00%

Source: Author's own, 2017

The innovative capacity of the individual towns was evaluated by a modification of the diamond model and value chain. Within the framework of the evaluation according to the value chain concept, a town can receive a highest score of 20 points based on their responses if the answer to each question (YES = 2 points) and a lowest score of 10 points for a negative answer to each question (NO = 1 point). The results for evaluation of innovation capacity of municipalities according to their replies to the value chain concept are illustrated in Graph 1.

Graph 1. Evaluation of the innovation capacity from the perspective of the municipalities (value chain concept)



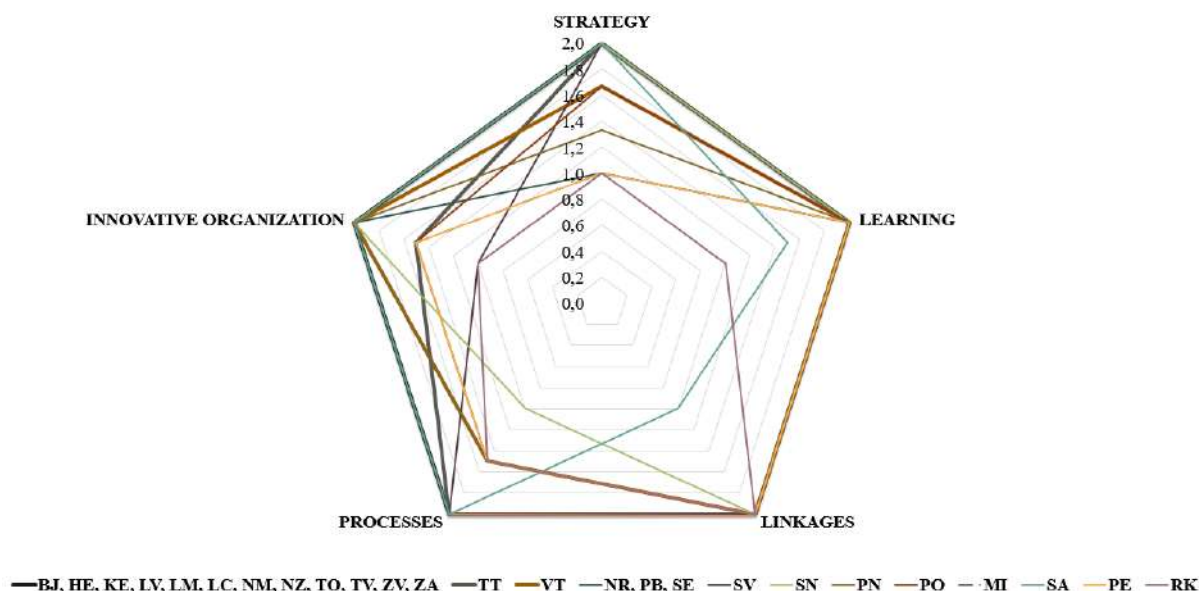
BJ – Bardejov, HE – Humenné, KE – Košice, LV – Levice, LM – Liptovský Mikuláš, LC – Lučenec, MI – Michalovce, NR – Nitra, NM – Nové Mesto nad Váhom, NZ – Nové Zámky, PE – Partizánske, PN – Piešťany, PB – Považská Bystrica, PO – Prešov, RK – Ružomberok, SE – Senica, SV – Snina, SN – Spišská Nová Ves, SA – Šaľa, TO – Topoľčany, TV – Trebišov, TT – Trnava, VT – Vranov nad Topľou, ZV – Zvolen, ZA – Žilina

Source: Author's own, 2017

The average number of points achieved in the evaluation of the value chain concept was 17.76 points. The lowest score was achieved by Ružomberok (12 points). The towns with the most points are Bardejov, Humenné, Košice, Liptovský Mikuláš, Lučenec, Nové Zámky, Trebišov, Zvolen and Žilina (20 points).

We evaluated the innovation capability of the towns by means of the diamond model in terms of strategy, processes, organization, networking and learning from the towns' responses to a number of issues in each field. The average gained points from the responses to each area we apply to each of the axes of the diamond model representing the evaluated fields. Graph 2 illustrates the results of the evaluation of innovation capacity from the perspective of the local governments in the diamond model.

Graph 1. Evaluation of innovation capacity from the perspective of the local governments (diamond model).



BJ – Bardejov, HE – Humenné, KE – Košice, LV – Levice, LM – Liptovský Mikuláš, LC – Lučenec, MI – Michalovce, NR – Nitra, NM – Nové Mesto nad Váhom, NZ – Nové Zámky, PE – Partizánske, PN – Piešťany, PB – Považská Bystrica, PO – Prešov, RK – Ružomberok, SE – Senica, SV – Snina, SN – Spišská Nová Ves, SA – Šaľa, TO – Topoľčany, TV – Trebišov, TT – Trnava, VT – Vranov nad Topľou, ZV – Zvolen, ZA – Žilina

Source: Author's own, 2017

The areas of the diamond corresponding to individual towns vary in relation to their innovation capability in the different evaluated areas. The towns with high innovative capability in all evaluated areas include Bardejov, Humenné, Košice, Liptovský Mikuláš, Lučenec, Nové Zámky, Trebišov, Zvolen and Žilina. Towns with a lower evaluated capability in all areas are Nitra, Michalovce, Považská Bystrica, Senica, Partizánske and Ružomberok. The remaining towns achieve differing evaluations in various fields.

The evaluated towns have the largest reserves in the area of strategy. Law no. 309/2014 Coll., amending and supplementing Law No. 539/2008 Coll. on regional development support imposes an obligation to establish a Programme of economic and social development (hereinafter PHSR) of the

community (§ 5) that, as a basic strategic document for development may be accompanied by other documents: Concept of development of informatization of local governments, Programme for urban development, Strategy for tourism development. Community plan of social services of the town, Programme for housing development, Programme for waste management, Priority town development and Development plans of the town; however, these documents were presented by only some of the towns. Moreover, innovation as expressed by the local governments in these documents appears sporadically. Towns introduce innovation namely in communicating with citizens (sending information via SMS notification, e-mail or RSS feeds), and the use of renewable energy and waste management. More than 70% of the towns declared that they have a strategy for development and that innovation is a part of it, however, half of the towns lack the mechanisms for implementing the strategy. The declared efforts to innovate in the interest of development can therefore be considered more or less as a formality.

Insofar as we view the evaluated area “process”, as a positive it can be seen that 96% of the towns, according to their response, monitor the needs of their citizens, and more than 70% of this is achieved also thanks to innovations of local public services. Innovation is most often cited by the towns as the electronization of public services, electronic discussion forums for the townspeople, mobile applications through which citizens can draw attention to illegal waste dumps or the poor condition of public spaces, and communicating through Facebook. Monitoring the needs of the citizens takes place through the City Monitoring application, web sites, Facebook, offices of first contact and questionnaires.

The answer to the question of the role played by local government employees in the innovation process is evaluated in the “organisation” area. 80% of the towns claimed that the authors of ideas and innovation and their implementation are their own employees. According to the responses, it is notably innovations in communication with citizens, monitoring of citizens' needs and providing benefits for those members of the population with permanent residency.

According to claims, local government employees of more than 90% of the towns are continuously educated through courses (mainly focused on legislative changes, to increase computer literacy, e-learning courses, etc.). Similarly, according to the claims by more than 90% of the towns and local governments, the same number, as a whole, also learn in that they take on the positive experience of innovation from other local governments, not only from Slovakia but also from abroad, e.g. cross-border projects, conferences and forums.

Local governments not only take on the positive experiences from other local governments, but build cooperation with external organizations and individuals; this is claimed by more than 90% of the towns in the evaluation of the “networking” area. The towns declare the building of partnerships with other municipalities in Slovakia and abroad, regional development agencies, suppliers of information systems, businesses and so on.

Those mentioned claims by the local governments but also sound controversial in relation to the real manifested activities in the form of innovation of local public services by means of electronisation. Only 24% of towns have been involved in projects for electronisation of local public services and only 20% actually launched the project of electronisation, e-Mesto. Three towns - Košice, Nitra and Žilina implemented the project for electronisation of local public services in the e-Mesto appeal in 2015 with support in the form of NPG. Banská Bystrica launched the electronisation of local public services in 2013 using its own resources. The remaining 32 towns, despite the possibility of support through NPG, have not launched the project for electronisation of local public services. Seven of them even refused to give reasons why it happened. The other towns interviewed stated a lack of time for project implementation and failure to comply with Ministry of Finance deadlines, early termination of the project in the design phase due to non-completion of public procurement, or termination of the contract due to the Government Office for NPG for towns with a population over 20,000 as reasons. So, if the towns failed in the specific e-Mesto project for electronisation of local public services, the logical question in relation to their declared effort to

upgrade local public services through electronisation is if they have engaged in other projects for electronisation of local public services. The towns of Levice, Nové Mesto nad Váhom, Banská Bystrica, Ružomberok, Senica and Snina are implementing their own projects for electronisation of public services (Electronisation of municipal services Levice, Electronisation of Nové Mesto nad Váhom, Electronisation of municipal services Ružomberok). The towns of Piešťany and Trnava participated in the DATA Centrum project villages and towns. Partizánske uses the iPoint portal system.

Using the Spearman correlation coefficient, we can confirm a moderately strong direct correlation between towns receiving the NPG for the e-Mesto project for electronisation of local public services and engaging in other projects, their own project or no project at all (p -value 0.017, $r_s = 0.473$). If a town did not receive NPG, it is very probable that they did not implement their own project, respectively it is still in the preparatory phase of a proposal for the electronisation project. The towns of Nové Zámky and Topoľčany are currently in the preparatory phase of the electronisation of public services. Bardejov, Humenné, Liptovský Mikuláš, Lučenec, Michalovce, Prešov, Trebišov, Vranov nad Topľou, Spišská Nová Ves, Šaľa and Zvolen stated that they have not as yet continued with electronization.

5. Conclusion

The legislative framework for electronization of public services is represented in the Slovak Republic by several legal standards: Law no. 575/2001 Coll. on the organization of government activities and organization of central government administration - Competence Act), Law no. 273/2015 amending and supplementing Law No. 305/2013 Coll. electronic scope of performance of public authorities and on amendments to certain laws (law concerning e-government), and which amends and supplements certain laws, the status of the Government Plenipotentiary for informatization of society). The Competence Act pursuant to the amendment of 2006 specifies the Slovak Ministry of Finance as the central government body for informatization of society. The role of the Government is according to § 24 paragraph. 2, coordination of the tasks in the area of informatization of society and implementation of the policies of the European Community and the European Union.

To realize the informatization of society, several strategic documents were adopted. At European Union level in a document entitled the Lisbon Strategy (2000), which became the basis for processing the Strategy for competitiveness, 2010. Part of the Lisbon Strategy was eEurope – an initiative for an information society for all. However, given the failure of implementation of the Lisbon strategy, each individual country should create its own strategy for developing competitiveness.

In 2013, from the Operational Programme for an Information Society for the period 2007-2013 (hereinafter OPIS) an announcement was made related to non-repayable financial assistance (hereinafter NFA grant) for the computerization of local public services “eMestá” (Ministry of Finance, Slovak Republic, 2013). The appeal for proposals was launched on 18. 04. 2013 and closed 21. 08. 2013. Implementation of the project had to fall within the period 01. 01. 2007 - 31. 12. 2015 (Government Office of the Slovak Republic, Ministry of Finance (MoF), 2015). The aim was to change the current state of provision of local public services to levels which would significantly contribute to reducing the administrative burden on citizens, businesses and even the government, including local government employees. 32 municipalities responded to the appeal, and the request for an NFA grant was approved for all the municipalities involved.

The main aim should be the electronization of those local public services which are genuine competencies of local government. Electronic local government services are divided into two main parts (compulsory and optional). Mandatory electronic services are services which have been allocated, on the basis of analysis, the highest priority for implementation and their electronization is

a mandatory part of project applicants for the NFA grant. From the optional electronic services, applicants are entitled to choose as many from the project framework that are capable of being elektronised.

Applicants eligible for the NFA grant are municipalities compliant with Law No. 369/1990 Coll. on Municipalities as amended (municipality outside the territory of the Bratislava Region) and by Law No. 401/1990 Coll. the city of Košice, as amended, with a population in 2011 exceeding 20,000. Any local government was eligible to register and which submitted the necessary documents and the processed project. The OPIS financial resources were provided for services related to the introduction of electronic services and the purchase of ICT.

Financial assistance in the form of an NFA grant was provided in the form of pre-financing, refunds or any combination thereof. 95% of the total eligible costs were provided to municipalities in the form of an NFA grant. At the same time, the local governments also committed to finance the implemented information systems from their own resources for at least five years after project completion even after closing of OPIS.

50 million € (ERDF + SR) was allocated to the project. The amount of the NFA grant ranged from 10,000 to 4.5 million €. The total amount of funds allocated to the grant applicants amounted to 37,628,871.29 € with total eligible costs for projects amounting to 39,609,338.20 €; co-financing to the sum of 1,980,466.91 € was secured by the applicants.

However, the projects of local public services elektronisation were successfully only in four cities from 32 municipalities responded to the appeal with NFA grant approved. The question is why the most of municipalities failed.

Evaluation of the innovation capability of the executive branch of local government through the concept of a value chain and the diamond model provides us with the answer to the research question: the process of development and implementation of innovative concepts of public services fails for reasons of innovation capability of the providers of local public services.

The next question is which components of the innovation capability impact on the offer of innovation of local public services using information-communication technologies. There is a strong correlation between the implemented mechanisms utilised in innovation within the framework of the strategy of development of municipalities and existing innovations in the provision of local public services (p-value 0.000, respectively 0.003; $r_s = 0.871$, respectively 0.637).

Innovations allow the local governments to more intensively monitor their citizens' needs and adapt to these needs by the nature of innovation and the course of the innovation process (p-value 0.083; $r_s = 0.361$). The nature of innovation, in addition to the needs of citizens, is determined by the success of innovation processes in other municipalities (p-value 0.083; $r_s = 0.361$).

Initiating elements in the innovation process of local public services are local government employees (0.003; $r_s = 0.637$), whose inspiration is once again found in already successfully implemented innovation in local public services of other municipalities in Slovakia and abroad.

The conclusion can therefore be deduced that local governments, concurrent with employee initiative, will monitor the needs of their citizens and implement the mechanisms of innovation of local public services in their own development strategy which will result in innovation of local public services based on the needs of citizens (p-values of 0.074, 0.003, 0.013, respectively 0.053; $r_s = 0.389$; 0.637; 0.511, respectively 0.400).

Project of ICT based innovations in public service delivery should be based on cost-benefit analysis, which demonstrates financial sustainability of the public investment. According to the CBA methodology, the payback period was not permitted to exceed the life of the investment. Also the measurable indicators should be selected as a tool to measure the achievement of the objective, of mobilizing resources, achievements, and measurement of the quality or contextual variable. In the

preparation phase of the project, the local government should to set the frequency of service usage (number / period), response time (e.g. 24-hour, on-line, etc.), the frequency of incidents (number / period), the cost of services rendered (costs to provider), costs for the use of services (user cost), benefits - financial (e.g. saving costs and fees from service provision) benefit - monetised non-financial (e.g. quantification of the amount of time saved and the positive impact on the environment). Each local government should to, in addition to the qualitative and quantitative indicators, indicate conformity with horizontal priorities of sustainable development in economic terms, in terms of improving the quality of the environment, social inclusion and solidarity and in terms of balanced local development.

Part 4: Involving stakeholders and co-production

IX

Opening up public services to stakeholders

Taco BRANDSEN

In classical public administration, government led the production of public services from beginning to end. This is no more. In emerging philosophies of governance, government not only stands at some distance, but often leaves it to the policies' stakeholders to take the lead.

These new approaches typically include the following elements (Osborne, 2010; Bovaird and Loeffler, 2015; Bryson *et al.*, 2014):

- A greater emphasis on interorganisational networks and horizontal relations, as opposed to top-down, vertical relations.
- More emphasis on collaboration as opposed to competition or hierarchy.
- A larger role for businesses and non-profit organisations.
- More emphasis on the participation of citizens, as co-creators and/or co-producers.

Such reforms are driven by several developments. As populations grow wealthier and more highly-educated, they become more independent and less deferential to traditional authorities. If governments have to reduce public expenditure – and this has recently been the case in many countries, due to economic crisis and the collapse of tax revenues – they look for what they believe to be cheaper solutions. Criticism of the delivery of government services leads to a search for supposedly more effective solutions.

The extent to which such developments are innovative strongly depends on institutional context. From the perspective of a top-down, classical government, it is a radical type of reform (and to some, a suspect one). However, many countries have traditions of collaboration and citizen participation that stretch back hundreds of years. Continental European countries developed their welfare states jointly with private non-profit organisations, which are still the main providers of services like education and healthcare (Bode and Brandsen, 2014). Japan has a long tradition of community participation. Such precedents are often ignored in histories of public administration, which tend to emphasize the driving role of central government. Yet often public policies built upon and assimilated bottom-up initiatives. In that sense, new approaches to governance are as much as the recognition of alternative historical trajectories towards policy building as the new initiatives in practice.

1. Potential pitfalls

Of course, this is not the first time that the classical paradigm of public administration has been challenged. The precepts of New Public Management were originally seen as solutions to similar problems. Governments everywhere started (and are still starting) reforms to introduce quasi-markets, privatise public agencies and introduce performance measurement. Public managers were seen as the heroes who would deliver us from bureaucracy, paternalism and waste. Now we are seeking solutions to the solutions. It would be sensible not to fall into the same trap, uncritically implementing the latest fashions without taking account of counterevidence.

For a start, there is no convincing evidence to conclude that delegating tasks to private parties in itself leads to cheaper services. The reforms may simply lead to a shift in costs, because

collaboration and participation carry their own transaction costs. The risk is that the parties involved spend endless time in meetings and consultations, without any significant added value.

There is also the risk that the new approach benefits those who have least need of it. Established businesses and non-profit organizations have more capacity to engage in extensive partnerships than unorganized citizens or start-up businesses. Highly educated, well-connected citizens traditionally find it easier to engage in government-sponsored participation schemes than those at the socio-economic fringes. Such examples suggest that new governance approaches simply reinforce existing inequalities. Yet against this stand counterexamples that suggest that new approaches can be more inclusive. Social innovations open up and renew public services at the local level, involving residents to a greater degree than was the custom (Voorberg *et al.*, 2015; Brandsen *et al.*, 2016). Recent evidence on co-production suggests that, more so than classical types of participation, it may lower the threshold for citizens to participate (Alford *et al.*, 2015; Bovaird *et al.*, 2015). New technologies may play a crucial role in this (see e.g. Clark *et al.*, 2013). Of course, in the end the adoption of such approaches depends upon more than instrumental considerations alone. Even if they were to prove less efficient than older approaches, many would still favor introducing them out of democratic considerations.

2. Case studies included

It is up to researchers to examine the viability of the new approaches to governance and the changing role of public administration. Part 4 of this volume contains three contributions to this growing literature.

The first case study focuses attention on the new type of goods, i.e. relational goods. Their usefulness for the consumers depends, beyond the intrinsic and objective characteristics of the same goods, also on the methods of communication and mutual interaction among the people that produce these goods and those that use them in Italy.

The second case study deals with participatory budgeting as a way to improve local governance in Croatia. It critically reviews the models of participatory budgeting in Croatian local units, to identify the model(s) applied and to evaluate the contribution of the participatory budgeting practices to the quality of local governance.

The third case study presents co-creation as a social innovation in providing local public services in Slovakia. This new approach to the provision of public services potentially increases the scope, efficiency and quality of public services.

These new developments break down the traditional public administration and public management. They force researchers to move into areas and issues that were hitherto considered beyond the frontiers of our field. This is a challenge, but it also makes public administration a much more exciting and dynamic area of study.

X

Better emotion, better growth: The activation component of the anti-poverty measures in Italy

Vittoria BERLINGÒ

The purpose of the paper presented in this subchapter is to suggest a theoretical consideration on the state of Welfare and public policy reforms regarding the anti-poverty measures and what is connected to them.

Such contributions, that re-link a central role to an emotional dimension, already find precise reference within the national administrative law (like in Italy) and sub-national (in Lazio), in the part where the same administrative law becomes in charge to guarantee a process of putting into a legal area a particular type of goods, that we will call relational goods.

The paper puts into evidence which ways such a new prospective of legal studies should be considered closely connected to the theme of growth, reaching a breaking of the link that ties (*rectius* sacrifices) social rights and services for them disbursed, to the programs of austerity.

1. An overview on the Italian legal framework

The two most promising innovation on anti-poverty policies have been the launch in 1998 of “Minimum insertion income” (Mii) pilot scheme, and the approval of the social assistance framework law in 2000 (Law No. 328).

The latter was the first law to provide a regulatory framework to the social assistance sector in a comprehensive manner since the introduction of the Crispi Law on 1890. This law defined a systematic multi-level model of governance, involving the central state – with a regulatory and a supervisory role – regions, and municipalities, and it foresaw a new coordination with the third sector.

The Mii, introduced with the Decree Law 237/1998, was designed as a universal and non-categorical measure targeted to people with an income below a pre-defined poverty threshold, and consisted of two elements: a cash transfer and a social integration programme. It was initially introduced as a pilot scheme to be tested for 2 years in a limited number of selected municipalities in some of the most disadvantaged areas of the country. The budgetary law for the year 2000 provided for a two-year extension of the experimentation of the Mii and increased the number of municipalities involved in the pilot project. Successive extensions aimed at exhausting available resources, made it possible in some municipalities to implement the pilot Mii until 30 June 2007.

The innovative part of the Mii resided non only in the means-test but also in its activation component, since no other cash transfers in Italy were complemented by integration programs meant to tackle social exclusion and to stimulate recipients’ autonomy. The law envisaged, within thirty days from the demand acceptance, the drafting of a customized social integration program to be agreed between the social worker and the beneficiary. The activation component consisted primarily in a request to be active in the realization of a social integration path, and it did not always consist in an immediate commitment to job search. Instead, it was favoured the participation in training and/or social rehabilitation programs, as well as the taking part in social and/or voluntary work, depending on individual characteristics and the territorial socio-economic context.

The reform of the title V of the Constitution (C. Law No. 3 of 2001) in October 2001, modified the institutional framework in which the much awaited Law of Social Assistance was designed, assigning exclusive competence to the Regions for social assistance and social services. This undermined the reform, making it in some respects obsolete.

In a context of strong budgetary constraints, all the three government level in Italy intervene in the anti-poverty sector with no vertical nor horizontal coordination.

Therefore, the lack of a coherent and systematic approach to combat poverty and social exclusion seems clear, where the lack of coordination gave rise, in addition to coverage gaps, to functional overlapping. In 2015, minimum income protection in Italy can be seen as a puzzle made of several schemes that remain fragmented and not able to guarantee a minimum level of protection to the citizens, as revealed by increasing relative and absolute poverty rates.

This paper reports on research aimed at assessing how new perspectives of study push to give an answer to the needs underlying, lastly, also to the adoption of the Millennium Development Goals 2015, focusing attention on the new type of goods, i.e. relational goods, whose usefulness for the consumers depends, beyond the intrinsic and objective characteristics of the same goods, also from the method of communication and mutual interaction among the people that produce these goods and those that use them.

It follows that such goods cannot be identified in the 'cold' delivery of a financial benefit for so to say '*capitaria*' (i.e. for individuals) from the State, because it is excluded that they can be produced, consumed or acquired by the subject *uti singuli*.

Given the their narrow connection with profiles of reciprocity and sharing, the relational goods become co-essential to the services - while resolving in materials dimensions, such as a canteen, home care, the management of a housing community for minors or an educational daytime center for disabled - as rendered by particular subjects, and the entities of the third sector, allows the recipient (or the user), which is interacted to redeem himself from a merely passive, anonymous and impersonal condition, on the edge of legal issue, which instead he is called to participate actively.

In order to explore these questions and presumptions, this work combines a case study and within case observations, i.e. a historical analysis and a detailed process-oriented analysis of selected regional case in Italy.

This research first briefly covers the national debate over minimum income protection in Italy, and then focuses on the subnational level. One case, in particular, has been extensively researched: Lazio. Qualitative evidence is drawn from a variety of sources: parliamentary archives, publications, national and local administration open data.

2. The guaranteed minimum income in Lazio

Situated in central Italy, the Lazio region is not the biggest in terms of territorial coverage, but counts a population of almost six million and is the second most populated region in Italy. Rome, the capital of Italy and Italy's largest city with more than 2.6 million inhabitants, accounts for the region's high population density and labour structure. Tertiary activity makes up the economy of Lazio for around 80%, 10% higher than that of the rest of the nation. In addition to commerce, logistics, and transport, the tourism sector plays a big role. Compared to the rest of Italy – and particularly to the other regions of the centre-north – the least developed sector is the industrial one, more specifically manufacturing and building.

In the early 2000s the economy of Lazio – in terms of GDP, Italy's richest region second only to Lombardia, Valle d'Aosta and Trentino Alto Adige – experienced a period of weak, yet steady, growth. Between 2000 and 2005, the region's GDP in real terms grew by more than 8.5 points, 4.6 percentage points higher than the national average (3.9%). In 2005 employment showed a

favourable trend, with employment rates equal to 58.6% (up by 6.6% over 2000), but still lower than in the other centre-north regions (-6.8%). The rate of unemployment (7.7%) was down over the previous years (-3% compared to 2000), in line with the national average, but decidedly higher than the average of centre-north regions (4.2%). Female employment in particular saw positive growth, rising more than 10 points in the five-year period between 2000 and 2005 and reaching 48.2%, which might help explain the region's good employment performance.

With regards to poverty and social exclusion, the 2005 poverty rates in Lazio – steady in the period leading up to the economic crisis – were significant, but still well below the average for the south. People at risk of poverty accounted for 16.2% of the population, a percentage higher than the other central (3% higher) and northern (6% higher) regions, but definitely lower than in the south (16% lower). The rate of material deprivation (3.9%) is an indication of the presence of absolute poverty in the region, even though it is not as widespread as in the south (12.8%). Unfortunately, the data provided by ISTAT – which uses a very different m

Methodology for calculating absolute poverty – cannot be broken down by region, but do reveal a rate equal to 3% in central Italy, just below the national average (3.6%).

In the early 1990s, lacking a regional framework law on social assistance, Lazio did not move in any clear direction in the fight against poverty. Measures were scarce and limited to emergency funds for the social policies of the various municipalities made available to mayors and councillors who had discretionary power over where to direct the meagre resources in response to emergency situations.

The first break from the original model took place at the end of the 1990s when a number of municipalities in the Lazio Region were included in a pilot Minime Income scheme (MIS). The 41 municipalities affected were in the area of Frosinone and also took part in the second pilot together with the lead municipality.

While European measures intended to fight poverty and social exclusion, the aim in Lazio was to counteract the negative effects of c, in other words offer a “reservation wage” to low-income workers hired with non-standard contracts. This in an effort to guarantee workers an independent income source so that they would not be forced to be subjected to unfair and/or degrading employment offers.

The underlying difference of the experience in Lazio when compared to the MIS introduced in other regions of Italy and across Europe, and underscored by those who conceived and promoted the law, lies in the existence of four key elements: the beneficiaries of the law, governance of the service, coordination with social services and labour policies, and the relationship between the beneficiary and the public institutions vested with providing the service.

As for the first element, Law no 4 of 2009 established that the beneficiaries of the measure must be unemployed, inactive or precariously employed individuals, with a personal taxable income of less than 8,000 euros in the fiscal year prior to the filing of the application. The measure is therefore aimed at individuals and not households. In other words, access to this measure depended only on the condition of the individual in the job market. An individual who was unemployed, looking for their first job, or employed under an atypical employment contract with a duration of less than 8 months in the previous year, could benefit from the measure, regardless of the income position of their partner and/or parents. The generosity of the measure, which paid such individuals 7,000 euros per year (equal to 580 euros per month) is noteworthy.

Concerning the governance of the measure, GMI schemes in Lazio were organised by job centres and not, as is the case in most regions and throughout Italy (and Europe), by the social services of the municipalities. This decision is understandable if you consider that the MI measure was introduced as a labour policy rather than as an anti-poverty one. However, understanding the reason for this decision given the small number of job centres present in the territory and the

notorious challenges these centres face in Italy in carrying ordinary intermediary functions between job supply and demand is more difficult. Imagining, with equal resources, the possibility of assigning a new function to job centres in Italy similar to the one given to job centres in the Netherlands is also difficult. Unsurprisingly, all the other proposals presented to the Regional Council gave the municipalities a much more important role; on this point, however, the Regional Minister of Labour would not budge.

Moreover, if the Region had set up another special line of financing, the law (Article 3.6) would have given beneficiaries the possibility to take advantage of a series of indirect benefits, such as free transportation on local public transport, free cultural, recreational and sporting activities and services and free schoolbooks. In reality, this never happened. “Indirect” benefits, to use the term used by the legislator, did not include privileged access to the Region’s welfare services, not even in areas where education systems and active labour market policies were in place. This is in part due to the fact that the goal was to create an unconditional income protection system, i.e. a system that did not require participation in any social and/or work inclusion programmes. On the other hand, the fact that privileged access to social services was not even an option was no doubt, because the measure was created, sought after, and promoted by the Regional Minister of Labour and not the Regional Government in its entirety. As a result, integration with the Regional Minister of Social Policies or that of Education, for example, did not take place. If it had, it would have undoubtedly resulted in a wider range of services available to beneficiaries. The law, therefore, was limited to providing rather generous financial support, comparatively speaking, and other specific deductions, even though for this latter funding was never provided. In other words, very little ended up being taken away from the debate between experts and policy-makers. Situations of need were interpreted simply as a lack of economic resources. There was no room for socio-health policies that could help remove some of the barriers that create obstacles for those re-entering the working world nor for education and/or labour policies able to facilitate cooperation between supply and demand and render recipients more qualified to meet the needs of the job market.

Finally, as stated several times, beneficiaries whose applications were accepted were not required to sign any agreements with the administration. However, they were required to register with the job centres in order to file the applications in the first place. Not being required to participate in any social or employment inclusion programmes, beneficiaries were instead required to be immediately available for employment. This requirement was loosened with Articles 6.5 and 6.6, which specified that the benefit lapsed if the beneficiary refused a job offer from the competent job centre, “in which the centre takes into account the previous salary earned by the interested party, the acquired professional skills, education and recognition of formal and informal competences in his/her possession.” Beneficiaries were required to accept job offers only if the positions were in line with their skills and previous employment level.

Within this context, after the approval of Law No. 4 of 2009, the Regional Government began working in cooperation with the social partners and various administrations that potentially had a role in the implementation of the law, the provinces, and the job centres, which according to the legislative framework had the task of selecting the recipients and distributing the income. This process of cooperation, which for the first time saw the involvement of issuing entities, was actually short-lived, lasting only two months. During this brief time, however, a specific problem was addressed: How was it possible to implement the measure in light of the tight budgetary constraints? An initial check revealed that the number of people registered with job centres in Lazio, and who would have been entitled to benefit from the law, exceeded 500,000. This was too large a number for the Region’s meagre resources. Consequently, it was decided to introduce a point-based grid that would make it possible to give priority to certain social groups over others. Given the Region’s budgetary limitations, it was decided that a specific announcement would be called every year indicating the resources assigned to each territorial area and the indices for selecting beneficiaries.

This system also sought to avoid the errors that had been made during the selection process in Campania.

Introduced after the cooperation process with the trade unions and approved with Resolution No. 426 of 24 May 2009, these criteria marked a move in the opposite direction of the law. Higher points were given to the long-term unemployed, women, single-parent families with dependents, and families with disabled members or members with a clear need for emergency housing. Priority was thus given to individuals living in a clear condition of absolute poverty and social emergency. While the decision is understandable and reasonable on many levels, it went against the original purpose of the measure. Most of all, if the intended recipients of this policy were socially-marginalised individuals, all the more reason than to combine economic support with privileged access to social services. But, as we saw earlier, social services had no role in the measure. What's more, the monthly amount of 570 euros was the same regardless of the condition or size of the family – a strange restriction, especially if you consider that the grid was introduced to reward large-sized families (and rightly so).

The introduction of new conditions for eligibility rendered the bureaucratic process (collecting applications and selecting candidates) particularly complex, long, and cumbersome. The law established that job centres would function as organisational centres and entrusted them with the selection process. As a result, job centres were suddenly tasked with a new function, without having received any preparation, given that the procedure was decided at the last minute, and without the provision of any additional human or organisational resources. Furthermore, the province also found itself saddled with new responsibilities. Firstly, all of the applications had to be catalogued, the documentation verified, and income returns filed. Secondly, the administration had to add up the points for each application based on the grid and arrange a ranking system for the recipients. The job centres were left to grapple with these entirely new functions, in addition to having to do their usual work. In many provinces, ad hoc commissions were set up to establish and certify the selection process. Finally, once the provisional rankings were published, any claims made by citizens had to be dealt with and the administration had to carry out new checks. Another aspect that should not be underestimated is that because of their new duties, the job centres had specific needs, which not all of the job centres had the tools and skills to cope with.

The region had anticipated receiving around 50/60,000 applications (Gobetti, 2012) when, in fact, the number was closer to 110.000, of which 70.000 were declared admissible. In the end, given the resources set aside for the first year of the pilot, only 10.000 applications were accepted, i.e., roughly 14.3% of those entitled and 0.17% of the population in Lazio.

Moreover, under pressure from exasperated citizens and in an effort to make up for the lengthy delays, the administration decided to pay the amounts out in fewer instalments, in some cases in only two, instead of in 12 monthly payments. This decision also drew a lot of criticism and went completely against the logic of a MIS. In so doing, support was not provided to individuals during times of need, but ended up being a one-off payment to meet a situation of crisis, which, incidentally, had been declared two years earlier.

As it was easy to foresee given the structure of the law, once the beneficiaries had been informed that they had a right to financial support, their contact with the administration was strictly limited to collecting the cheque every month from the post office. Once they had received the letter informing them that they had a right to GMI for 12 months, the beneficiaries had no further contact with the job centres or the social services of the municipality, which, as already mentioned, had no role in the governance of the measure. This procedure led to paradoxical results. In the event that the beneficiary did not appear, the administration put the monthly cheque back into circulation every month. So, in 2013, an official of the region was still putting into circulation every month an uncollected cheque. Even more absurd was the fact that the cheque could be collected four years after the individual's situation of need had been certified, regardless of his/her current condition.

Formally, Law No. 4 of 2009 remained in force, but without funds, the tender procedures for 2011 and the following years were no longer realised.

The government's decision not to re-finance the GMI measure was in line with its aim to contain public spending and adopt a series of restrictive policies, which concerned especially the area of healthcare.

During the 2011 the Social Policies and Family Regional Government Departments launched the first regional family plan (*Primo Piano Famiglia*) funded with 60 million euros. The plan introduced a baby bonus, early childhood services, and an innovative *tagesmutter* (day mother) service. In terms of anti-poverty policies, the newly-instituted government abandoned the notion of a public income support system and instead strengthened its relations with the third sector, particularly Catholic and religious organisations. A few months into the new government's term, it entered into a memorandum of understanding with Comunità di Sant'Egidio for the creation of a "Regional Pilot Observatory for the Study and Development of Anti-Poverty and Anti-Social Exclusion Policies."

Subsequently, the first Budget Law signed by the new government invested a portion of the funds originally earmarked for GMI, equal to 10 million euros, into the so-called *Piano contro la Povertà* (Anti-Poverty Plan). The plan made available lines of financing to third sector organisations providing social assistance. The agreement was concluded with 18 different Catholic non-profit organisations and sought to finance a range of services (day centres, night care, food assistance provided through an agreement with Banco Alimentare and Emporio della Solidarietà, and canteens) offered to certain categories at risk of poverty and social exclusion (non-self-sufficient elderly people, youth in distress, mothers with young children).

3. The national debate and reform proposals

According to the Country Report Italy 2017 'Including an In-Depth Review on the prevention and correction of macroeconomic imbalances' {COM(2017) 90 final} {SWD(2017) 67 final to SWD(2017) 93 final}, poverty rates in Italy are high and rising, especially for children. In 2015, the at risk of poverty or social exclusion rate rose slightly to 28.7 % (17.5 million people) and remains well above the EU average (23.7 %); 16.7 % of population in employment was at risk of poverty or social exclusion (EU average: 12.5 %). Being employed reduces poverty risk by 39 % in Italy (45 % in the EU as a whole); 47.7 % of non-EU-born people over 18 were assessed to be at risk of poverty or social exclusion (25.7 % of native-born people). The share of non EU-born people over 18 facing severe material deprivation was more than double that of native-born people (23.9 %, as against 10 %). The national poverty figures mask a wide north-south divide.

In 2008, the national government introduced a social card to fight poverty. This card was an emergency measure to provide limited economic support to a narrow segment of low-income families – less than 1.2% of Italian families. In 2011 the government re-designed the social card (the new social card 2.0) making it universal in scope, providing a mix of a cash transfers and social services.

In 2013, the government launched the Support for Active Inclusion Programme (Sostegno per l'Inclusione attiva, SIA) targeting families with children and in cities with more than 250,000 people. In 2016, the SIA has been extended to the whole country. With 2016 Stability Law, Italy introduced a triennial National Plan against Poverty by setting up the Fund for Combating Poverty and Social Exclusion.

After more than one year of parliamentary debate, the Italian Senate approved Law no. 33 of March 15th, 2017 to tackle poverty, reorganize welfare services and improve coordination between social services. The piece of legislation sees Italy joins several EU countries that have adopted a universal system of social support for citizens in a condition of poverty and social exclusion.

The provision introduces a new social contribution called Inclusion Income (REI), which will replace the Support for Active Inclusion (SIA), which was paid last November and this month allowed 70,000 Italian households with two minors to receive a monthly € 320 credit through a bi-monthly rechargeable credit card. With the new law, the number of people who will receive help will grow considerably: in fact, the REI will benefit 400,000 families per year, for a total of 1.7 million people, including 800,000 children. The REI will be conditional on requisites (families that have a total taxable income of less than € 3,000 a year, have a dependent or a disabled or at least two children and the breadwinner is over 55 years of age).

It is important to underline that the funds will be granted only if the head of the family undergoes a personal plan of work and social inclusion prepared by local administrations. In fact the legislation will divide the funds between the participating households and to cover the organization and management costs of local authorities including regional administrations and the civic economy involved in the program.

4. Discussion and conclusion in search for a theoretical framework

In this framework, the research offers interesting and relevant hints for a deep reflection, case study showing that legal relevance of the emotional sphere is considered closely connected to the theme of growth, reaching a breaking of the link that ties (*rectius* sacrifices) social rights and services for them disbursed, to the programs of austerity, just considering the fact that social rights, as expensive, should be necessarily subject, to their practical implementation, a principle of gradualness.

In fact, if it is assumed that they can be satisfied only through an organization providing services, object of those rights, it would be to such and end an indispensable tax intervention of the State or the public authorities generally, with the risk of altering the delicate balance between freedom and equality, and with an excessive sacrifice of competition and market rules.

In this regard, it should be noted that the risk of this alteration can be by no doubt reckoned only with reference to the implementation of social rights for which it is necessary to resort to basic public services and the use of inclusive goods (such as health networks and forms of public transport, generalist and universalist), albeit antithetical to exclusive goods due to initiatives of private and to objects of dominical rights (for example: insurance against illness, ownership of motor vehicles, etc.).

Minor, or straight void, should be considered the risk above feared in the case of protection of social rights related to relational goods, largely due to the free and spontaneous initiatives of solidarity of citizens and only minimally to the authoritative interventions. Among other things, the costs of these last interventions would largely be covered by social utilities and the benefits and additives advantages, the result of the synergies of reciprocity induced by the special relationships that develop between providers of services and their users.

In a legal system, informed to the synthesis of values generated by certain principles, such as those contained in Articles no. 2 and 3 of the Italian Charter, it can be found in the same fundamental texts, such as the Italian Constitution and the different transnational Charters, with it virtuously coordinated, sufficient material to draw upon for ensuring the most intense (and not the minimum) protection of the rights of a human being.

In this perspective, the relief offered to the production of relational goods, fruit of vitality and free civil society initiatives, can offer valuable support, also to theoretical level, to the argument that the value of solidarity can (should) be found in the principle (horizontal) subsidiary, typical of any pluralistic sort, a valuable tool for legalization of a emotional dimension.

The lack of valorization of the virtuous synergies of horizontal subsidiary with solidarity, often seen in the measures so far taken, regarding the basic level of benefits relating to minimum income, should be considered, therefore, an unforgivable omission of the legislator; in addressing the

challenge that attends us, a chance for such a strong relief cannot be neglected for the goals of formation of an active citizenship and participatory to the economic and social development of collectivity.

XI

Participatory budgeting in Croatia: A way to improve quality of local governance?

Jasmina DŽINIĆ

In recent years, there has been a shift of the focus from quality of services to quality of governance (Bovaird and Löffler, 2001). Unlike the New Public Management (NPM) oriented to the relationship between provider and user, quality of governance concerns the improvement of the quality of citizen/state relations. It is about macro-quality, which is according to Pollitt and Bouckaert (1995, p. 15), aimed to “re-establish the public’s trust...in the state and the system of governance”. As Berman (1997) states, by adapting better communication strategies and improving public participation in decision-making, public officials could reduce the level of citizen cynicism and increase their trust in government. Citizens and other users step into direct contacts with public service providers in their local community on daily basis, so they are especially interested in quality of local public services. Furthermore, local level is also most appropriate for citizens’ participation in development of public policies and co-operation in providing services.

The shift of orientation from NPM to governance manifests *inter alia* in implementing transparent processes and democratic dialogue, preparation of budgets with active participation of representatives from all stakeholders, delivering of public services not only by professional and managerial staff, but also by citizens and their communities (co-production of services), enabling the community to plan and manage its own affairs (community development), etc. (Bovaird and Löffler, 2001). In general, all these activities can be subsumed under a wider concept of co-production, which includes different forms of citizens’ participation – from planning, design, commissioning, managing and delivering to monitoring and evaluation of services (Bovaird, 2007, p. 847).

Increasingly popular method of co-production, which engages citizens in the process of service planning, is participatory budgeting (PB). PB usually presents the combination of traditional professional service provision and consultation of users/community on service planning. As such, it has a great potential for quality of governance. The process of PB comprises duly informing and involving citizens in the process of budget design by giving them the opportunity to submit their proposals, which are then incorporated in the final version of budget. It can also include participation of citizens in the process of budget realisation and control over the spending of budget resources. Applied for the first time in the city of Porto Alegre in 1989, it has become popular all over the world during the last 25 years.

The aim of the paper is to critically review the model of PB in Croatian local units, to identify the model(s) applied and to evaluate the contribution of the PB practices to quality of local governance in Croatia.

1. Models of participatory budgeting

Since its first implementation in Brazilian Porto Alegre, PB has been spreading in other countries (especially in Latin America and Europe), and so far various experiences have been collected. Taking into account different solutions in terms of the funds considered, the mode of citizens’ participation, the relationship with local government, the degree of institutionalization and the sustainability of the process, various types of PB appear and can be identified (Cabannes, 2004).

Similarly, Sintomer *et al.* (2008) distinguish six models of PB: 'Porto Alegre adapted for Europe', 'Participation of organized interests', 'Community funds at the local and city levels', 'The public/private negotiating table', 'Consultation on public finances' and 'Proximity participation'.

When linking described models with principles of good governance such as the strengthening of accountability, transparency, legality, meaningful participation and affecting the increase of public policies required by the needs of ordinary people (Santiso, 2001), it seems that Porto Alegre adapted for Europe is the most appropriate model for the contribution of PB to the quality of governance (Džinić *et al.*, 2016, p. 53).

In practice, there are many characteristics of PB which stand somewhere between described ideal-types. Nevertheless, several basic 'areas of difference' that represent core elements of each PB process and at the same time form a basis for distinguishing different types of PB were identified by Cabannes (2004, pp. 28-29).

In order to set the rules of PB process, a special body is established (as in many Brazilian cases) or the role of *decision-making body* is assigned to already existing association or organization. The task of the body in charge is to determine the forms of citizens' engagement, the themes and number of discussions, the proportion of the budget placed under discussion, etc.

Second, the *degree of formalization and institutionalization* can vary from informality to detailed regulation at the local and/or national level.

The processes of PB may vary in relation to the *form of participation*, which can be direct or indirect. The former concerns all forms of direct democracy, including the participation of individual citizens through thematic or regular neighbourhood or city meetings as well as direct citizens' control over the budget realization. The latter form of PB is implemented through delegates and it is often called community-based representative democracy (cf. Bovaird, 2007). However, within each form of participation different means for engagement can be on citizens' disposal: e-mail or regular mail, public meetings, public surveys, broadcasting, forums, etc.

Further differences may arise from the *level of participation* since participation can be limited to the sub-municipal level, i.e. community or neighbourhood, or relate to the entire city.

Next issue relates to the *proportion of the budget* the citizens are allowed to discuss and decide on. The experiences range from less than 1 per cent up to even 100 per cent of the budget under citizens' discussion. There are some issues, which can be excluded from citizens' decision-making, e.g. civil servants' salaries.

In addition, the *content of discussion* may be very general and refer to certain sectors of local public services or it may be related to specific projects.

The *role of the citizens* may be limited on mere consultation and other forms of engagement where their proposals do not oblige representative body. Contrary, there are examples of PB where citizens and their communities are considered to have a real (co-) decision-making capacity, whether the municipal council is obliged to accept the proposals submitted by the citizens or in the cases where money at stake is independent of local budget (Sintomer *et al.*, 2008, p. 171). In some cases, citizens are involved as co-producers in the implementation of the projects through volunteering.

After the budget has been accepted, the process of its implementation is launched. Accordingly, as the last issue in the PB process the differences in the forms and degree of citizens' *control over the implementation of the budget* can be discussed.

The analysis of PB practices implemented in Croatian local units will be conducted in the following chapter on the basis of described 'areas of difference'.

2. Participatory budgeting in Croatia

In Croatia, very few towns engage citizens in the preparation of local budgets. Moreover, public's participation is often limited to "soft consultations" with weak role of citizens in the decision-making process (Džinić *et al.*, 2016, p. 36). In addition, many 'areas of difference' in most of the towns are not specified and institutionalization of the PB process is yet to be developed. In general, there is no detailed regulation on national or local level regarding PB. However, process of public consultations is prescribed by the Law on the Right of Access to Information (Official Gazette 25/13, 85/15) and the Code of Practice on Consultation with the interested public in the process of adopting laws, other regulations and policies (Official Gazette 140/09). At the local level, financing of small utility actions is regulated by the acts passed by the local council.⁴

Pazin is the most recognizable town in Croatia when PB is in question. Pilot PB project "Pazi(n) budget!" was launched with the support of several NGOs in February 2014 in order to engage citizens in decision-making in the preparation of local budget for 2015. When local civil servants had been prepared for the implementation of the project, citizens were invited to submit their proposals on utility actions they wanted to be implemented in their sub-municipal entities. The project has been promoted through leaflets, radio shows, special web-site, personal contacts, and information within sub-municipal entities to motivate citizens to engage in the process. After the analysis of the proposals, financial assessment was done and 12 public meetings held. Citizens were invited to discuss and vote for the proposals on small utility actions at sub-municipal level. In addition, five focus public discussions were held. All proposals on small utility projects and the part of other proposals were included in the local budget. In the town of approximately 7.000 mature citizens, 6.8% of population participated in the PB. They were allowed to decide on 0.4% of total local budget which for 2015 was app. 9.900.000,00 €. Within the project, the web site aimed to inform public on the elements of transparent and participative preparation of the budget was opened and the online forum for discussion introduced. In order to control the realization of small utility actions proposed by the citizens, a citizens' board is planned to be formed. So far, three cycles of PB were implemented in Pazin, and the fourth is under preparation.

New project on PB "Participatory budgeting: citizens monitor local budget" was launched at the end of 2014 in three towns: Mali Lošinj, Karlovac and Pula. One general web site on the project and three web sites for towns were formed in order to inform citizens on the project and budgetary process, but also in order to allow them to participate in that process.

Citizens of Mali Lošinj got the opportunity to manage certain amount of the budget allocated for small utility actions. In 2016, citizens decided on the projects in amount of 0.23% of total local budget. Out of 24 proposals for projects and savings, two most supported proposals were submitted to the local council. Approximately 7% of inhabitants participated in the discussion on project proposals. Citizens were also invited to participate in the implementation of selected projects, namely to decide on the location for street workout and to participate in cleaning and preparation of selected location. In the following year, new 18 proposals were submitted and approximately 10% of the population participated in discussion and decision-making on project proposals. In order to monitor local policies, independent citizens' committee was established (Genov, 2017). In addition, through the process of public consultations citizens succeeded to indirectly influence higher amounts of public finances. Since budgetary resources are inevitably linked to local policies, by enclosing their attitudes towards certain policies citizens have an impact on decision-making process in local units. In this way, citizens of Mali Lošinj expressed their dissatisfaction with urban planning in the town and prevent high amounts of public resources (cca. 200.000 €) to be spent for certain urban projects

⁴ For instance, financing of small utility actions proposed by the citizens in the City of Rijeka is regulated by the Act on the mode of financing of sub-municipal boards' actions on the territory of the City (Official Gazette of the Primorsko-goranska county 41/08, 44/09, 46/12, 14/13 and 13/15).

Genov, 2017). However, several shortcomings of present local processes could be noticed. Although proposals of local budgets are published on the web site of Mali Lošinj, too short period of time is left for getting insight in disclosed documents. Financial reports of companies founded by the town are not transparent and citizens are not involved in financially more significant investments. No sub-municipal entities are established in Mali Lošinj which diminishes the opportunity for public participation (Genov, 2017).

In Karlovac, two cycles of the project were implemented so far. At the beginning, citizens were acquainted with budgetary process through budgetary guidelines and public meetings which stimulated them on participation in the preparation of local budget. In two years, 57 public meetings were held and citizens were invited to submit on-line proposals. Out of 68 citizens' proposals, project leaders submitted 22 proposals to the local council. The council rejected all of them. However, the implementation of several projects proposed by citizens started recently after negative feedback of the council (Mužar, 2017). On one hand, there is a lack of political will to include citizens in decision-making on local finances, and on the other, citizens themselves also lack more interest, information and knowledge to participate (Mužar, 2017).

The town of Pula has been engaging citizens in the preparation of the local budget since 2012 via consultations through electronic communication and annual public meetings in the sub-municipal entities (Džinić *et al.*, 2016, p. 38). Similar to Karlovac, participation in the project "Participatory budgeting: citizens monitor local budget" has not resulted in improvement of transparency of local finances and higher engagement of citizens in decision-making process (Matić, 2017). Neither citizens' proposals nor town's answers are publicly available. Moreover, citizens are not invited to decide on priorities of proposed projects (Matić, 2017). City council decides whether and what proposals will be accepted or not. So far, most proposals were rejected and accepted actions had been already planned by the budget (Matić, 2017).⁵ In order to make the process more transparent and participative leaders of the project on PB have suggested the following: designation of fixed amount citizens could decide on, transparent budget documents (published as early as possible, in details and open formats), cooperation with local civil servants in early stage of the process in order to identify already planned or unimplementable activities, publication of all citizens' proposals and explanations for rejections, and continuous publication of implementation of accepted projects (Matić, 2017).

City of Rijeka which is the greatest unit of local self-government in Croatia with developed PB practices provides three models of citizens' involvement in planning and using budgetary resources, namely small utility actions, local partnership programme and educating online game. Small utility actions can be proposed by sub-municipal councils and citizens as individuals, within their associations and through representatives of tenants. Financial resources for the implementation of the plan of small utility actions are planned in the budget in the amount of 80% of the income obtained on the basis of utility rate on the territory of relevant sub-municipal entity. Sub-municipal councils propose plans of small utility actions, administrative organizations of the City analyse proposals, determine technical elements of proposed actions and prepare the allocation plan, and city council makes final decision on the approval of proposed allocation plan. During the implementation of accepted actions, sub-municipal councils are allowed to have an insight in the financing process. Local administration prepares reports on completed actions for the city council. In the case that an action could not be implemented as planned, its realization is prolonged for the next year. In order to stimulate active participation of citizens in problem solutions and to develop cooperation and common responsibility of the City and citizens the local partnership program was introduced in 2004. Project proposals can be submitted by sub-municipal councils and groups of

⁵ In 2015, out of 25 suggested projects or savings, the council fully accepted 5, partially 3 and 17 proposals were rejected. In 2016, 9 proposals were fully accepted, 2 were partially accepted and 12 proposals were rejected (Matić, 2017).

citizens. Eligible proposals include sustainable projects implementable in six months with contribution of local community (voluntary work, sponsorships, etc.) in at least 10%. Decision on project proposals is made by the three-members committee and the report on the implementation prepared and submitted to the city council by local administration. In 2014, total value of the projects was app. 76.000,00 €, out of which 46% was financed from the local budget and the rest was supported by the local community. By playing online game citizens can fictitiously manage public incomes and expenses. The game includes explanations of items and amounts of the actual budget, links to legal resources and relevant documents, and the possibility for the citizens to propose projects by managing financial resources for their implementation (Džinić *et al.*, 2016, p. 38). Proposals of the projects and savings submitted are collected by local administration and forwarded to the mayor and city managers in order to introduce them with public's needs, ideas and considerations on usage of local finances. In spite of early development of PB practices, Rijeka made them more transparent and recognizable as such via web site quite recently.

Several more towns in Croatia have some practices that in wider sense could be qualified as PB, but they do not involve real engagement of citizens in the preparation of defined amount of financial resources. Crikvenica has been organizing public meetings on local budget since 2002. Citizens are informed on the structure and amounts of local finances on simple and comprehensible mode every year. However, meetings take place at the town level which is sometimes "too high" for citizens' everyday problems (Džinić *et al.*, 2016, p. 37). Although public consultations on the proposal of the budget and its amendments for 2017 were conducted, the time left for comments was limited to 7-13 days and thus too short. No comments or proposals were submitted during consultation processes. The opportunity to comment proposal of the local budget through e-consultations was provided in Labin in 2014, but there were no any suggestions or opinions expressed. However, as in other towns, time for submission of comments was too short (10 days). In addition, it is not clear why the town did not continue with the practice of e-consultations on later budget proposals. In Slavonski Brod citizens are invited to submit online proposals via e-mail, but no information on collected proposals, further proceeding and decisions made are available.

Main characteristics of PB projects in Croatian local units are shown in the Table 1. The analysis shows that Porto Alegre adapted for Europe and Consultation on public finances are PB models mostly represented in Croatia. However, although formally accepted, they are not in all cases fully implemented and supported by local government. In addition, some other external factors impede contribution of PB in Croatia to improvement of local governance quality. They will be discussed in the following sub-section.

Table 1. Participatory budgeting in Croatian towns

Town	Decision-making body	Form of participation	Level of participation	Proportion of the budget	Content of discussion	Role of the citizens	Control over the implementation	Number of engaged citizens
Pazin	local government in cooperation with NGOs	direct (e-consultations, internet forums, public meetings)	sub-municipal	app. 40.000,00 € (0,4% of total budget)	small utility actions 5 sectoral public discussions (social security and health, economics and tourism, culture and tourism, education and sport, sport)	collaboration – citizens' proposals included in the final proposal of the budget	citizens' board	488 (6,8 % of those eligible to vote)
Crikvenica	local government in cooperation with NGOs	direct (e-consultations, public meetings)	local	not specified	not specified	informing and consultation	no special control	-
Rijeka	local government, special committee with members from civil society and media	direct (namely small utility actions, local partnership programme online game)	sub-municipal and local	small utility actions - 80% of the income obtained on the basis of utility rate; local partnership programme – up to 90% of the project value	not specified	collaboration, coproduction in service delivery, informing, education, consultation	small utility actions – insight in the financial documents by sub-municipal council, reports submitted to the city council by local administration; local partnership programme – reports submitted to the city council by local administration	local partnership programme – 401 volunteers in 9 projects (in 2014); online game - 7.000 visits/year 1.500 finished games
Pula	local government (in cooperation	direct (e-consultations, internet forums,	sub-municipal	not specified	not specified	informing and consultation	no special control	250 (public hearings) 120 proposals

	with NGOs since 2015)	public meetings)						via e-mail in 2012
Mali Lošinj	local government in cooperation with NGOs	direct (public meetings, e-consultations)	local	app. 25.000,00 € (0.23% of total budget)	small utility actions	collaboration, coproduction in service delivery, consultation	Independent citizens' board	7-10% of inhabitants
Karlovac	local government in cooperation with NGOs	direct (public meetings, online proposals)	local	not specified	not specified	informing and consultation	no special control	33 ideas proposed in 2015, 35 ideas proposed in 2016
Labin	local government	direct (e-consultations)	sub-municipal	not specified	not specified	consultation	no special control	none (in 2014)
Slavonski Brod	local government	direct (e-consultations)	local	not specified	not specified	consultation	no special control	-

Source: Author own

3. Some prerequisites for quality of local governance through participatory budgeting in Croatia

The analysis showed that very few towns in Croatia had some practices of PB, which were not in all cases well elaborated and fully implemented. Moreover, some additional factors currently impede the spillover of citizens' participation in the deciding on local finances and their effective contribution to implementation of local projects.

As some surveys on local budget transparency showed, Croatian city budgets are not transparent enough (including the content of cities' official websites), the budget process is relatively transparent, political opposition has little possibility to influence budget, and most citizens are not interested or do not have time to participate in the city budget process (Bronić *et al.*, 2012, pp. 357-358). Strong fiscal centralization resulting in weak financial capacities and high costs of transparency are some of the indicated reasons for the lack of transparency and participation of citizens in local public policies and affairs. Nevertheless, transparency is precondition for effective participation of citizens and thus it should be promoted and improved in order to obtain positive results from the PB processes.

In addition, fiscal capacity of local units determines the extent of potential participation of the citizens in the management of public incomes and expenses. Partly, it is conditioned by the size of local unit due to the fact that number of population of working age is of key relevance for acquiring financial resources. At the local level in Croatia, there are 127 towns, 428 municipalities and the City of Zagreb, which reserves powers and duties as both city and county (the unit of regional self-government). According to census conducted in 2011, the average number of inhabitants per local unit is approximately 7.706. However, the average size of local units can mask the large range in size of concrete local units as it is the case in Croatia where the range between the smallest and the largest municipality is 1:50, and the range between the smallest and the largest city (excluding the City of Zagreb) is 1:118 (Koprić, 2013, pp. 8-9). Although the size of local units itself does not necessarily mean strong financial capacity, contemporary European trends in territorial amalgamation confirms the wide spread idea of the linkage between the size of local units and their role in the provision of local public services though decentralized model of public governance (Koprić, 2012).

Furthermore, the significance of the participation of local population in managing public finances through PB depends also on the rate of local incomes and expenditures in general state incomes and expenditures, i.e. on the degree of fiscal decentralization. Although Croatia has been passing the process of fiscal decentralization during the last 15 years, low rate of decentralization coefficients (with and without the City of Zagreb) indicate Croatia as a fiscally centralized country (IJF, 2014, pp. 4-5). In 2013, the ratio between the total expenditures of municipalities, towns and counties, and the total state expenditures was 16.1%, whereas the ratio between the total incomes of municipalities, towns and counties, and the total state incomes was 18.2% (IJF, 2014, pp. 4-5). Certain public services (primary and secondary education, social care services, health and firefighting services) were devolved to some local units, but this was not followed by adequate transfer of financial resources for the provision of decentralized functions (Koprić, 2011, p. 21). In addition, the ratio of local units in the income tax for the financing of these functions was bisected at the end of 2014.

The enlargement of local units does not necessarily threaten local democracy. In order to ensure the channel for political participation different forms of sub-municipal entities may be provided. The experience of towns analysed in previous sub-section confirmed the importance of the role that sub-municipal entities had in local governance. However, general position of sub-municipal level of governance was weakened after Croatia had gained independence (Koprić, 2013). Although subjects with the status of legal entity, sub-municipal entities are in many aspects dependent on

local councils. The latter are, *inter alia*, entitled to establish sub-municipal forms of governance and to determine the amount of financial resources for their functioning.⁶

4. Conclusion

In order to improve quality of local governance various instruments aimed to engage different stakeholders in exercising the power over the decisions, which affect their lives, are introduced. Under the broad concept of co-production, various types of collaboration between public sector agents and citizens are set up. Co-production arrangements such as participation in public service planning, design or management seem appropriate in cases when response to declines in governance capacity is required. One of these arrangements is PB, increasingly popular form of citizen engagement in the preparation of local public budget and decision-making on local finances. However, different combinations of PB elements resulted in various forms of PB in practice.

The analysis of PB in Croatia showed there were very few towns implementing “Porto Alegre” or “Consultation” models of PB, but not all of them succeed to effectively engage citizens in preparation of local budget and making decision on local projects. Practices are mostly limited to insufficient efforts in consultation processes without possibilities for the citizens to decide on previously defined amount of finances. Although there are some complimentary examples, general shortcomings in PB processes in Croatian towns are the following:

- formal introduction of PB without real willingness to engage citizens in preparation of local budget and deciding on local projects,
- short time periods left for submission of comments and proposals on the proposal of local budget,
- PB practices implemented on general and town level (e.g. the case of Mali Lošinj where no sub-municipal entities were established),
- insufficient transparency of all local entities (including local public companies);
- insufficient public interest and knowledge to engage in participatory processes.

In addition, relatively low fiscal capacity of local units may impede PB practices to result with spillover effect in wider extent. Current territorial organisation is characterized by rather fragmented territory and number of small local units without enough capacity to finance neither regular nor developmental local activities. Even if high number of local units introduces PB, it is arguable whether the citizens manage a substantial share of public finances due to weak fiscal decentralisation. Furthermore, the regulation of different forms of sub-municipal governance is delegated to local councils. Although they could carry an important role of the channel for citizen participation, it is limited by current legal regulation and authorities held by local councils.

However, the practices of PB in Croatia are just going to be developed, so the potential drivers and impediments are yet to be discovered. It could be supposed that promotion of advantages of PB and the exchange of good practices would attract new local units to engage citizens in the planning of local budgets, but wider reforms are needed in order to improve local governance in general.

⁶ Centralized governance of sub-municipal units may result in weak capacities of sub-municipal units to act as the form of citizens’ participation in public governance and to provide smaller public services. For example, the sub-municipal level within the City of Zagreb is not able to perform its authorities due to centralized governance and modest financial resources transferred by the local government (Koprić, 2013, pp. 13-14).

XII

Co-Creation in local services delivery: Case study from Slovakia

Maria Murray Svidroňová

The case studies presented in this chapter were part of the “Learning from Innovation in Public Sector Environments” (LIPSE) research project, studying the drivers and barriers to successful social innovation in the public sector.

In social innovation, the production of public services is considered to be an open process, with the involvement of end users in the design and development of goods and services (Chesbrough, 2003; Silva and Buček, 2014; Von Hippel, 2007); it is also considered to represent a change in the relationships between the involved stakeholders (Bekkers *et al.*, 2013). One of the central elements in the concept of social innovation is the active participation of citizens and grassroots organizations in order to produce social outcomes that really matter (Bason, 2010).

The participation of citizens in the development and subsequent implementation of an innovation (co-creation) is of great importance in terms of the success of the public service innovation process (Borins, 2008; Fuglsang, 2008; Von Hippel, 2007).

In these case studies, we focused on the participation of different stakeholders in public service provision at the level of local self-governments and on different types of co-creation, including the relevant drivers and barriers that account for the success or failure of co-creation processes in two fields: welfare and the environment. By co-creation we understand an approach to public service delivery that involves citizens, not only as consumers but also as producers of services, can increase the scope of public services as well as the quality of public services through perceived consumer satisfaction (Voorberg, Tummers, Bekkers, 2015).

We used qualitative methods to analyze co-creation during innovation in public services provision. To develop an inventory of relevant practices in which citizens or other stakeholders are involved, we conducted an extensive analysis of relevant policy documents, databases, and websites. We also conducted more than ten expert interviews, leading to the compilation of ten case studies. There are five examples of co-creation in the welfare sector and five cases in the environmental sector, summarized in Table 1.

Table 1. List of cases of co-creation at the local government level

Case	Goal of co-created initiative	Main actors/stakeholders
1. Conciliation councils	Help citizens to solve any kind of conflicts, especially ethnic conflicts	Citizens, NGO PDCS, C.S. Mott Foundation, municipalities in given areas
2. Kojatice Social Housing	Provide social housing for Roma with a certain maintenance guarantee thanks to Roma co-financing and co-building	University students, Roma citizens, local self-government and its mayor, NGO ETP Slovakia
3. Godmothers	Provide material and non-material support to young mothers in social need for inclusion in the society	NGO “Sanca pre nechcenych”, SPP Foundation, VUB Foundation, Orange foundation, municipalities that decided to support the project

Case	Goal of co-created initiative	Main actors/stakeholders
4. Electronic Guard	Improve the lives of elderly disabled citizens with telecare and related assistive technologies	Involved local governments, private IT company YMS, private telecommunication company Orange
5. Martin Relaxation Path	Improved lives for elderly citizens by building an accessible public relaxation infrastructure – nature path	Municipality of Martin, several citizen initiatives (Joga v dennom živote, DIAMART – club of people with diabetes, and the Martin Pensioners Club)
6. “Green Patrol” in Bratislava	Increased citizen participation and responsibility for clean green areas, better quality urban environment	“Green Patrol” citizen initiative, municipality of Bratislava and its local parts, inhabitants of Bratislava
7. “Green Patrol” Interactive Portal	Improve and maintain the quality of the urban environment, improve collaboration among citizens, participating organizations, and the city	“Green Patrol” citizen initiative, municipality of Bratislava, citizens in the social network
8. Trash Out	Improve the physical environment and collaborate among all sectors	Involved local governments, environmental NGOs (Greenpeace, Let’s do it, Enviweb cz, Emerald Planet, Priatel’ia zeme, Greenoffice sk), waste management companies, Ministry of Environment of the Slovak Republic and the environmental fund of the Slovak Republic
9. Mobile City	Facilitate citizen participation and improve the physical environment	Private company Datalan, a.s, municipalities in Bratislava’s self-governing region and their inhabitants
10. PrieStory	Complete low-cost physical infrastructure investment projects executed by volunteers living in the area, improve collaboration among sectors	Ekopolis Foundation, citizens, participating municipalities, CSOB bank, local companies (as sponsors providing additional funding)

Source: Nemec, J., Mikušová Meričková, B., Svidroňová, M. 2015a

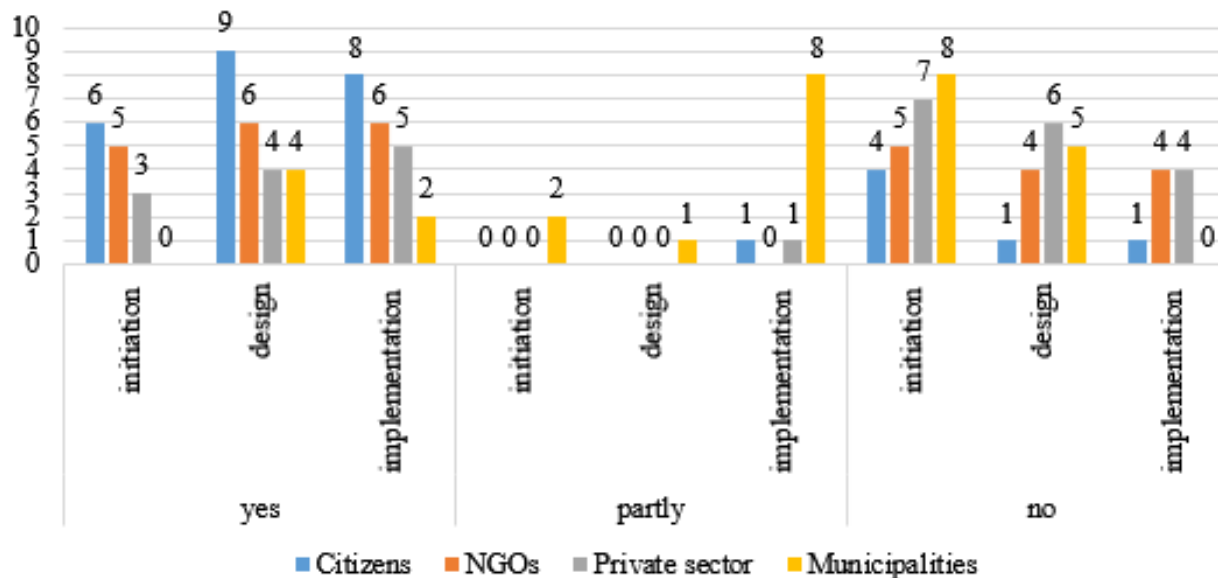
The purpose of the first part of our analysis was to create a list of eligible cases within the public welfare policy sector and within the rural/urban regeneration policy sector that could be compared to each other. We followed three main selection criteria when identifying eligible cases:

1. *Cases are from the public welfare or rural/urban regeneration policy sectors:* We conducted our research in two different policy sectors: the welfare sector and the rural/urban regeneration sector (environment). Innovations within the welfare sector were aimed at improvements within the social infrastructure, including innovations aimed at a specific target group (the elderly, juveniles, immigrants, etc.). Within the rural/urban regeneration sector, we focused on innovations within the physical infrastructure. In these cases, innovations are primarily aimed at improving the livability of neighborhoods, for example through housing or the (re)decoration of public spaces. By urban regeneration, we mean (topographical) areas that have to deal with a changing population due to social and economic developments (e.g. a growing number of elderly citizens).
2. *Possibility of specifying the outcomes of co-creation processes:* The kinds of outcomes co-creation processes have in social innovation are relatively unknown. In order to draw some conclusions about these outcomes, the selected cases needed to involve co-created initiatives that are no longer in their initial phase but have in fact delivered some results.

3. *Citizens were involved as co-designers or initiators*: From a systematic review of the literature on co-creation and co-production within the public sector, we concluded that three different types of citizen involvement can be distinguished: 1) citizens as co-implementers, 2) citizens as co-designers, and 3) citizens as initiators. Since we are interested in co-creation during social innovation processes, we focused our research on the involvement of citizens as initiators and co-designers. Thus, within the selected cases, citizens were involved at least at the start of the co-created initiative.

Based on an analysis of the investigated cases, we summarized the roles of the different participating actors in co-creation based innovations and the summary is shown on the following figure:

Figure 1. Participation of actors in co-creation in Slovakia



Source: Own elaboration based on Nemec, J., Mikušová Meričková, B., Svidroňová, M. 2015b

Figure 1 demonstrates that from the list of analyzed cases, none of the local governments fully participated in the initiation of co-creation; only two municipalities were partly involved. In the design stage, the situation is similar although slightly better; at least half of the municipalities participated in the co-design of an innovative public service solution either fully (four municipalities) or partly (one municipality). In the implementation of social innovation, two local governments participated fully and eight were partly involved.

We feel the core problem lies in the very limited interest of municipalities in participating in activities proposed and designed by other partners/actors. The actors who initiate co-creation in Slovakia can be divided into two types: the private sector and formal or informal third-sector structures (NGOs or citizens). NGOs, as formalized structures of citizens, have a rather strong position in co-created initiatives; further research should be done in this area (Kuvíková and Vacekova, 2009, Nemec in Osborne, 2008; Svidroňová and Vaceková, 2012). The private sector is active especially in the area of information technologies, as implementation of co-created initiatives in that field also improves their sales and profit.

Despite existing research from other countries (Bekkers *et al.*, 2013) indicating that, among other factors, local governments are expected to use the quality of services as a source of competitive advantage in order to be attractive, this does not work in Slovakia. As Vesely (2013) states, accountability and responsibility are not very well developed characteristics of good governance at any level of government in Central and Eastern Europe. This fact, combined with lingering habits from the communist era, may explain the behavior of local self-governments in

Slovakia. The values and principles of local politicians and bureaucrats are still influenced by the socialist understanding of the state at every level, national and local, as a 'ruler' and not as a 'servant' (see also Bunčák *et al.*, 2008).

For many local politicians and bureaucrats, co-creation is not perceived as innovation or progress but as a burden, especially if it reveals some existing flaws in the system in which local governments function and in the ways they are organized. This seems to be the most important barrier, accounting for the failed co-creation processes at the local government level in Slovakia.

Based on the investigated cases in Table 1, we can state that the role of local self-government in co-creation in Slovakia is rather limited; service delivery innovations are predominantly initiated by third-party organizations or citizens themselves.

The list of cases in Table 1 suggests several interesting co-created innovation initiatives in Slovakia at the local government level. We present a selected case study where the initiation of a public service delivery by citizens and NGOs was inspirational for municipalities so they were interested in innovation and participated in the co-creation process. The impulse for this particular co-created initiative was absent and/or insufficient public facilities.

1. PrieStory Program

The PrieStory program involves the provider of the public service (municipalities/local governments), the co-designers of the public service (citizens), the public service innovation initiators (Ekopolis Foundation and Partners for Democratic Change Slovakia PDCS– NGO), and the public service innovation co-financer (CSO Bank – a private corporation). These relevant actors were identified by analyzing policy documents and by interviewing the initiators of the co-creation process – Ekopolis Foundation.

The PrieStory program fully meets our eligibility criteria for co-creation in public service:

- A) Citizens are involved as co-designers: In this public service innovation, citizens and governmental organizations participated, and NGOs and private organizations are also involved, because of their specific resources and/or skills. We refer to this multitude of actors as a *collaborative innovation network*.
- B) The case involves examples of co-creation in rural/urban regeneration: Innovation within the physical infrastructure is primarily aimed at improving the livability of neighborhoods by innovations in housing or in the (re)decoration of public spaces.
- C) The case produced results in order to enable the examination of the effects of co-created initiatives.

The PrieStory program aims to involve people in improving the living environment, to increase public participation (which is one of the trends in public service delivery), and to strengthen the community. The program is implemented as an open competition where community groups are eligible to apply for grant and technical assistance. The role of Ekopolis foundation as public service innovation initiator is to provide financial and technical support.

To obtain the necessary information for the analysis, we conducted an interview with all types of involved stakeholders (program manager from the Ekopolis foundation, representatives of municipalities and other public sector organizations, volunteers in NGOs and citizens). We have followed an interview protocol (prepared by LIPSE project leader) where all types of involved stakeholders were interviewed. The semi-structured interview protocol contained both open (inductive) and closed (deductive) questions and its objective was to scientifically study co-creation during social innovation. The questionnaire consist of these parts: Description of the co-creation initiative; Influential Factors to the Co-creation Process; Outcomes of the Co-creation Process and space for respondents to express their opinions on something relevant which was not yet covered.

The interviews were conducted personally with all above mentioned stakeholders which were promised anonymity.

As both the program managers agreed in their statements, the PrieStory program was created based on the requirements of the citizens themselves, who perceived the lack of public spaces and/or facilities and their inadequate maintenance by local governments. On the basis of these requirements, a methodology for the conditions of the Slovak Republic was developed according to the model of foreign programs (the Project for Public Spaces in the USA).

The co-creation process in this program has several important milestones:

1. Establishing local partnerships (approximately one month)
2. Preparation of planning (approximately two months)
3. First planning meeting (one weekend meeting)
4. Evaluation of the outcomes of the planning meeting and architectural design of the place (max. two months)
5. Second planning meeting (one-day meeting)
6. Construction of the new public space with the participation of volunteers (approximately three months)
7. Opening event of the new public space (one day)

Each project could have a maximum duration of one year, and these steps had to be implemented during that time. In years 2005 - 2011, in which the program was funded by donors, seven grant rounds were implemented and 33 projects were supported, of which we analyzed the 19 available cases (Table 2).

Table 2. An overview of selected projects supported in the PrieStory program

Municipality	Project	Initiator	Grant	Total value of the project	Grant funding in %	Co-finance funding in %
Banská Bystrica Fončorda	Space for neighborhood	Informal groups of citizens "Green Fončorda"	5 000 €	10 000 €	50	50
Banská Bystrica Sásová	Pink Park	Informal groups of citizens from Ružová street	5 000 €	11 159 €	44,81	55,19
Banská Štiavnica	Dolna Ruzova's corners for culture	Informal groups of citizens from Banskoshiavnický association	5 000 €	7 830 €	63,86	36,14
Bátovce	Art Garden	Theater Pôtoň – NGO	5 000 €	13 070 €	38,26	61,74
Bratislava Petržalka	- Labyrinth	Centre for community development - NGO	4 066 €	8 266 €	36,97	63,03
Bratislava Rusovce	- Romans on the Danube	Natura Rusovce – civic association	5 000 €	13 525 €	49,19	50,81
Handlová	Let's revive the relationships in the community	Informal groups of citizens from Handlova	5 500 €	5 500 €	100	0
Hrušov	Stage under the pears in Hrušov	Civic association Kortvélyes Hrušov	5 000 €	6 200 €	80,65	19,35
Kežmarok	Little snail's garden	Slimáček – civic association	5 000 €	5 472 €	91,37	8,63
Levice	Magic Garden	Medulienka – civic	5 000 €	7 450 €	67,11	32,89

Municipality	Project	Initiator	Grant	Total value of the project	Grant funding in %	Co-finance funding in %
		association				
Nitra	Primal area – neighborhood	Citizens in action Nitra – civic association	5 000 €	5 000 €	100	0
Nové Zámky	Come and play	Vláčik – civic association	3 097 €	3 097 €	100	0
Pezinok - Grinava	Grinava's Garden	Informal groups of citizens from Grinava	5 000 €	5 666 €	88,25	11,75
Prša	Relax zone in the village of Prša	The municipality of Prša	5 500 €	5 500 €	100	0
Rajec	Relax and education zone Tilia	Civic association Tilia	5 000 €	14 466 €	34,56	65,44
Rimavská Sobota	Place For All - Place to meet with a wide community	Informal groups of citizens from Rimavská Sobota	5 000 €	9 979 €	50,11	49,89
Tesáre	Relax and education zone Tesáre	Informal groups of citizens from Tesáre	5 833 €	9 934 €	58,72	41,28
Trstená – Ústie nad Priehradou	Place for All	Informal groups of citizens from Trstená	5 833 €	13 438 €	43,41	56,59
Veľké Kapušany	Our neighborhood – our place	Informal groups of citizens from Veľké Kapušany	5 500 €	5 709 €	96,34	3,66
TOTAL			95 329 €	161 261 €	x	x

Source: Own elaboration based on project reports, 2014

Besides the overview of the type of supported projects, the table 2 also shows that these projects have created a space for greater citizen participation. Citizens were able to get involved through non-governmental organizations (9 cases), but also as informal groups of citizens. This form prevailed (47.4%), informal groups were created by people from the community in order to use the opportunity of an innovative public service solution and create a public space for all. Only once was the initiator of the co-creation process was a municipality (namely the municipality of Prša). Table 2 also points to the fact that, in addition to the grant given by the Ekopolis Foundation (mainly a full amount of € 5,000 in all projects), the applicants also contributed their own sources to finance the projects. Zero co-financing occurred in only four out of the 19 analyzed cases, but on the average the co-financing from own sources was 31.92%, with a total of 41% of the total value of the projects supported. Own sources were mainly volunteer work, non-financial material contributions (material, snacks), but also intangible contributions (services, waiver of fees for project executives such as architects) and donations from sponsors (individuals, companies and local authorities).

From the abovementioned, we can say that most of the initiators worked beyond the scope of grant and tried to obtain additional funding to carry out the planned intentions, which could provide a larger and higher quality public service. At the same time, the program's goal of involving citizens in improving their environment was met

The notion of public value becomes less tangible when public services are provided only by the public sector. In co-creation, the importance of the notion of value can be seen by looking at the private-sector origins of co-creation. Public service innovation needs to follow the logic of consequence and the logic of appropriateness. In the logic of consequence, value refers to the level of rational accomplishments of a specific intervention, such as the quantity of output, quality of output, formal effectiveness, efficiency, and citizen satisfaction. Table 3 shows the first five effects in

terms of the logic of consequence and the next six effects in terms of the logic of appropriateness, as illustrated by the PriStory program.

Table 3. Schematic display of co-creation effects (PriStory program)

1. Quantity of output	Between 2005 and 2011, 33 public spaces were redesigned.
2. Quality of output	The quality of public spaces increased (citizens as the co-designers are more satisfied with the service than before the co-created initiative).
3. Formal effectiveness	Absent public facilities were provided and citizen needs were better addressed.
4. Efficiency	Public facilities were provided in the least expensive way in term of public finances. Between 2005 and 2011, more than 174 thousand € was assigned through the Ekopolis Foundation; much more was given in terms of volunteer work, which is hard to measure and express in financial value; other donations came from the private sector, both financial and non-financial (i.e. material, know-how, etc.).
5. Customer satisfaction	By involving the citizens as co-designers, their needs were taken into consideration. As volunteers, the citizens played a vital role in the co-creation process, which led to greater satisfaction with the provided public facilities.
6. Accountability	A co-created initiative clarified who is accountable for what part of the service.
7. Equity	Co-creation led to a more equal distribution of public services.
8. Responsiveness	Public spaces are better able to meet citizen needs and criteria.
9. Fairness	Co-creation led to a more fair distribution of public services.
10. Trust	Trust in the public institutions increased.
11. Public Participation	Public participation was increased.

Source: Mikušová Meričková, B., Svidroňová, M. 2014

Table 4 shows the effects in terms of the logic of consequence and in terms of the logic of appropriateness, as seen by interviewees who expressed their opinion whether the outcomes were reached or not.

Table 4. Evaluation of outcomes per stakeholder per value (the PriStory program case)

Respondent/value	Logic of Consequence				Logic of Appropriateness				
	Concrete products	Effectiveness	Efficiency	Satisfaction	Increased Accountability	Increased Equity	Responsiveness	Fairness	Trust
PriStory program manager 1 (Ekopolis NGO, the co-creation in public service delivery initiator and the co-financer of projects)	Yes	Yes	Don't know	Yes	No	No	Don't know	No	Don't know
PriStory program manager 2 (Ekopolis NGO, the co-creation in public service delivery initiator and the co-financer of projects)	Yes	Yes	Don't know	Yes	No	No	Don't know	No	Don't know
Regional public library in Žilina representatives 1 (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Yes	Yes	Don't know	No	Yes	No	Don't know
Regional public library in Žilina representatives 2 (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Yes	Yes	No	No	Yes	No	Don't know
local self-government representative in Handlová (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Don't know	Yes	Yes	Don't know	Yes	Don't know	Yes
local self-government representative in Pohorelá (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
local citizen group representative in Handlová (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Yes	Yes	Yes	No	Yes	No	Yes

	Logic of Consequence				Logic of Appropriateness				
Respondent/value	Concrete products	Effectiveness	Efficiency	Satisfaction	Increased Accountability	Increased Equity	Responsiveness	Fairness	Trust
new public space)									
citizen volunteer association Tilia representative in Rajec (co-creation project initiator, co-designer, co-producer of new public space)	Yes	Yes	Yes	Yes	Yes	Yes	Don't know	Yes	No
citizen 1 as the public service co-producer of the new public space	Yes	Don't know	Don't know	Yes	Yes	No	Yes	No	Don't know
citizen 2 as the public service co-producer of the new public space	Yes	Yes	Don't know	Yes	No	Don't know	Yes	Don't know	Don't know
citizen 3 as the public service co-producer of the new public space	Yes	Don't know	Don't know	Yes	Don't know	Don't know	Yes	Don't know	Don't know

Source: Mikušová Meričková, B., LIPSE report, 2015

2. Conclusion

Based on the analysis of selected projects, it can be concluded that co-production in the form of co-creation in the PrieStory program has brought several benefits.

The limited extent of public resources in the budgets of local authorities is in many cases the reason why the extent of public investment in the construction and restoration of public spaces is not responding to public needs, private source and volunteering helped to overcome this obstacle.

The cost efficiency of public service provision increased - the representatives of individual municipalities confirmed that based on budgets of the projects implemented in the PrieStory program (table 2: total project value) the construction of the public space through the traditional internal form with their own capacities would have failed.

Also, the efficiency of the provision of public services was improved - direct participation of citizens in the process of creating public service content, i.e. design of the public space aligned the character of the new public space with the needs of the citizens. Thus, the quality of public service evaluated through the satisfaction of its consumers increased.

Increasing equality in the consumption of public services was another benefit. All successful projects in the PrieStory program were those that focused on the multipurpose of the public spaces so it would be possible to use the new spaces by the widest group of citizens.

Co-creation as a new approach to the provision of public services represents the potential for increasing the scope, efficiency and quality of public services. How much this potential is being used depends on the particular environment of public service provision, which is both a stimulus and a barrier to the development of co-creation.

The analysis identified several drivers but also barriers to the development of co-creation in the conditions of Slovak municipalities. A positive factor for the development of the co-creation activities is the active local community of citizens with a strong relation and solidarity to their environment / surroundings and territory. The co-creation is significantly encouraged by the existence of positive links between entities in the territory (citizens, self-government, private companies and non-governmental organizations). On the other hand, the limiting factor in the development of co-creation is the absence of such positive relationships, which is reflected in problematic communication or even conflicts between actors affected by the implementation of projects, the most frequent conflicts occurred between citizens versus self-government and citizens' initiative versus other citizens.

**Part 5: Organizational impediments and impacts of APSD,
did APSD deliver on its promises?**

XIII

Alternative public service delivery: Organizational aspects, results and factors determining the results

Juraj NEMEC and Michiel S. De VRIES

Alternative service delivery arrangements come along with high expectations, be it in terms of the effectiveness thereof, their efficiency, or their potential to enhance equity. Nonetheless, meta-evaluations mostly have to conclude that the effects are mixed and that the evidence of any claims about the actual effects of ASDA is inconclusive. Those studies point out that it is not the 'who' (public or private), the 'what' (ICT-based or not), the 'when' (in the midst of a financial crisis, or in times of prosperity), or the 'where' (centralized or decentralized) per se in service delivery that matters most, but that especially the 'how' of the implementation of such alternative service delivery arrangements matters most for their impacts.

It seems to be imperative to analyze whether such new arrangements fit the existing contextual conditions, whether there is political and managerial commitment, and whether existing institutional conditions suffice, and if not, 'how' to deal with such adverse circumstances when introducing ASDAs. Hence, this part of the book does not depart from ideological thinking, in which the who, where, what and when questions are predominant, claiming that one or the other is to be preferred in general, but rather from a more pragmatic view, that some alternative service delivery arrangements might work in some contexts and under some conditions, and should be furthered because of their positive effects, while the same arrangement might fail in other contexts and other conditions.

That point of departure results in the question 'how' alternative service delivery arrangements are designed and implemented and what can be concluded from the relation thereof with the impact of such ASDAs. Three subsequent cases in this part of the book address this question.

The literature analyzing purposes for the concrete results of implementation of different types of ASDAs is really rich and deals with dozens of different micro and macro factors determining ASDA performance. This part of the book includes three new specific cases.

1. Contents of case studies

The first case analyses the processes of introducing ASDAs in Brasil. In 1995 the federal government started to discuss and design a new framework for the country's Public Administration based on NPM ideas. A specific Department named Ministry of Administration and State Reform was created responsible for preparing the reform expected to move the Brazilian public administration to more performance-oriented management. As the part of its initiatives the Ministry formulated a new framework to reorganize government, prescribing privatization, outsourcing and partnership with non-governmental organizations (public private partnerships projects were added to this strategy later on as the reaction to the fiscal crisis). The core institutional success point of this reform was careful implementation of ASDAs - states and municipalities began to try different public service arrangements in search of a new model to *fit their own needs*.

The second case focuses on the differences between liberalization of some specific markets and contracting/outsourcing as specific forms of ASDA. Liberalized markets still require a certain degree of an involvement of a state. A state has changed its role from an owner and an active operator on a market to a supervisor of a market and a protector of competition.

Contracting/outsourcing of public services represent a process where a state changes its role in different way - it quits a role of a service provider (and a related role of an owner of infrastructure and resources, including human resources) and adopts, firstly, a role of a customer (service receiver), and secondly, a role of an organizer of a market. Proper understanding of the role of the state for different ASDA arrangements, similarities and differences is one of crucial organisational factors for success.

The third case deals directly with different institutional arrangements for functioning of state enterprises. This comparative exercise emphasizes the advantages and disadvantages of each experience by highlighting the commonalities and differences of each country in order to deduce the future perspectives in public governance. The authors use the opportunity to do twenty interviews with directors and managers of state owned enterprise. They start with the general framework of state owned enterprise governance, then we make a comparison of the governance in the state owned enterprises between France, Spain, Germany, Canada and the United Kingdom with practical illustrations (the SNCF in France, the STM in Canada and the NIW in the United Kingdom) to draw lessons and future research perspectives.

Fourth case presents the results of very specific and targeted research. The research question is to what extent information may help to overcome problems related to missing trust in the introduction of public private partnerships. This issue is pivotal as evidence from the European Union demonstrates that in particular ex ante public resistance may result in the postponement or failure of such projects. Also the ex post “failure” of PPPs may be the consequence of missing trust, not performance problems. Authors develop an experimental design that may be useful to carve out strategies to overcome the trust gap.

Fifth case discusses ASDAs on the local government level in the South Africa. Citizens are significantly dissatisfied with the quality of delivery of local services – for example in the first nine months of 2014, 134 demonstrations (collective action taken by a community which was directed at a local municipality over poor or inadequate provision of basic services) were recorded. Utilising alternative service delivery mechanisms have therefore become a popular way of attempting to increase service volumes and standards to local communities. The cases focus on main factors – actions with the capacity of working in terms of satisfying client needs and therefore improving the capability of local government in existing challenging environment. The core suggestions are delivering citizen centered services (citizen as local customers), significantly improve financial management practices and to introduce much comprehensive accountability (including legal accountability). All these factors in the employing of alternative service delivery mechanisms are vital to improve the organisational capability of local government to render services and thereby contributing to the vision of the National Development Plan 2030 of serving communities through capable state structures.

The last case first discusses core factors determining the success of externalisation, by the overview of the existing literature on the topic. The core part uses Slovak data to explore why externalisation does not produce the expected results and may even have perverse effects. This involves testing for a link between contracting performance and selected factors connected with contract management; such as competition, evaluation of bidders, contract monitoring, contract payment and sanctions. The results indicate that there are several important factors limiting success, by far the most important being the degree of competition for the contract. One purpose for this is that too few contracts involve a competitive bidding process between would-be suppliers.

XIV

Introducing alternative service delivery arrangements as the part of public sector reform in Brazil

Cibele FRANZESE

1. Introduction

It was 1995 when New Public Management (NPM) guidelines started to be seriously considered as a viable framework for the reform of Brazilian federal government. Economic and fiscal crises helped to create a sense of urgency for the reform. One diagnosis was that the government should be more efficient and improve performance to overcome the crises. Within this panorama, the NPM approach (designed and implemented abroad since the very beginning of the 1980's) appeared as a promising path.

Considering this fiscal debt scenario, we could expect downsizing policies and the development of managerial tools to make Public Administration more efficient to be deemed the main measures to be adopted. Although these topics were part of the agenda, we can see, after twenty years, that implementation of alternative service delivery arrangements has advanced more. This trend was also observed across state and municipal administrations during the 2000's and remains in the political and administrative agenda.

We believe the main reason for that is the institutional design of the 1988 Brazilian Constitution, which established governmental obligations in public service delivery. The option to bring public service promotion to constitutional status came from a political concern that it could guarantee governmental action continuity in implementing social rights – very poorly addressed during the previous dictatorship era.

Despite being designed amidst serious economic and fiscal deficit, the 1988 Constitution, due to re-democratization and strong defense of civil and social rights, set forth a legal framework creating governmental obligations to provide universal and free access to health, education and social welfare, instead of supporting downsizing and efficiency measures. In other words, the Brazilian Constitution of 1988 established guidelines for a social democrat Welfare State, precisely when it was being reformed in many countries that implemented it during the 1950-60's.

Regarding the administrative framework, the Constitution also went in the opposite direction of NPM. It established a single legal regime for all public service, including every governmental department and agency inside the bureaucratic pattern of administration. This means that while NPM stated the search for flexibility, performance oriented management and institutional pluralism, the Constitution limited the existing flexibility of some public organizations since 1967 to reinforce bureaucratic controls such as supervision, procedural and detailed regulation.

Among all Constitutional guidelines that hindered implementation of NPM in Brazil, however, there was one institutional feature that not only allowed it, but also favoured it, especially in public service delivery. This was the federal framework that decentralized social policy to states and municipalities, allowing them to test different service delivery arrangements across the country.

Given this scenario, what we argue is that, differently from other countries – where new public service delivery arrangements were presented as a consequence of implementing NPM – in the Brazilian case, alternative service delivery arrangements played a fundamental role in implementing

the reform itself. In other words, new service delivery arrangements are not only the area in which the reform has gone furthest in Brazil, but also through which the reform is penetrating the Public Administration structure, bringing incremental changes that can gradually lead Brazilian public administration to a new management model.

To support this, we begin by explaining how NPM's proposals reached Brazil, through the federal Plan for State Reform, and show to what extent proposals have been implemented. After that, we explore in detail the federative framework established by the 1988 Constitution for social policy delivery, indicating how distribution of competence areas stimulated decentralization of public service delivery and, consequently, promoted adoption of new public service arrangements by state and municipal governments. In conclusion, we take the case of the state of São Paulo – one where implementation of new public service arrangements has evolved most – to explain how such arrangements have guided the state to incorporate other managerial tools prescribed by the NPM reform.

2. The National Plan for State Reform and NPM in Brazil

NPM guidelines reached the Brazilian governmental agenda app. twenty years ago, in 1995, when federal government started to discuss and design a new framework for the country's Public Administration. A specific Department named Ministry of Administration and State Reform was created, which has been responsible for designing a comprehensive new framework embracing different areas of management, entirely focused on moving Brazilian Public Administration to more performance-oriented management.

To achieve its proposal, the Ministry formulated a new framework to reorganize government, prescribing privatization, outsourcing and partnership with non-governmental organizations. The framework is reproduced in the Table 1.

Table 1. Strategy to Public Management Reform

		type of property			type of administration	
		governmental	non governmental	private	bureaucratic	Managerial
1	strategic core (legislative, judiciary, presidential cabinet)	●			●	
2	exclusive governmental activities (police, regulation, social security)	●				●
3	non-exclusive governmental activities (universities, hospitals, research centers, museums)	publicization →	●			●
4	market production (state companies)	privatization →		●		●

Source: Bresser-Pereira, 1996

As we can see in the bottom line of Table 1, the main suggestion for state companies that produced market goods (such as steel mill, petro chemistry, fertilizers, rubber, aircraft etc.) was privatization. Transferring corporate property from government to the market would guarantee the managerial type of administration since, once privatized, the company would start working under market rules and values. This strategy would also produce state downsizing, focusing government activities on the other three sectors of the board. As a result of President Fernando Henrique Cardoso's two terms in office – from 1995 to 2002 –, we had privatization of several state industrial

companies, which resulted in a little more than US\$15 billion (fifteen billion dollars) (Ministry of Administration and State Reform internal data).

The privatization program also reached areas of public service delivery, but not with the same strategy. In 1995 there was new regulation for private engagement in public services, creating a new legal framework to allow long-term concessions contracts, to stimulate private investment in infrastructure and service expansion. The new regulation was followed by concession of electricity services in 1996. In 1997 there came a specific law for telecommunications (Lei n. 9472/97), also followed by concession of the service in 1998. One of the main consequences of concession was expansion of coverage. As the result the number of mobile lines increased meaningfully since 1998.

Concession contracts also reached other infrastructure areas such as transportation (roads and rails), ports, gas and sanitation. In terms of revenues, the concession strategy brought almost US\$ 74 billion (seventy four billion dollars) for the federal budget (Ministry of Administration and State Reform internal data).

Privatization has become a great political issue in Brazil, and a practice with which the main opposition political party, PT (the laborers' party), strongly disagrees. During the 2002 presidential elections, they hotly defended the state as an owner of companies, arguing for their strategic role in the economy and the need to protect the country against influence from external capital. The laborers' party won that election, and criticism of privatization became majoritarian in the national political agenda.

As expected, the federal government during President Lula's two terms (2003-2010) suspended state company privatizations. Surprisingly, however, there was a different strategy for private engagement into public service delivery through concessions contracts. During this period, eight federal roads were privatized, using the same legal framework created in 1995. The contracts established private obligations for infrastructure investment and private capital compensation through tolls, paid directly by citizens.

During the Lula administration we also had a new framework created that would broaden the scope of private engagement in the public service delivery – the public private partnership law (Law number 11.079/2004). Public Private Partnerships were designed to be a new type of concession, where the private partner is responsible for building new infrastructure for public service and also for service delivery. Private capital is paid not only by tolls, but also by funds from the governmental budget, transferred only after the new service begins to be delivered. The new law made public service delivery more attractive to private capital, considering a new sharing of risks within the contract, including public funds to guarantee payment in case the government fails to pay. The first PPP federal contract was signed six years later, in 2010.

In 2010, President Dilma Rousseff, also from the laborers' party, was elected, promising to continue Lula's policies. Again, no further privatization occurred, but there was continued engagement of the private sector for public service delivery through concessions contracts. The concession program reached two more roads and five airports. In the last case, the contract established a corporate entity between the government and private capital, sharing control of the new business. Nowadays, we expect the announcement of a new concessions package, and there are new PPP projects being studied by the government (Ministry of Planning, 2015).

Going back to the 1995 Plan for State Reform, we see the managerial type of administration was not suggested only for privatized companies and public services concessions. Concerning non-exclusive governmental activities (such as universities, hospitals, research centers and museums), the idea was to promote some kind of *publicization* process for public services to be executed by social organizations.

The term *publicization* was created to make a clear distinction with privatization – in other words, the aim was to transfer management of public hospitals, universities, museums and research

centers to non-governmental organizations (NGOs) specialized in health, education, culture and technology. There should be no private profit involved. The government would keep financing public services, but through a “management contract” signed between Ministries and social organizations, setting performance goals to be achieved in exchange for governmental funding. This new way of executing non-exclusive services would be similar to British *quangos*.

The main advantage of social organizations was their flexibility to hire personnel and buy goods and services. As they should be managed by NGOs, there would be no need for tenders and procurement following public administration laws. The point was to allow hospitals, universities, museums and research centers to be managed using more flexible rules, despite using governmental funding. During the Cardoso administration, seven federal social organizations were created, in research and technology.

The Brazilian political system admits judicial revision of laws. Even after the Legislative Branch approves a bill, it is possible to appeal to the Supreme Court, arguing the new law is unconstitutional. The laborers’ party claimed unconstitutionality of the law creating social organizations as soon as it passed in 1998. Litigation lasted over fifteen years and, in April 2015, the Supreme Court finally decided the law is constitutional.

As expected, authorship of the lawsuit and constitutional uncertainty about federal regulation inhibited the creation of social organizations during the laborers’ party administrations. The scenario surprisingly changed in 2013, however, when President Dilma created a new social organization related to research in industrial innovation. As we see, new public service arrangements keep the NPM framework alive, even when political conditions seem quite adverse.

Going back to Table 1, we can see that the second issue of the 1995 Reform board is related to so-called “exclusive governmental activities”, including police, regulation and social security. The strategy to migrate from bureaucratic to managerial administration in this sector involved agencification. The plan was to sign a “management contract” between a Ministry and the governmental body directly responsible for the exclusive activity, giving the latter more autonomy by transforming it into a special kind of governmental agency (named “executive agency”). Such new autonomies and flexibilities should be set forth in the management contract, as should performance goals to be achieved by the agency. In this sense, the management contract was meant to be a key device for reform: a two-way mechanism providing flexibility in exchange for commitment to performance goals.

Since 1995, only one federal executive agency has been created: the National Institute of Metrology, Standardization and Industrial Quality, in charge of regulating and overseeing industrial products. As we can see, merely a sector not directly linked to public service delivery but closely connected to introducing important changes into the governmental bureaucracy pattern of administration. Due to that, this kind of agencification has developed very little.

In concluding Reform Plan proposals, we reach the so-named first sector, which included changes in the strategic core of the state – the Presidential cabinet and the Legislative and Judiciary branches. The idea was to bring managerial tools to core government and to reduce red tape and part of bureaucratic controls, such as supervision, procedural and detailed regulation, as well as to introduce performance oriented management.

Despite its political relevance, the strategic core of the state is not directly responsible for public service delivery. The reform of this sector proposes to transform the way government works, connecting it to defined goals, with changes in the way we manage budget, personnel, procurement and institutional controls. There have been only minor changes across the years, but we continue with most of the constitutional bureaucratic framework, such as the single legal regime for civil service.

Having finished our brief exploration of the Reform Plan framework and its implementation in the federal level during these 20 years, we now begin the analysis of subnational context.

3. Subnational context: state and municipal roles in implementing new public service arrangements

As mentioned above, the 1988 Constitution designed a new framework for our federation. In distributing responsibilities, it allowed for collaboration in policymaking, establishing common competencies in the areas of education, health, social welfare, culture, research and technology, agriculture, housing, sanitation and transportation inside each territory.

Within the Constitution, however, are articles not only about politics (institutions and organization of the State) but also about policies. It establishes policy priorities, the way some services should be implemented (access and gratuity) and also how they should be funded. It determines, for instance, that 25% of state and municipal budgets should be spent on education and 12% of state budgets and 15% of municipal budgets should be spent on health.

As we can see, the constitutional design forced the expansion of public service provision in order to reach universalization of access. This guideline, together with more federative autonomy for states and municipalities, made subnational government key actors in the implementation of social policy involving public service delivery. More than 25 years later, subnational federal units really increased their participation in public service delivery and did so trying different organizational arrangements, many of them based on expanding models created by the federal Reform Plan from 1995.

In terms of private engagement in public services through Public Private Partnership contracts, there has been broad dissemination of the model across the country. While the federal government signed a single PPP contract, states and municipalities have already reached 86 (eighty six) (RADAR PPP, 2015). If we consider projects still being modeled, the national number rises to 430 (four hundred and thirty). Inside this group, 386 (three hundred eighty six) projects are being developed by subnational governments.

The areas where the projects are being developed vary across different public services. They include roads, rails, subway, sanitation, garbage collection and recycling, sanitary landfill, public illumination and also social services such as hospitals, prisons and school conservation.

In non-exclusive services, states and municipalities have also gone further than the federal government. Despite the fact that the judicial debate on constitutionality of social organizations was still going on, 17 (seventeen) out of 26 (twenty six) states and more than 40 (forty) municipalities created their own laws, based on the general federal regulation, allowing the creation of social organizations in regional and local levels of government.

Because of that, the number of social organizations sharply increased since their creation in 1998, and in 2009 the country already reached 186 (a hundred and eighty six) social organizations in states and municipalities, working on public service delivery in the areas of health, culture, sports, social welfare and several other social services (Publix, 2009). Compared to the seven federal social organizations, the number seems quite large.

Regarding exclusive governmental activities and strategic core government, much less has been made. The “executive agency” model – which should be an organization with some kind of administrative flexibility, working for performance goals – has not been created by any subnational federal unit. In terms of public service regulation, regulatory agencies were created to monitor and supervise public service concessions contracts. In contrast to the executive agency model, however, they would have no flexibility and would be included into the single law regime established by the Constitution.

Concerning managerial changes inside the strategic core, there has also been very little progress, as we see in the federal level. Only two state governments have comprehensively implemented NPM guidelines: Minas Gerais and Pernambuco. In these two states, the administrative bureaucracy pattern has been slightly changed, creating new performance-oriented governance. Private managerial tools – such as the Balanced Score Card – have been brought to core government to set goals, outputs, outcomes and indicators for different governmental departments. There has also been the spread of outcome and output agreements across governmental departments, including performance-based payment for civil service, linked to individual and organizational goals. We could say that these two states are the governments that best represent the move from bureaucratic to managerial administration prescribed by the Reform Plan for the strategic core (Pacheco, 2012).

Despite the fact that much has been discussed about some of the positive results of these two cases, there has not been as much dissemination as that which happened with social organizations and the PPP and concessions contracts. Although these new public service arrangements used the same basic managerial tools (since the contracts are based on goals, with variable pay according to their achievement), they have been much more disseminated in Brazil.

So, although the 1995 Reform Plan has not covered Brazil in a more comprehensive way, the introduction of new public service arrangements are continuously and incrementally bringing NPM to different levels of government. Below, we discuss the case of implementing social organizations in the state of São Paulo to clarify this point.

4. Social organizations in the state of São Paulo: the open window for NPM reform

The state of São Paulo is the greatest state of the federation in terms of population and the wealthiest in terms of income. About a quarter of the Brazilian population lives in this state that is responsible for almost one third of the country's GDP.

During the 1990's and the 2000's, the state developed an important program of road concessions that included privatization of more than 5,300 km (five thousand and three hundred). After 2004, the state government signed eight PPPs contracts in different public service areas, such as trains, metro lines, hospitals, housing and medicines.

The social organization model was adopted by the state just after the federal law was approved, in 1998, beginning with health policy. As mentioned, the 1988 Constitution established universal and free healthcare in the country, to be provided by the three levels of government. In order to expand the number of hospitals, the government chose the social organization model.

Implementation of the model started with opening sixteen new hospitals, all managed by social organizations and funded by the government through management contracts based on outputs and quality goals. The number of social organizations grew to 28 (twenty eight), currently responsible for managing 87 (eighty seven) different public service delivery units, including not only hospitals, but also medical ambulatories and laboratories. Governmental financial transfers vary according to outputs and the achievement of quality standards (90% of the money is linked to outputs and 10% is linked to the quality standards).

Although the model has grown a lot in the health area, it has been used exclusively for expanding the service. The state maintained pre-existent services working in the traditional bureaucratic pattern. As a consequence of this institutional pluralism, managerial tools used by private social organizations started to penetrate the state Health Department as a whole.

The main example of this experience has been the creation of "health program contracts" in 2008. These are a kind of performance-oriented agreement, signed between the head of the state Health Department and the Director of a hospital that is part of the state administration. The

contract is very similar to the one signed by social organizations, establishing outputs and quality standards for hospitals. According to Perdicaris (2011), the new performance-oriented agreement has clearly been a dissemination of the social organizations model to state hospitals.

The main difference is that, since the hospital belongs to the state bureaucracy, it is naturally funded by the public budget, so we cannot use financial transfers as an incentive mechanism. Thus, the Health Department decided to draw on specific incentives for these hospitals and created a bonus of 1% of each hospital's budget that is paid each time the hospital reach its goals. Hospital management has autonomy to decide where to spend the money with the limitation of not transforming it into personnel compensation (because this would have bureaucratic restrictions predicted in legislation). Of 25 (twenty five) state hospitals, 14 (fourteen) have already signed the agreement, which is always made on a voluntary basis.

The social organizations model has also created performance-oriented practice in cultural policies. The first cultural social organization was created in 2004, with the main motivation of having a more flexible way of managing cultural policy. The rules of the constitutional single law personnel regime proved to be quite odd for cultural activities. It is very difficult to organize cultural events and manage artists following the same rules of personnel recruitment established, for instance, for hiring judges, policemen and administrative bureaucrats. In other words, general rules of public tender and bureaucrats stability don't seem to properly fit the needs of this field. Including the social organizations model in cultural policy meant, in practice, the exchange of supervision and procedural controls for performance-oriented contracts. As in health, the model has experienced great expansion and nowadays there are 21 (twenty one) cultural social organizations responsible for managing 43 (forty three) different cultural facilities, such as museums, theatres, orchestras, libraries, dance companies, etc.

The most important change this model brought to cultural policies was the routine of establishing and monitoring goals. The area had to develop its own indicators and begin to get used to constant measurement of cultural activities that were not usually measured and compared. This topic remains as a great challenge with indicators that have to be constantly improved, trying to go beyond output without standardizing activities that are made to be unique. The fact is that, as in health policy, the new arrangement of public service delivery ended up bringing NPM to the state Cultural Department as a whole.

5. Conclusion

The idea of this paper was to reflect the important role of new public service arrangements in implementing NPM in Brazil.

To support this point, we went back to the Plan for State Reform made twenty years ago by the federal Ministry of State Reform and discussed how its guidelines have been limitedly implemented in the federal level of government.

After that we stressed the importance of the federal constitutional framework created in 1988, which gave states and municipalities the responsibility of providing public service delivery. For that reason, states and municipalities began to try different public service arrangements in search of a new model to fit their own needs. The result was an expansion of different kind of contracts and public-private interactions, which made the 1995 Reform Plan concrete. The highlights are the model of public service PPPs and concessions, and the social organizations model.

However, we could not see the same progress in NPM proposals related to the reform of core government, making Public Administration more performance-oriented. Even in state and municipal levels we see very few examples, as in the states of Minas Gerais and Pernambuco.

To finish, we highlighted how adopting new public service arrangements can bring new managerial tools to Public Administration, influencing how the bureaucratic pattern works. To

exemplify this situation, we analyzed the case of the state of São Paulo, where contracts with social organizations brought managerial changes for state Departments. Although this transformation is incremental and slow, it seems more sustainable in the long run.

XV

Comparing outsourcing of public services and liberalization of markets

Agata JURKOWSKA-GOMULKA

1. Introduction

A starting point for this paper is a claim that a process of outsourcing public services bears some essential resemblances to a process of liberalizing markets of certain (usually network) services. Liberalized markets, e.g. markets of postal services, transport services or energy services, even if in general open to market pressures, still require a certain degree of an involvement of a state. A state has changed its role from an owner and an active operator on a market to a supervisor of a market (regulatory authority) and a protector of competition (antitrust/competition authority). A state intervention may be performed either on a legislative or executive level. Within this first area a state establishes new “rules of play” that organize a market and impose a set of rules on market players, whereas in the second field a state takes on a role of a supervisor of a market and a sort of a “judge” in a market play.

Outsourcing of public services can be also considered as a process where a state changes its role - it quits a role of a service provider (and a related role of an owner of infrastructure and resources, including human resources) and adopts, firstly, a role of a customer (service receiver), and secondly, a role of an organizer of a market.

A paper aims at answering a question if general ideas of regulating liberalized markets by public authorities may be successfully applied as a model for a functioning of areas (markets) of outsourced services (these are services currently provided by private entities (or at least entities operating on the basis of private law), but previously delivered by public authorities). In order to respond to this question there is a need to point characteristic features of markets of liberalized and outsourced services and to find some similarities and analogies between two markets. Then it is necessary to identify competences of public authorities on markets of liberalized and outsourced services as well as tools they can use in order to fulfil their tasks. Finally, it is necessary to define potential powers of public administration towards entities providing outsourced services. The paper concludes with a confirmation that a model of functioning of liberalised markets in terms of a role public administration within it may be to some extent applied to markets of outsourced services.

Assumingly, a fact that managers in a public sector seem to be uncertain and even lost in a reality governed by outsourcing (Kakabadse, Kakabadse, 2001) may be caused by a lack of clear guidelines on a role of public authorities on and towards markets of outsourced services. Identifying an analogy between a position and tasks of regulatory authorities and administrative bodies on markets of outsourced public services may assist in closing this gap.

2. Liberalisation of markets and outsourcing of public services: common points

All analysis upon potential should start with identifying similarities and differences between two scrutinized processes: liberalization of markets and outsourcing of services. In order to find some

analogies and discrepancies it is recommended to view both processes through a prism of their reasons/roots, methods and results.

The first common point are reasons for liberalizing markets and outsourcing public services. It can be deduced from definitions of liberalization of markets and outsourcing that both processes are driven by a search for economic effectiveness. Either market liberalization or outsourcing reflects basically an intent to improve (or in critical situations - to introduce) economic effectiveness and efficiency in providing particular services. Competition creates a pressure on prices, quality and productivity, therefore a great pressure on outsourcing occurs usually in periods of recession. Beneficiaries of both processes are either companies that get an access to a market that so far was - at least partly - closed or clients who receive services of a better quality in a (more) competitive environment. Outsourcing and liberalization also open an access to a private capital (Funkhouser, 2012, pp. 900-901). Surely, outsourcing may be implemented in various paths: a total volume of services can be ordered at one provider which in fact constitutes only a change in a monopolist delivering services (private companies instead of a state) or a total volume of services can be provided by a number of companies. All the considerations presented in the article refer to the second situation.

Considering reasons for both discussed processes, either a liberalization of markets or an outsourcing of public services cannot be restrained only to their economic dimension. What is absolutely important is also their social dimension. In the context of public services contracted out a social aspect is sharp - these are services that used to be provided directly by a state (public administration) to citizens. Liberalization mainly refers to markets of services of significant social interest. Social functions of sector-specific regulation in liberalized markets are widely discussed in the literature (Przybylska, 2012, pp. 200-205). In both cases an important issue in a framework of all economic activities and changes is to guarantee an access of ordinary men (citizen) or certain social groups (e.g. disabled persons) to a service of a sufficiently good quality and at a reasonable price.

Liberalization and outsourcing of public services are expected to contribute to an increase of a general welfare - a great challenge for these processes is how to transfer benefits of transformation to a whole society as well as an individual consumer/client. G. Paquet correctly presumes that "It is not sufficient to do the thing right and cheaply in public policy. One must ensure that the right thing is done" (Paquet, 1996, p. 12).

Some similarities between liberalization of markets and outsourcing public services may be identified in reference to methods of implementing these economic and organizational ideas. Implementing a "new order" which in fact a liberalization is in most cases means, firstly, privatization and vertical (functional) separation of potentially competitive areas of a market (production, distribution, deliveries to end users). Legal and organizational separation of subsectors of a market results in a different intensity of competition at various level of trade (wholesale/retail). Secondly, there is a need to perform a new regulatory (legal) order which task is to solve troublesome issues in all the places where a sound competition is not able to operate (e.g. providing an access to services of general public interest that cannot be delivered profitably). Thirdly, an independent regulatory agency (body) oriented for supervising a liberalized market must be set up (Geradin, 2006, pp. 4-7; Jamasb, Pollitt, 2005, pp. 3-13). In this article a concept of a regulatory authority (or a regulatory body) is used in a meaning commonly approved in the EU law - a wide characteristics of a regulator as an institution supervising a liberalized market is provided in recitals 33-41 of Directive of the European Parliament and the Council 2009/72/EC of 13 July 2009 concerning common rules for the internal market in electricity (OJ L 211/55) and correspondent provisions of the Directive: Art. 35 and 36. This Directive will be also used as a point of reference in order confirm some considerations on a role of regulators on liberalized markets in the further part of this article.

Alternative service delivery has also lots in common with privatization, although in a different sense than a liberalization of markets. Outsourcing of public services does not usually cause a fundamental change in an ownership of infrastructure necessary to provide a certain type of services

which are still financed by public funds. But an outsourcing is a “privatization by facts” because services are delivered by private companies (or at least companies which are publicly owned but operating under a regime of private law). Contracting out public services may be performed in many ways: just through totally private markets or through “competitively tendered provisions of service contracts” (De Panet, Trebilcock, 1998, p. 25), but also in a form of management contracts, leases, greenfield projects or concessions (Pessoa, 2009, pp. 21-23). A certain form of outsourcing is also a private-public partnership. Indeed, outsourcing of public services, like a liberalization, also features (or at least should feature) with a separation (that can be compared to vertical separation in a liberalization): production of services and managing services are totally separated.

“Organizational culture” of liberalized markets and markets for outsourced services may be also quite close regarding a legal, organizational and economic status of entities starting their operations on these markets under new circumstances. In both cases it may be a new entity created - even if state-owned in 100% - expected to operate in accordance with rules of free market economy. The other method is to give an access to a market to “alternative” providers of services - in this context 'alternative' refers to an entities other than an incumbent (which can be also a body of public administration that used to provide certain services). It is worth underlying that in both scrutinized areas a concept of “alternativity” is noticeable. A shift in a mode of providing public services is often referred to as “alternative service delivery” and in a context of liberalization a term “alternative operator” is often used to describe emerging competitors for incumbents (Darr, 1991).

As a consequence of liberalization and outsourcing a new “fresh”, usually privatized, market arises. In both cases before introducing changes a market somehow functioned but this market was monopolized and not competitive at all, mainly state-owned or strongly state-controlled. An emerged market, expected to function for benefits of a whole society, demands many changes in behaviours of past monopolists (in case of outsourcing a state, represented by public administration, should be considered as “past monopolist”). It also requires new regulations and new *modus operandi* of public administrative bodies whose competences cover a newly-born market.

3. Role of public administration on liberalized markets

Commonly recognized pattern of liberalizing markets predicts a creation of a regulatory agency. Independence of regulatory bodies on liberalized markets is their key feature, strongly undermined by researchers. Regulatory authorities' independence should be understood mainly as a separation of state's ownership rights and state's supervising power upon a liberalized market. A regulatory authority cannot perform regulatory powers and ownership's rights (towards an enterprise active on a liberalized market) simultaneously. It is claimed that a regulatory authority should be independent either from market operators (specially an incumbent) or government that, additionally, quite often maintains some economic interests in an incumbent. As e.g. the EU Directive 2009/72/EC concerning common rules for the internal market in electricity stipulates “(...) regulators need to be able to take decisions in relation to all relevant regulatory issues if the internal market in electricity is to function properly, and to be fully independent from any other public or private interests. This precludes neither judicial review nor parliamentary supervision in accordance with the constitutional laws of the Member States” (recital 34). After a liberalization it is not possible to conduct regulatory functions by ministries (of energy, of infrastructure, etc.) that used to be a standard on monopolized markets (Geradin, 2006, p. 6). Nowadays regulatory authorities do not (or at least should not) perform any political activity of a government/ministers but they manage the market “to secure public interest goals, to that of a more open-ended process by which an independent public (technocratic) authority interacts with a host of public and private actors (regulatees) in norm formation, norm enforcement and norm adjudication within a specific public policy area” (Chowdhury *et al.*, 2012, p. 337). Unless a regulatory authority is sufficiently independent, there is still a risk that it is going to treat enterprises with a certain state involvement in their structure in a privileged way comparing to other market participants. It is worth underlining

that an independency must be featured basically by authorities performing regulatory functions towards individual enterprises by addressing administrative to them. A desired level of independence is guaranteed by a set of various tools, such as: a proper organizational structure of a whole system of public administration; a collective rather than a monocratic character of a regulatory body; a rule of *incompatibilitas* (a prohibition of combining a role of a member of a board and a member of a regulatory body on a market where a particular enterprise is active); a procedure of appealing against regulatory, etc.

Still, a total independence of regulatory authorities from any relations with other administrative bodies is in fact rather illusive because regulatory authorities are usually supervised by ministers (Szydło, 2005, pp. 306-308). It should be noted that there is no worldwide or even European universal model of a regulatory authorities: they differ from country to country and even from market to market. Even if EU directives concerning markets subject to sector-specific regulation impose on EU Member States a duty to establish an independent regulatory body but they do not set up any specific guidelines on an independency.

Functions of regulatory authorities are related to economic and social dimension of a particular sector/market. Regulating markets in an economic perspective requires establishing rules for starting a business in a certain sector as well as rules for an access to infrastructure (utilities, facilities) necessary to provide services. Regulators may be responsible for the organisation, monitoring and control of the tendering procedure referred - such a competence is attributed to regulator on electricity and gas market by Art. 8.5 of Directive 2009/72/EC (referred to above) regarding tendering for new capacity.

Social aspect of regulation of liberalized markets is limited to setting up requirements for providing so called services of general interest or universal services: both concepts, even if not absolutely clarified and defined, are settled down in the EU regulations such as Universal Service Directive (Directive 2002/22/EC of the European Parliament and of the Council of 7 March 2002 on universal service and users' rights relating to electronic communications networks and services, O.J. L 108/51) or Postal Directive (Art. 4 of Directive of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service as amended by Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services, OJ L 52/3).

A bit different (from mentioned above) type of tasks of regulatory authorities is to introduce safety standards for producing and providing services to clients (for example, see Art. 4 and Art. 37.1(h) of Directive 2009/72/EC). These additional functions of sector-specific regulation are immanent for liberalized markets which - because of a character of services - feature with insufficient competition.

One of important tasks assigned to a regulatory authority is to restrain an incumbent who has a privileged market position as it possess the greatest infrastructure, clients' records, well established brand, large cash reserves, connections with national government (Geradin, 2000, p. 181). A key objective while performing this task is to create, despite a preliminary imbalance between an incumbent and new entrants, equal conditions on a level-playing field for competition. A regulatory authority stands up as an organizer of a market who guarantees an access to it for new comers that would not necessarily be let into a market by an incumbent. A basic role of a regulatory body is to protect new comers from a past monopolist.

Here an essential role of antitrust authorities arises - competition bodies shall be very sensitive to abusing a dominant position by incumbents; antitrust law with all its sanctions supports a process of liberalization of markets and sustains its economic results. Whereas competition (antitrust) bodies react *ex post* to anticompetitive practices of entities, independent regulatory authorities act *ex ante*, imposing on supervised entities duties that must fulfilled in a future. It is claimed that this mode of

operation creates a high level of legal certainty for market players (Szyszczak, 2007, p.143). High degree of legal certainty may be considered as an important argument for applying a model of liberalized regulatory markets to outsourced markets.

Economic and social regulatory functions are implemented by regulatory instruments that in fact point areas and types of economic activities which may be bindingly influenced upon by regulatory authorities. A list of these instruments basically covers a regulation of a participation in a market such as e.g. rules for entering and leaving a market; rules of an access to essential facilities; organizational structure of an entity (for example, see Art. 37.1(f) of Directive 2009/72/EC). The second important regulatory instrument is a price regulation that limits enterprises' economic freedom by imposing various types of prices: rigid, minimum, maximum prices or only pricing cap (for example, see Art. 37.1(a) and (i) of Directive 2009/72/EC). Regulatory tools that may be combined with price regulation are limitations of output and sales as well as requirements concerning quality policy (for example, see Art. 7 of Directive 2009/72/EC referring to a capacity in energy sector).

Regarding operational methods of regulatory authorities, it must be underlined that scrutinized bodies enter into relations with entities operating on supervised markets mainly through standard administrative procedures (administrative proceedings) with all its consequences in a sphere of authorities' competences and entities' rights. Specific tools that are at regulatory bodies' hands are mainly administrative sanctions that can be imposed upon enterprises.

A crucial meaning of a good regulatory framework, including a functioning of independent regulatory authorities, in a process of reforming previously monopolized sectors, is commonly recognized as a guarantee of a successful liberalization (Joskow, 2008, pp. 23-25).

4. Role of public administration on markets of outsourced services

Contracting out public services, if defined just as ordering public services outside (on a free market), instead of delivering them by public administration itself, leads to a fundamental change: a public body shifts from a provider of services into a purchaser of these (public) services.

Reasons for an independence of a regulatory authority shall be also applied in a case of bodies appointed for supervising and organising a system of outsourced services. A market of outsourced services would function well and bring all expected benefits and efficiencies only when a public institution, previously responsible for delivering services and currently engaged in a market as its organizer and - sometimes - as a public enterprise eager to compete with other market players, refrains from any administrative impact on a market. Thus, one of basic conditions for making a market of outsourced services effective (what in fact constitutes one of main reason for contracting public services out) is to separate a role of a purchaser and a role of an organizer/supervisor of a market for outsourced services. Assigning each role to totally different institutions would be probably an ideal solution but in many cases - rather impossible and even unnecessary. It suffices to establish within one public administrative institution a single organizational unit (e.g. department) responsible for a purchase of services and the other responsible for organizing and supervising a market of outsourced services. Here a reference may be done to a famous judgement of the EU Court of Justice C-199/11 *Otis et al.* case where the European Commission (acting as a purchaser of goods) stood up to a civil court in Brussels with a claim for damages from a few manufacturers of lifts who earlier were found, still by the European Commission (acting as a competition authority). The Court in a judgment of 6 November 2012 confirmed that the Commission's claim were eligible as far as an internal organization of this public body allowed for a separation of competences. Applying a concept of "Chinese wall" is relatively easy either in large or small institutions - a difference is limited to a size of units dealing with particular issues (in case of local governments a unit being one part of a wall may be even built by only one employee).

Surely, an administrative body plays a role of an organizer of a market or "service arranger" (Armstrong, 1998, p. 2) but in a slightly different manner than standard regulatory bodies. A key task

of a public authority on a market of outsourced services is allocating orders among alternative operators so its task is basically organizational, rarely protective - the latter becomes important when a public enterprise is one of market players in an emerged market of alternative services.

If a public authority organizes a market in a meaning pointed above, it can be presumed as an addressee of antitrust rules (e.g. “undertaking” in a meaning of Art. 101 of Treaty on the Functioning of EU) and may be exposed to a potential intervention of a competition body. A role assigned to competition authorities focus mainly on checking if potential operators of these services follow competition rules and do not engage in anticompetitive, predominantly collective, practices such as bid-rigging. An antitrust proceeding shall be initiated e.g. when conditions of participating in a public tender makes one participant privileged while discriminating against others (examples of antitrust decisions in such cases can be found in a case law of the Polish President of Office of Competition and Consumer Protection who declared a breach of a national regulation prohibiting an abuse of a dominant position by the Polish National Health Fund that acts as an allocator of public orders for health services financed within a public system).

Additionally, a public administration should takes on a role of a protector of receivers of outsourced services who, as soon as an alternative delivery of services starts, turn from a client of public administration to a client of private companies, even if public bodies are somehow involved in financing a purchase of services. It may create a need to establish a framework for protecting citizens from unfair practices of new deliverers of services. It can be done twofold: firstly, these “protective” tasks may be assigned to another public institution specialized in consumer protection, secondly, these activities may lie within an administrative body whose competences cover outsourced services. The latter solution can be supported by a view that abandoning protective tasks by an administrative body depreciates an interaction between a public administration and citizens (Alford, 2002, pp. 338-342) which still should be very important in a case of publicly (at least partly) financed services which in fact outsourced services quite usually are. However, especially in the EU Member States where a legal and institutional system of a protection of consumers' rights is strongly developed, the first solution proposed above would be most appropriate. If it is decided to make a certain area of previously publicly delivered services subject to rules of a free market economy, its consequence is to accept all institutions and mechanisms of this social and economic system, including an institutional framework of consumer protection. A method of financing services is not a reason for setting up a separate system of consumers' protection but it may be a reason for a special interest from authorities dealing with consumers' protection because a damage caused by unfair practices may touch at the same time an individual and public interest. Certainly, a system of public protection of consumers' rights in a sector of outsourced services should be accompanied by an effective private enforcement of consumers' rights. If a service is partly paid by a state and a service receiver they should both have a standing to make a claim for a proportionate damage for a service provider.

As usually a system of alternative service delivery is highly dependent on a system of public procurement, a public administration specialised in protecting fairness of public tenders shall be also involved in an institutional framework for an operation of markets for outsourced services. This element also does not constitute an institutional “system of checks-and-balances” on liberalized markets but it is essential on markets for outsourced services.

Anyway, a preliminary condition for making a market of outsourced services effective seems to be a proper organization of a public body responsible for these services. Institutions should be well staffed and they should have a very good access to market information (prices, quality, tendencies for development, etc.). Although, as A. Pessoa claims, regulation is also fundamental in various “forms of private involvement on provision of basic public services” (Pessoa, 2009, p. 24).

5. Conclusions

A key difference in a role of regulatory authorities and administrative bodies supervising a market of outsourced services is a double role of the latter's. A fact that a public administration simultaneously acts as a customer (by financing services) and an organizer of a market (by establishing rules on how this market operates) surely creates a danger of confusing both roles resulting in abusing administrative powers while performing a role of a customer. Such dysfunctions may even eliminate benefits of outsourcing such as building a market with a competitive structure with all its efficiencies. In order to avoid such a danger it would be recommendable to build a sort of "Chinese wall" inside a public administrative body or a whole administration system (orders allocated by an institution that is directly involved in financing certain services).

Despite the above difference the characteristics of regulatory authorities on liberalized markets and public bodies, previously active as service providers and presently outsourcing these services, are quite close. They both "regulate" markets *ex ante*, deciding e.g. on a number of operators active on a market (regarding regulatory bodies - at least in a case of services of public interests), a framework of pricing policies, technical requirements for service providers and services themselves, rules for an access to infrastructure and/or public utilities. It is up to a particular legal system what instruments may be used for performing these roles. Regarding a liberalized sector it is usually a law maker who sets up a regulatory framework in a form of common legal acts adopted by a basic law-making authority (e.g. parliament) and these are usually independent regulatory authorities who implement this general framework by introducing executive (more detailed) legal acts (commonly addressed) as well as individual administrative decision (addressed to a particular entity). Markets of outsourced services may operate in the similar manner: a set of common, general regulations set up by a legislator accompanied by acts, also individually addressed, issued by a public administrative body relevant for markets of outsourced services (e.g. minister or local government).

A task assigned to both scrutinized categories of authorities should be also checking if all rules imposed on market operators are fulfilled. However, sanctions that may be applied for breaches of these rules differ for regulatory authorities and administrative authorities responsible for outsourced services: regulatory authorities can impose administrative fines predicted in legal acts being a part of general regulatory framework of a sector whereas a basic sanction for a failure in fulfilling operational rules on a market of outsourced services is just finishing a contract by administrative bodies and - probably - consequent civil sanctions. Still, I can imagine that a general lawmaker takes on a part of responsibility for outsourcing public services and introduce fines for a "malbehaviour" of service providers, facilitating in this way tasks of executive authorities.

Applying a model of regulatory authorities to markets of outsourced services results in transmitting tasks of protecting (in *ex post* manner) competition and consumers to specialized public agency dealing with these issues. The same would be appropriate for an agency responsible for verifying a legacy of public procurements.

Analogies between regulatory authorities and administrative authorities dealing with outsourced services are rooted in similar reasons and goals of liberalization and outsourcing. This objective is introducing better economic effectiveness seen as a result of diminished costs and greater profits of a whole sector (in liberalization) or of a smaller area of economic activity (in outsourcing).

To sum up, it is highly recommendable for public administration to consider experiences of a liberalization of markets while introducing alternative supply of services - solutions are at hand. Absolutely valuable is a fact that nowadays, after roughly three decades of liberalization of network industries, not only good but also bad experiences may be points of references for these considerations. Using a model of liberalized markets shall be even more attractive on these markets of outsourced services that lack sufficient level of competition what due to quite recent researches

(Girth *et al.*, 2012, p. 887; Warner, Hefetz, 2008, pp. 155-166) is not very rare. Absorbing methods of functioning of liberalized markets is also very future-oriented and promising, regarding a potential development of an idea of contestability (defined as “meet the market, beat the market”), promoted as an alternative to outsourcing (Sturgess, 2015).

XVI

Governance of public enterprises: An international comparative analysis

Younes BELFELLAH and David CARASSUS

1. Introduction

In 2016 Google Scholar displayed 1,710,000 hits for 'governance' as the key word, 879,000 hits for 'corporate governance' and 110,000 hits for 'public enterprise governance', which highlights the importance of and researchers' interest in governance. In addition, we recorded more than 300 scientific events in 2016 on governance including study days, seminars, symposiums and conferences.

Governance is a key focus for many countries and it is highly used in various disciplines. Politically, it means integration of the citizen in democratic framework and decision-making. In economics, governance targets performance of economic policy and the fight against unearned income, fraud and corruption. Legally, governance is highly important in placing emphasis on the separation, balance and independence of legal power. In addition, governance covers environmental matters through rational allocation of resources, involvement of the various institutions in sustainable development and mobilisation of businesses to ensure their societal responsibilities.

The first definitions of governance come from international organisations. The World Bank defines it as exercise of political power and a control in management of society's resources for social and economic development. The Organization for Economic Cooperation and Development states that governance is the set of mechanisms and means aimed at rallying the interests of different stakeholders, avoiding differences, seeking compatibility and managing susceptibility in order to arrive at a compromise or consensus. Governance is therefore the ability of human societies to develop systems of representation, institutions, processes and social institutions to manage themselves in a voluntary movement. This conscience ability (the voluntary movement), organisation (the institutions, social institutions), conceptualisation (the systems of representation) and adaptation to new situations is a characteristic of human societies.

To this day, there is no precise and comprehensive definition of the concept of governance. However, there are good practices recommended by international agencies. In summary, governance's strategic depth is to have a positive impact on the citizen while contributing to development. It is a practical state involving the application of reference frames, principles and a state of mind that considers universal values.

Governance thus reflects the drive of public sector administrative reform through management of the various powers in public administrations and public enterprises. First, sovereign power or the governance body, which is the one held by the State as shareholder and exercised by the board of directors in a monistic system or the supervisory board in a dual system. Secondly, the executive power, or management, executes the strategy and implements the operational decisions guiding the business. This term can refer to either one or several individuals invested with executive power and, ultimately, the power of surveillance or control. This ensures compatibility between the exercise of the executive power and the social interest, the sustainability of the organisation and its sustainable performance. Gomez and Korine (2008) clarify the concept of corporate governance by differentiating between entrepreneurs, management and governance. Within the limits of the

economic world, 'entrepreneurs' define the market, technique or jurisdiction: who will be at the heart of its activity. This choice, although reasonable, is arbitrary because it could also reasonably be otherwise. Meanwhile the leader seeks to find the best combination of means to handle the economic constraints considered as data. The role of the manager is to find resources to get the best match: human skills, financial or technological resources. However, governance is to ensure that those who are suffering the consequences of constraints or of the means chosen – the stakeholders – consider the decisions taken as legitimate. This does not mean that they do not object to the content of the decisions. But they consider that the decision maker is legitimate to take a decision which commits the entire enterprise.

On this point, Charreaux (1997) adds that corporate governance is the set of organisational mechanisms that delineate the powers and influence of the leaders' decisions – in other words, those who 'govern' their conduct and define their discretionary space. The main role of a governance system (is defined) as aligning the ability to seize opportunities for growth and the appropriation of gains accrued.

The concept of corporate governance has developed significantly following financial scandals such as Enron, Madoff or even Kerviel. Transformation of ownership and a gaping lack of transparency are driving factors that have aroused the need to manage the power relations, determine the margins of operation, and clarify the general interest of the individual and foster honest communication. Corporate governance outlines the definition of the company's legal framework and in particular its organisation, operation, the rights and responsibilities of the general shareholders' meetings and company management bodies, and the rules to appoint executives and directors. It also focuses on instructions to manage potential conflicts of interest, organisation of controls on management and operation of the company: internal controls, regulatory controls, statutory auditors, the rights and responsibilities of other stakeholders (employees, creditors, customers, suppliers...), and communication and financial transparency of the company.

In this work, we are interested in public enterprises. Historically, public enterprise have played important roles in economic development through industrialisation and modernisation of the structures of growth and production in several countries, including France, Norway, South Korea, Austria, Singapore, India and Brazil.

We are currently seeing considerable evolution in public enterprises moving from being State operators performing public service roles to organisations combining several resources and that are able to produce a good or a service marketable nationally or internationally.

For example, Singapore Airlines is among the best airlines in the world. Other public enterprises represent models of good practice in management and technological progress such as: Embraer, the Brazilian manufacturer of civilian aircraft used in regional, business and agricultural aviation, Renault, which is ranked the fourth motor vehicle manufacturer worldwide; and the Korean company Posco, a major global steel producer. These are successful public enterprises with strong State participation in their ownership and their boards of directors.

To complete this work we collected, processed, analysed and summarised various documents, in particular scientific articles, official reports and professional studies. We were also able to conduct twenty interviews with directors and leaders of public enterprises. We used in-depth interviews in order to explore changes in governance practices while noting their comments, constraints and recommendations to strengthen the governance system and the points of difference with other public enterprises globally. We studied three cases: SNCF in France, STM in Canada and NIW in the United Kingdom.

This paper seeks to perform a comparative analysis of the governance practices published globally to respond to the following research question: What are the similarities and differences between governance practices in public enterprises?

The remainder of this paper is organised as follows: the first part covers the general framework of governance in public enterprises. We then look at the contextual elements and fundamentals of public governance. We finish by comparing governance of public enterprises in France, Spain, Germany, Canada and the United Kingdom with practical illustrations in order to draw lessons learned and suggest potential future research projects.

2. General framework of governance in public enterprises

2.1. Conceptual considerations of corporate governance

Company governance is based on a rich theoretical framework. Several authors are interested in its definition. Caby and Hirigoyen (2000) state that governance is like the network of relations linking multiple parties in the framework determining strategy and company performance. Shleifer and Vishny (1997) consider that governance is the means by which suppliers of capital to the company can ensure the profitability of their investment, limiting the sphere of governance to conflicts of interest between the shareholders and the leaders (shareholders model). Charreaux (1997) considers that corporate governance covers all organisational mechanisms that aim to outline the powers and influence of the leaders' decisions – in other words, which govern their conduct and define their discretionary space. He expands the scope of the stakeholders affected by conflict of interest: bankers, employees, customers and suppliers (stakeholders model).

The main role of a governance system is defined as that of aligning the ability to seize opportunities for growth and the appropriation of gains accrued. In this sense, Rajan and Zingales (2000) define governance as the set of mechanisms to allocate and exercise power, or the hierarchical authority. Criticising the strict shareholder vision of corporate governance, they argue that distribution of power and the value created between the parties active within the company are a governance mechanism centred on prevention of conflict and, therefore, on the convergence of utility functions. It is interesting to highlight the transition from corporate governance to organisational governance. Pesqueux (2010) clarifies that organisational governance aims to combine “relevance – coherence” which prevails in fact, since the two aspects guarantee the organisation's sustainability. Relevance here is seen as the formulation of a strategy to attain profit and coherence as a “corporate governance compromise” between different agents, whether “internal” or “external” to its organisation. Perez (2009) adds that governance is the management of management within the organisation.

In this context, corporate governance represents the set of decisions taken throughout the span of the company and at all levels of responsibility in the aim of creating lasting value while ensuring medium-/long-term development of the enterprise. All this thanks to the relevance of the strategy developed, the optimisation of resources at its disposal and adaptation of this strategy for all stakeholders in the decision chain, while ensuring that the likely risks are quickly identified and controlled.

Governance confronts issues through three opposed pairs:

- Discretionary power versus control of power: the leader makes his choice according to his discretion in establishing decision-making autonomy that may put the company at risk, a lack of counter-power may lead to dishonest behaviour by leaders. It is therefore necessary to find the appropriate path which will balance the leader's decision-making area and its control.
- Information versus secrecy: informing stakeholders is essential for management and good governance. This does not mean that all must share the content of the decisions, but that everyone believes that the one who has decided has the capacity, right, skills, means and legitimacy to do so.

- General interest versus private interest: the enterprise is the place of confrontation between the interests of all stakeholders. It is a space of differences leading to conflicts of interest. Confrontation of these interests leads to a complex series of contractual and cognitive conflicts.

It should be noted that through international corporate governance practices, we can identify two major models. The first is Anglo-Saxon, of the “shareholder” type, characteristic of Anglo-Saxon capitalism, gives primacy to the shareholders and to the goal of creating “shareholder value”. The second model is the Rhenish or “stakeholder” model, an attempt through leaders to seek to reconcile the interests of different stakeholders of the company (shareholders, banks, employees, customers). Rhine capitalism, which arranges social dialogue in the enterprise (co-management), is a typical example. Some countries such as Germany already have a tradition of partnership governance. This perspective places greater value on relations with all the stakeholders and the creation of value in the long term. In effect, maximisation of performance is no longer the domain of the shareholders alone. Therefore, you need to optimise the “value partnership” in a context of differences of points of view, i.e. conflicts of interest between the stakeholders. This model provides a major emphasis on labour and representation of the parties, a high susceptibility for consensus, and a key role to risk prevention and anticipation. The cultural dimension provides the justification of corporate governance models and these behavioural traits have a greater effect on implementation of company governance (Licht, 2014).

Likewise, a hybrid governance model seems to be emerging. It is characterised admittedly by a strengthening of the powers of control of shareholders and in particular of minority shareholders – a loan to “shareholder” model – but also by the additional powers granted to employees and to society: characteristic of the “stakeholder” model (Cheffins, 2012).

These models have developed approaches to assimilate the governance system in terms of mechanisms, aim and meaning. The first approach is that the shareholder is interested to align the interests of shareholders with those of leaders and secure the profitability of financial investments (Shleifer and Vishny, 1997). It is therefore the manner in which a contributor of capital ensures income on his investment. According to Charreaux (1997), the “shareholder approach” is the main backdrop to debates on the remuneration of leaders and directors, the role, composition (external directors or not), the form of the board of directors, the disciplinary role of public tenders, the role of measuring performance of the financial market, the right of expression and the protection of small shareholders....

In addition, the partnership approach covers the relations between all stakeholders in extending the scope of decision making to encompass the tributary variants. Thus, the best sharing of decision-making authority and the risk between the different categories of stakeholders leads to greater efficiency and ensures greater organisational cohesion. In turn, efficiency of the company supposes maximisation of the value partnership. Maximisation of wealth is done through mechanisms likely to resolve the conflicts between the different partners (Hart, 1995).

Furthermore, a very recent cognitive approach that no longer considers governance as a contract point, but rather a directory of knowledge able to perceive new opportunities that create sustainable value. To do this, the value creation process involves subtle coordination between the stakeholders, the ability to consolidate their intangible capital through knowledge sharing, expertise with a view to a goal and a common achievement. This extended contractualist approach of governance encourages protection of the value of human capital and reconsidering the managerial strategy of rooting in a more positive manner. However, the disciplinary vision remains dominant because governance mechanisms retain this function of securing investment (in the broad sense) with respect to the risks of expropriation subtended by the maximising behaviours of individual utility in uncertainty.

2.2. Contextual elements of governance in public enterprises

Governance of public enterprises is based on the dominant role of the State on multiple issues as owner and shareholder of public enterprises. It requires determination of the legal and fiscal framework of economic activities; to assume its responsibilities under public policies which it leads in regional social, industrial or development matters. In addition, it must define the conditions for the implementation of the public service when that is the responsibility of the State and not of the territorial communities, and regulate the sectors of activity.

In this sense, the Organization of Economic Cooperation and Development (OECD) in 2005 defined the guidelines of governance for public enterprises. The principles are as follows:

- Public authorities must develop a shareholding strategy defining the overall objectives of State ownership.
- The State must allow boards of directors of public enterprises to exercise their responsibilities and respect their independence.
- Exercise of the rights attached as shareholder must be clearly located within the administration. It should be centralised within a single shareholder entity or, when this is not possible, entrusted to a coordination body. This “shareholder entity” must have the powers and skills required to fulfil its obligations.
- When public enterprises are listed or include non-State investors among their shareholders, the State and public enterprises must recognise the rights of all shareholders and ensure that they receive fair treatment and equal access to information on the company.
- The board of directors of a public enterprise must be seen to assign a clear term of office and ultimately assume responsibility for the results of public enterprises.

Another important characteristic of governance of public enterprises is their legal form. The most common form is a limited liability company, followed by a public limited company (Gilson, 2016). In several countries, public enterprises are considered companies just like others and fall under the same company law. This links in with the vision of the companies that does not make a great distinction between the managerial firms and public enterprises (this current is detailed in the first section of this thesis). But they are nevertheless sometimes in the form of a public law body, for example in the following countries (OECD, 2005b):

- Sweden, where airport authorities and those of the national energy network are State bodies.
- Switzerland, where the post office (La Poste) is under public law.

In some countries, public enterprises are subject to specific legislation, either laws governing an entire category of public enterprises or laws relating specifically to some public enterprises. France for example distinguishes between:

- EPIC.

Public industrial and commercial institutions (or EPIC) are public law entities set up to manage a public service activity. An EPIC is largely governed by private law: its staff is subject in principle to the Labour Code and is essentially similar to private sector employees, and the contracts that they have with their users are subject to private law.

- National companies.

These are public limited companies in which public entities are the only shareholders. SCNs fall under commercial law but benefit from dispensations as regards the ownership, boards, and status of directors and leaders.

For example, the boards are organised on a tripartite basis between employees, qualified persons and representatives of the State.

– Mixed-ownership companies.

This is a form of SCN, in which public communities and shareholders share in the capital. However, the modes of internal organisation (Board, General Assembly) are different from one company to the other.

Public enterprises with a special legal status are often governed by different provisions with regard to boards of directors and levels of communication of information required. In addition, they are not subject to bankruptcy legislation. Following market deregulation and liberalisation measures, some harmonisation of the legal status has however occurred, for example in EDF and GDF in France. There are many reasons to want to harmonise the legal status of public enterprises with that of private companies, namely to enable a more systematic use of the corporate governance instruments and facilitate access to capital to finance expansion, including abroad.

Table 1. Legal forms of European public enterprises

	Company law		Public law	Special law		Comment
	Private limited companies	Joint stock companies		For certain categories of public enterprises	For specific public enterprises	
Belgium	X	X	X	X		All enterprises are independent State enterprises governed by public law. They are also subject in part to general company law, with the exception of a few dispensations provided for in the autonomous State enterprises law.
Denmark	X	X			X	For enterprises limited by shares, only company law applies, while other public enterprises are governed by specific legislation.
X	X	X		X	X	The general provisions of company law apply. In addition, there are public enterprises with a distinct statutory form (State Enterprises).
Germany	X	X			X	Commercial public enterprises managed as joint stock companies and limited liability companies.
Greece		X				Public limited company.
Italy		X				All commercial public enterprises are managed as joint stock companies.
Netherlands	X	X	X	X	X	All limited liability companies governed by private or public law.
Spain		X		X		All limited companies.
United Kingdom	X	X	X	X	X	Public enterprises can generally take three forms: - "Companies Act companies", subject to the rules applicable to companies in the private sector; - "Statutory Corporations", subject to specific legislation; - "Trading funds" (executive bodies of the Ministries).

Source: OECD: Questionnaire on governance of public enterprises, 2011b

However, the legal status of public enterprises is directly assigned by the legislative or regulatory texts of creation, regardless of the legal status chosen. In France, according to a government decision in March 2010, the objectives in public enterprises must be directed toward the provision of an active contribution to the industrial and social policy of the government. In August 2010, a public enterprises commissioner, which is the responsibility of the Ministry for the Economy and Finance, was appointed to supervise this policy.

Since the 1990s, the laws, rules and standards have multiplied in order to trace the lines of “better governance”. According to the list provided by the European Corporate Governance Institute, 253 codes were published between 1992 and 2012: 240 national codes from 60 different countries and 13 international codes.

States have become aware that “interest in corporate governance goes beyond that of shareholders in the performance of individual companies. As companies play a pivotal role in our economies and we rely increasingly on private sector institutions to manage personal savings and secure retirement incomes” (OECD, 2005).

That is why States are required to define general rules which are then clarified and listed by codes of good conduct, and which are then disseminated through the publication of charters and rules of procedure within the companies.

We present a summary table that lists the codes of good governance according to the leading countries in the field, with the main recommendations underlined.

Table 2. Synthesis of codes of good governance and practical recommendations.

Country	Codes and reference documents	Main recommendations
USA	<ul style="list-style-type: none"> – A Guide for Directors and Corporate Councils (1996) – Director Professionalism (1996) – Corporate Governance Survey (1997) – Coping with fraud (1998) 	<ul style="list-style-type: none"> – Encourage the appointment of independent directors. – Facilitate internal control. – Ensure transparency to financial markets. – Balance powers within the company. – Create three independent committees (Audit, Nominations and Remuneration). – Publication of managers’ remuneration.
United Kingdom	<ul style="list-style-type: none"> – (Cadbury, 1992) – Director's Remuneration (Greenbury, 1995) – The Combined Code (Hampel, 1998). 	<ul style="list-style-type: none"> – Separation of executive and control powers. – Preparation of a charter on the rights and duties of directors. – Create three independent committees (Audit, Nominations and Remuneration).
Canada	<ul style="list-style-type: none"> – Where were the Directors? (Dey Report / Toronto Stock Exchange, 1994). 	<ul style="list-style-type: none"> – Clarify the role of the chair of the board and the Chief Executive. – Encourage boards to comply with a composition in which independent directors are in the majority. – Create independent committees (Audit, Nominations and Remuneration).
Netherlands	<ul style="list-style-type: none"> – Corporate Governance in Nederland (Peters Report, 1997) 	<ul style="list-style-type: none"> – Separation of powers between the supervisory board and executive management. – Independence of the members of the board, as well as definition of the roles and responsibilities of the two bodies. – Creation of specialised committees.
Germany	<ul style="list-style-type: none"> – KonTraG (1998) 	<ul style="list-style-type: none"> – Limit the accumulation of terms and remove multiple voting rights. – Establishment of specialised committees.

Country	Codes and reference documents	Main recommendations
Japan	<ul style="list-style-type: none"> – Corporate Governance Principles (1998) 	<ul style="list-style-type: none"> – Creation of a board of directors inspired by the Anglo-Saxon models, composed of a majority of independent directors. – Establishment of specialised committees.
Italy	<ul style="list-style-type: none"> – Testo Unico Draghi (Legislative Decree, 1998) 	<ul style="list-style-type: none"> – Modification de la shareholding structure of listed companies. – Information on members of the board and managers' remuneration.
France	<ul style="list-style-type: none"> – The Viénot report (1995) – The Arthuis report (1996) – The Marini report (1996) 	<ul style="list-style-type: none"> – Introduction of independent directors. – In the board and limitation on accumulation of terms of office. – Drafting of ethical charters. – Creation of specialised committees.

Source: Author's own

The growing importance of corporate governance translates into multiple initiatives aimed at establishing and clarifying “best practices”. They emanate from diverse stakeholders, whether institutional investors, international organisations, governmental or representatives from companies themselves. These initiatives have resulted in a significant number of governance codes (GC) whose application is voluntary and that contain a set of recommendations aiming towards an “ideal”. At the end of March 2004, there are a total of 121 GC at a global level.

A recent study was commissioned by the Commission in Brussels solely for the member countries of the European Union (EU). According to this study, the movement to design and disseminate “best practices” of governance, as regards Europe, essentially started in Great Britain in the early 1990s. In Europe, GCs therefore first emerged in a context of financial scandals, particularly arising from matters of conflict of interests and despoliation.

With the growing role in public enterprises, some European countries preferred to adopt specific codes for these firms. Others simply published codes adaptable to several types of businesses, including public enterprises.

In Germany, the Department of Finance submitted a public enterprises governance code for approval in 2009. This code applies to public enterprises independently of its legal status. The code covers most aspects of ownership and governance of this type of firms, including the role of the shareholders, their meetings, the board's supervisory and management responsibilities, remuneration, transparency and financial information. It provides a summary of these practices to be complied with by public enterprises and their owners, ranging from certain aspects of applicable law, to “recommendations” and to undiluted “suggestions”.

Parts of the individual elements were already implicit or explicit in a pre-existing multitude of directives for public enterprises from the Department of Finance. Under the new rules, members of the board of directors are now subject to a continuing obligation to issue a report on conflicts of interest that may arise during their term.

In Norway, a White Paper published in 2006 stated that the government will remain the active and long-term owner of large public enterprises in Norway. This document, which has been submitted to Parliament, relies primarily on the Norwegian ownership policy, clearly indicating the Norwegian government's position on various issues relating to the public enterprises sector, including the objectives and the organisation of State property, the company responsibilities and composition, the remuneration of the leaders and the planned profit-sharing. A set of principles for good ownership have also been indicated in accordance with the generally recognised principles of corporate governance.

In Spain, general rules relating to the assets of central government have been adopted by royal decree in 2009. These general rules are essentially a hybrid between a policy of ownership and the elements of a code of good practice for the broadest scope in public enterprises. The main motivation for the change included: the desire to increase the efficiency of public enterprises and related public bodies; and the establishment of a framework of transparency for public enterprises.

In Sweden, in November 2007 the government adopted guidelines for external reports in public enterprises. The guidelines essentially dictate that external communication of public enterprises – which includes the annual report, the interim reports, the corporate governance report, the report on the internal control and the report on sustainable development – should be as transparent as in publicly traded companies. In the annual report, the board should describe the manner in which the guidelines have been implemented over the financial year and comment on any deviations. According to the guidelines, the board is responsible for presenting a report on sustainable development, in accordance with the Global Reporting Initiative (GRI) from FY2008 onwards⁷. In April 2009, the government also introduced terms and conditions of employment for senior executives in public enterprises in these guidelines. Thus, the manager's remuneration in these firms is the responsibility of the board of directors as a whole. In case of deviation from the government's guidelines, the board should report on the specific reasons for each particular case.

In France, the rules on governance are not contained in statutory or regulatory texts, but instead in the codes developed by the bodies representing businesses (MEDEF, AFEP)⁸. In addition, referring to a code of governance is currently only optional for companies whose financial securities are listed, as stated in article L225-37 of the Code of Commerce. There are currently two codes of governance that have been written by organisations representing businesses: The "AFEP-MEDEF" code developed by the French Association of Private Companies and by the Movement of French Enterprises, and which is mainly used by CAC 40 companies; and the "Middle next" code developed by the association of the same name. The latter is aimed more at small and medium-sized listed companies, and intends to be adapted to their size, capital structure and their history.

For public enterprises, the French Institute of Directors published a Governance Code in May 2017 entitled: Governance of enterprises with State participation. It proposes recommendations concerning the relationship between public enterprises and the State, management of conflicts of interest and the composition of the board of directors. However, companies may choose to explain why they do not comply in an adaptation to French law of the Anglo-Saxon "comply or explain" principle.

In Belgium, there is the Buysse code and the Belgian Code on Corporate Governance (Code, 2009).

- The Buysse code provides recommendations to companies not listed on the stock exchange. It includes recommendations on the role, functioning and composition of the board of directors; the role, appointment, evaluation of and remuneration of senior management; external control, involvement and role of the shareholders. There are also recommendations specific to family businesses and basic recommendations for good company management.
- The 2009 Belgian Code of Corporate Governance is the second edition of the Belgian Code on Corporate Governance. It is aimed at companies under Belgian law whose shares are traded on a

⁷It should be published on the web site of the company concerned, together with the company's annual report. The sustainable development report can be either a separate report, or an integral part of the annual report.

⁸Initially, the Viénot report "The Board of Directors of Listed Companies" published in July 1995 was developed at the request of the French Association of Private Enterprises (AFEP) and the Movement of French Enterprises (MEDEF) for French companies. The need to enact such a code arose in the wave of privatisation and the opening of the stock markets to investors who were not always aware of how the management of the listed companies worked.

regulated market (“listed companies”). However, given its flexibility, the Code can also serve as a reference framework for all other companies.

The Code is also based on the “comply or explain” principle⁹. This principle, supported by the OECD, is recognised by EC Directive 2006/46, which provides that listed companies must publish a statement on corporate governance. This obligation was transposed in Belgium through the Act of 6 April 2010 aimed at strengthening corporate governance in publicly traded companies and in independent public enterprises¹⁰, and to amend professional prohibitions in the banking and financial sector.

It should be noted that contrary to what one might imagine, cognitive aspects are not completely ignored. Simply, although interest in expertise and professional competence for value creation is not completely ignored by the authors of Governance Codes, they do not really derive from the formulation of “best practices”. Cognitive dimension only appears implicitly and marginally, whereas aspects related to the asymmetry of information and conflict of interest are developed in a very explicit manner in these codes. Disciplinary aspects also predominate in their recommendations (Wirtz, 2005).

3. Governance of public enterprises: empirical illustrations and lessons learned

3.1. Analysis of results

In this section, we analyse the comparative illustrations between the countries studied by emphasising the practices of the governance structure, control, and the relationship between the State and public enterprises.

France

France is organised around a central devolved and decentralised State. France has 1517 public bodies, of which 1057 are companies. These companies are managed by the French State Holdings Agency (APE) which centralises the management of State holdings in industrial companies. The implementation of the Organic Law on Finance Laws (LOLF) helped define State operators’ connection to government actions and programmes. We emphasise that the relationship between public enterprises and its competent ministry is standardised through a strategic control framework: annual strategic meetings, target-based or performance contracts, mission statements, activity monitoring charts, etc.

As regards the Board of Directors, it performs a function of direction and its composition is standardised as such: 1/3 representatives of employees, 1/3 representatives of the State and 1/3 independent directors. At this point, the Ministry of Finance exercises control through four entities: The General Directorate of Public Finance (DGFIP), the General Economic and Financial Controller (CGeFi), the Ministerial Budgetary and Accounting Controller (CBCM) and the Inspectorate General of Finances (IGF). Continuous control is the main modality for the exercise of financial control. However, the recent evolution of economic and financial control has resulted in the development of periodic control programmes. In addition, the agencies are assisted by the DGFIP in the upgrade of their internal control and risk management system. By contrast, the Court of Audit has judicial control on company accounts and on their effectiveness/efficiency in the implementation of public policies.

⁹ This same principle is used in French law.

¹⁰ This reinforces its adaptability to public enterprises.

Spain

Spain, a decentralised parliamentary monarchy, has experienced thorough reform of public governance in a context of strong political expectations. Spain has 6536 public bodies, of which 2036 are companies. There is significant power in technical supervisory departments to ensure supervision of activity, functional control and efficiency, strategic direction, and which are accountable to Parliament. In addition, two transversal entities are attached to the Treasury: The Spanish State Investment Company (SEPI), a holding company which centralises the management of 17 commercial companies; and the Directorate General of Public Administrations which ensures monitoring of the portfolio of commercial companies. Control is exercised by the Treasury via the General Supervision of State Administration (IGAE). This IGAE control is exercised according to 3 modes, adaptable according to the public sector segment: initial verification, permanent financial control and audit. By contrast, the Court of Auditors and the External Control Bodies of the Autonomous Communities (OCEX) exercise a judicial control. The latter is carried out according to the principles of legality, efficiency and economic efficiency. The results of the control missions are published in the Official Bulletin and forwarded to Parliament.

Germany

Germany, which has 4000 public enterprises, is included for the peculiarity of its Federal Germanic model characterised by the existence of a unique legislative and regulatory framework broken down from the central level to the federal level. Germany is characterised by the following points:

- A supervised process of creation is accompanied by specific criteria that must be followed to justify the creation of a new public entity.
- The Code of Federal government enterprises helps clarify the role of the State as a shareholder and serves as a framework for good practices for public enterprises.
- The public enterprises regulation remains the main benchmark and is regularly updated.
- The General Assembly is operational and allows the State to ensure its steering function. The Supervisory Board is in itself centred on the proper performance of the company's mission and acts in the interest of the economic viability of the company.
- The State's external control on public enterprises is the exclusive responsibility of the jurisdictional bodies, which are the Courts of Auditors: 1 Federal Court of Auditors and 16 Länder Courts of Auditors.
- The Federal Department of Finance does not have a control mission.
- Public enterprises are autonomous and responsible for their internal control. They are required to establish a system to prevent and manage risks.

Canada

Canada is included due to the peculiarity of its model that brings together francophone and Anglo-Saxon governance practices, as well as for the particularly innovative nature of its public reforms. Canada has 200 public bodies, of which 50 are companies. In this sense, management of public enterprises is the responsibility of the competent ministry which reports to Parliament, via planning of actions and expenditure which is carried out according to a predefined annual cycle. We emphasise the existence of an independent body, the Treasury Board, which ensures the overall coherence of the action of ministries and affiliated bodies. In addition, the organisation has maximum autonomy in the management of operations, in particular via its legislative bodies. The directors of legislative bodies are mostly independent and are appointed for their skills learnt through continuous training.

Regarding control of public enterprises in Canada, these companies have progressive autonomy which is based on an internal control and risk management system. The Ministry of Finance does not control public agencies and external control is the responsibility of the jurisdictional bodies. Similarly, the competent Ministry is responsible for reporting the activity and results of organisations and companies in its portfolio to Parliament. We note that integrated risk management is implemented systematically for the whole portfolio. It takes the form of comprehensive risk maps at 3 levels: company, ministerial portfolio and Canadian portfolio.

United Kingdom

The UK is a constitutional monarchy and has a parliamentary system of governance. The State has 100% ownership of 20 public enterprises and several holdings in various companies which belong to various sectors. There are three types of public enterprise: Executive Agencies (EAs), Non-Departmental Public Bodies (NDPB) and public corporations.

In the United Kingdom, the board of directors has a broad power in decision making especially with the prominent role of independent directors, guided by the Senior Independent Director who must have extensive experience in management of boards. Governance of public enterprises in the United Kingdom places a huge emphasis on compliance compared to ethics, professional conduct and anti-fraud standards. In addition, public enterprises are subject to permanent governance reporting: monthly or quarterly report from the board of directors, the status governance annual, internal and external audit reports, the semi-annual accountability report, and the review of the price-quality ratio.

Public enterprises in the United Kingdom must be highly transparent to stakeholders and society. They represent a model in terms of differentiation between confidential information and that made available to the public.

3.2. Conclusive lessons

This section discusses the various lessons learned from the documentary analysis and interviews conducted with directors and managers in public enterprises. We used in-depth interviews. Rather than facts or specific judgements, this interview technique helps us see often latent and mobile representations: framework of reference, subjective logic and underlying values to reasons explicitly invoked by an individual. The researcher defines a general theme that he proposes to the respondent without interrupting. Interventions are limited to facilitating the interviewee's speech, showing understanding, reiterating the elements already expressed by a subject, or by going deeper into the discursive elements already set forth. In this section, we focus on the opportunities for research and the implications of our work.

The first confirmatory analysis: Content of interviews with directors and managers of the French National Railway Company (SNCF).

The SNCF is a French public enterprise created in 1937, composed of three public industrial and commercial institutions (EPICs): EPIC SNCF, EPIC SNCF Réseau (networks) and EPIC SNCF Mobilités (transport). It employs 260,000 people and has a turnover of 31.4 billion euros, of which 33 % is generated internationally. It holds the monopoly on the rail transport market with a network of 29,273 km and it is ranked the third company in Europe after the Swiss Federal Railways (*Les Chemins de fer fédéraux suisses*) and the German company Deutsch Bahn.

The SNCF board of directors is composed of 24 members, of whom 16 are appointed by decree and 8 directors are chosen by the employees. In the members appointed by decree there are 12 representatives of the State, a senator, a member of parliament, a union representative and an independent member chosen for his professional qualifications.

Questioned on the composition and on the operation of the board of directors, Mr AA, director and member of the SNCF executive board, said: "...The board of directors meets twice a year and is composed of 24 members whose term of office is 5 years, renewable 2 times... The composition the boards of directors and supervisory board must include diverse professional and human skills... The independence of the directors is a gauge of the equality of treatment of different stakeholders in the company...".

In this sense, the independence and the competence of the independence becomes the centre of concerns in the boards of directors, the report from the Economic, Social and Environmental Board entitled: Performance and governance of the company published in May 2013, which states that diversity in all its forms of the directors must contain an obligation of independence and limit the member's terms of office; the function of director must not become a profession.

The French Institute of Directors published the Directors' Handbook in 2013 which defines the director's term of office, their statutory and legal environment, and the major decisions that they may take. These are the following decisions: the development and monitoring of strategy implementation, completion of accounts, analysis of the company's financial performance, management of risks, social and environmental responsibility, execution of mergers and acquisitions, contact with stakeholders, evaluation of leaders' performance, and remuneration and succession of leaders.

On remuneration, Ms BB, member of the SNCF appointments and remuneration committee, said that: "... The appointments committee must define a target board of directors, its optimal size and profiles/types of directors in accordance with the company's dimension, the diversity of its sectors of activity and the strategic objectives that it has set. The committee must endeavour to explain the criteria that it has used to recommend this target structure, and to highlight the talents missing to improve the Board's activities...". "...Although no law exists in France specifically stating the existence of a board secretary and, thus, the function it fulfils, its role is essential to allow directors to work effectively: the secretary disseminates the documents likely to be of interest to directors based on the timeliness of the business and its context; the secretary promotes the conditions for the reception of new directors and is closely involved in assessment of the board's work...".

Dissemination and transparency of information plays a key role in governance. Mr CC, representative of SNCF employees, adds that: "...The director is entitled to full and complete information, that is truthful and fast. It must ensure that the information required to correctly complete its missions, with their characteristics and frequency, are well communicated on time by executive management... The Board agrees a good conduct code with the representatives of the director categories called to attend the board meetings and the representative of individuals... An annual discussion focuses on assessment of provision of information to directors with an action plan to allow improvements".

Questioned on the goals of the audit committee, Mr DD, accountant by training and a member of the SNCF audit committee, explained: "...The Audit Committee is a pillar of governance, its missions concern: monitoring of the process for preparation of financial information, the legal control of accounts, the independence of statutory auditors, effectiveness of the internal control systems, risk management and internal audit...". On this subject, the French Institute of Directors in collaboration with KPMG Audit Committee Institute published a guide of good practices for audit committees and *modus operandi* in June 2015. This stated that the audit committee must report on committee meetings, pending issues, feedback to the board and communication with the board.

The second confirmatory analysis: Content of interviews with directors and managers of the Montreal Transit Corporation (STM).

The STM is a public enterprise providing collective transport services to the population of Montreal. This 482 km² area covers a quarter of the population of Quebec, Canada. With its population of 1,650,000 inhabitants, the city of Montreal is the metropolis of Quebec, in addition to being the economic and cultural capital. This ensures a strong regional and global projection. Several industrial clusters and large multinationals are active there in the technology and services sectors (Bombardier, SNC-Lavalin, Ubisoft, Cirque du Soleil, etc.). Montreal is also one of the most important university cities of North America, located just behind Boston. It houses several tertiary learning institutions, including four major universities: McGill, the University of Montreal, Concordia University, the University of Quebec at Montreal, and three large schools: HEC Montréal, École Polytechnique and ETS (École de Technologie Supérieure). It employs more than 15,000 people and its services are divided into two main categories:

- The bus network: it operates seven days a week and includes 209 lines, of which 20 operate a night service.
- The metro: in 2016, 759 trains operated on the four metro lines each day (68 stations) through the city.

Questioned on governance in the STM, Mr EE, STM director, said that: "... Internally, two bodies govern the STM: the board of directors composed of elected representatives and customer representatives, and the steering committee made up of managers. With more than 90% of employees unionised, the unions therefore hold significant power, which unavoidably makes them stakeholders when taking decisions because STM must align its objectives with those of the mayor of Montreal and the Government of Quebec; the STM cannot decide its strategy alone. Similarly, large-scale projects must often be approved and funded by the municipal authorities, the Montreal agglomeration and suburban cities, as well as by the Government of Quebec. In addition, many internal and external stakeholders without a formal decision-making role are "invited" to the negotiating table. These include unions, employees, customers, the media and various influence groups (for example, environmentalists or representatives of adapted transportation users). All these stakeholders are involved in decisions regarding major projects...". He adds that "... STM's governance is split into two decision-making bodies: the steering committee and the board of directors. The first develops the company's strategy and outlines the general guidelines with a view to presentation to and acceptance by the board. It is headed by a Chief Executive and composed of 7 executive directors, a Deputy Chief Executive and a main director who undertake strategic roles for the company: operation, legal affairs, major projects, human resources, finance, planning of networks, marketing, communications, public affairs and strategic planning. The second body, the board of directors, is a monitoring body and approves projects presented by management. Where appropriate, it appoints and revokes appointment of the Chief Executive and directors. It consists mainly of elected municipal officials and three customer representatives. Finally, the Chair and the members of the board of directors are appointed by the mayor of Montreal or the Agglomeration Council on the recommendation of the mayor. In the opinion of the observers, the presence of members elected to the board of directors meeting is far from trivial...".

In this sense, the code of good governance practices in Canada proposes measures to support the proper functioning of the board of directors:

- Set out company rules for specialised committees.
- Promote a policy of positive discrimination by establishing quotas for the appointment of women on boards of directors.
- Promote contracting between public enterprises and the State by defining a methodological framework.

- Require the publication of governance records and an annual governance report.
- Develop intelligent institutional engineering that encourages lines of governance between the different stakeholders involved in public enterprises.
- Establish an anti-fraud system.
- Establish a general governance chart and a steering system for the board of directors.

We questioned Ms FF, member of the STM steering committee, on these points who responded: “ ... The State-business relationship, the internal governance mechanisms and the control devices are the fundamentals of public governance... To mobilise the members of the board of directors, and improve relations, the STM established eight “expert sub-committees”; an innovation in the area of governance. These are units for reflection and specialised information in a defined field of expertise (finance, human resources, operations, maintenance of assets, etc.). These committees meet five to ten times per year; they do not have decision-making power but consider records, including of major projects, before they are presented to the board. The members of the committee have a responsibility to evaluate the projects and then to explain them and make recommendations to the other members of the board of directors. The advisers are independent and objective; the directors know it and are reassured by it. In fact, advisers may question proposals before the elected representatives and respond to their questions. A project may come back two or three times before it is ready. Finally, when managers have responded to all the advisers’ questions, the elected representatives of the committee are both well informed of the details and confident about its viability. They can then ensure their peers and the other members of the board of directors that the project is good. There are therefore never any surprises for the board because the project has been worked on a lot previously...”. Regarding consideration of ethics and the fight against fraud in the board of directors, she adds: “...The Board organises several opportunities for thorough and friendly debate on the company’s ethical policy, the mapping of ethical risks established by the management and evaluation of the resources allocated by management to the ethics director. The board examines the company’s code of ethics to ensure that it matches its values and its specifications. It ensures that there is an ethics and compliance component in internal audits requested, and adequate training in ethics for members of the board of directors. In addition, the board ensures the implementation, as encouraged by management, of a company employee awareness programme on the risk of fraud and corruption. They coordinate with the statutory auditors on their assessment of the risk of significant anomalies resulting from fraud prior to the implementation of audit programmes. The board of directors ensures that there is a protocol for investigation of cases of fraud or corruption allegations, and defines a well applied anti-fraud and anti-corruption policy in the main stage of the company in particular during internal reorganisations, scope changes, or the development of new markets...”.

Regarding the relationship with stakeholders and transparency with them, we questioned Mr DD (director and member of the STM Strategy Committee) who said that: “... Innovation lies in development of a simple and effective structured approach that help establish a political strategy for each of the stakeholders and to have a profitable relationship with them. Thanks to this, management of government affairs is much more organised. It is summarised in five steps:

1. List the stakeholders: Identify the stakeholders of the company environment and drafting of descriptive sheets.
2. Map the stakeholders: Graphic representations of the stakeholder environment are prepared for each important stakeholder. These charts are useful for governmental affairs but also for leaders since it allows them to quickly determine the key stakeholders during the emergence of a problem.

3. Prepare a positioning statement: For each issue, this will define the principles to be promoted, the key messages or the recommendations. In short, STM's official position is based on factual data, figures and internal information.
4. Action plan: It is then necessary to determine how STM will affirm its legitimacy, how it will know and how it will establish its positioning. What external factors will it consider? Which internal persons choose to disseminate the message? What actions should be prioritised?
5. Preparation and presentation document: Finally, you need to prepare for middle managers and leaders to meet with members of the government. The preparation document provides information on who or what they are preparing to meet. Also, a presentation document must be sent to the people met.

Regarding transparency, we are an extremely media-centred company; there must be no more than three days per year when the media do not speak of us in one way or another. We are a true showcase; we have no interest in lying or hiding information because things will get out in one way or another. Accordingly, it is essential that we monitor everything that is said very closely. It is important to ensure that what is said corresponds to the reality. If this is not the case, we must correct it immediately...”.

The third confirmatory analysis: Content of interviews with directors and managers of Northern Ireland Water (NIW).

Northern Ireland Water is a public enterprise created in 2007 in the United Kingdom. It employs more than 1500 people and provides 650 million litres of drinking water to 2 million consumers.

Questioned on risk management in the board of directors, Mr HH, director and member of the NIW Risk Committee explained: “...Our board of directors plays an important role in the determination of Risk Appetite as a real issue of business competitiveness. Risk appetite is the definition of the type and the level of risk that an organisation is prepared to accept in light of the strategy. This desired level of risk is the balance between the potential benefits of risk-taking and inherent threats in any change. Our company's risk appetite has been defined within the 3-year strategic plan. It is an initiative which was designed to measure the risk level desired by the board and management to achieve the objectives defined in the strategic plan and to assess alignment between the board and management. In addition, we implemented a standardised approach conducted by the Director of Strategy and the Director of Internal Audit and Risk Management by identifying risk areas likely to affect the achievement of the strategic objectives, the quantitative assessment of the issues and the development of a synthesis of the discussions and return to the Board...”.

On the same line, the code of governance of companies in the United Kingdom refers to the following points:

- The role of the Board is to provide entrepreneurial leadership in the context of careful and effective control that allows us to assess and manage the risks.
- Define the strategic objectives, ensure that the necessary financial and human resources are in place so that the company can achieve its objectives and assess management’s performance.
- Define the values and standards, and ensure that its obligations to its shareholders and others are understood and respected.
- In accordance with their legal obligations, all directors must act in what they see as the best interests of the company.
- The annual report should include a statement of operation of the board of directors, the types of decisions taken by the Board and who should be appointed to the Branch. It should identify the

Chair, the Chief Executive, the main independent director, the members of the Board committees, and the number of meetings held and which directors attended.

On the characteristics of governance of public enterprises in the United Kingdom, we asked Mrs II, a member of the NIW board of directors, on accompanying measures put in place by the company to improve the company's governance practices: "... The principles are as follows:

- Implement coordination mechanisms between the specialised committees, executive management, the board of directors, and the technical and financial trustees.
- Adopt a competence-based approach within the boards of directors.
- Extend the margin of decision of leaders within the public enterprises to promote managerial leadership and ensure the continuity of the institutions.
- Schedule studies of the impact of governance on the citizen.
- Plan adequate training for directors.
- Exploit and value the reports of State controllers which feed information to the financial supervision represented by the Ministry for the Economy and Finance.
- Harmonise the missions and attributes of financial control agents, and ensure the continuity of the expenditure chain..."

Questioned on the assessment of the board of directors, Mrs II stated that: "...The board's assessment contains three phases: the first phase involves definition of the roles of the members of the board of directors and outlining a calendar of activities for the Board and the specialised committees. The second phase consists of a continuous assessment by monitoring progress of conformity and taking corrective measures, examining the completion of records, conflicts of interest, gifts and hospitality and drafting a quarterly shareholder report. The last stage is the end of year review through establishing a review team, the calendar of activities and progress, adoption of changes to the governance documents and implementation of changes, consultation with shareholders on the changes to the governance framework, and the appointment, reorganisation or resignation / termination of directors..."

4. Conclusion

This work looks at an international comparative analysis of governance in public enterprises.

We started by defining the theoretical and conceptual framework of public enterprise governance. Then, we performed a comparative analysis of governance at public enterprises in France, Spain, Germany, Canada and the United Kingdom. We end this work by looking at the lessons learned from three international case studies involving development opportunities for governance practices in public enterprises.

At this point, we note the development opportunities resulting from this comparative work:

- Clarification of the role of the State: Enhancing the role of the Strategist State in particular through generalisation of contracting with public enterprises, outlining the role of the Shareholder State in developing a shareholding strategy, active management of the State portfolio, representation of the State within the legislative bodies, and lastly clarification of the role of the State Controller.
- Strengthening the internal governance system in public enterprises: professionalization and operationalisation of legislative bodies, increasing the leader's accountability and implementation of an efficient internal control system.

- Implementation of the Code of Good Governance Practices: an effort in raising awareness and communication in order to embed the governance culture and disseminate its benefits for public enterprises.
- Development of a policy of active management of the portfolio public: through the implementation of a new legal, institutional and procedural system to ensure better control of the public portfolio.

We therefore collected, processed, analysed and summarised various documents, in particular scientific articles, official reports and professional studies. We were also able to conduct twenty interviews with directors and leaders of public enterprises through in-depth interviews in order to explore progress in governance practices, while noting their comments, constraints and proposals to strengthen the governance system.

Finally, it would be very interesting to conduct studies on the impact of governance on the performance of public enterprises in consideration of the fundamentals of governance, in this case based on the operation of the board of directors, accounting and the appointment of the leaders. The comparative analysis of governance practices between the public sector and the private sector represents a line of eminent research that could clarify the effects of privatisation on public enterprises. It will be necessary to broaden this comparative analysis to other countries that have governance models different to the classic models such as: Japan, China and the United States.

XVII

Theoretical and experimental findings on the role of trust and information in alternative service arrangements

Rahel M. SCHOMAKER and Michael W. BAUER

1. Introduction

Public sector reforms have been on the agenda for a while, resulting in increased inclusion of the private sector in various forms. Hence, more and more alternative cooperation regimes between the public sector and private enterprises (public private partnerships, PPP) or with the general public (co-production) emerged. Hence, the normative impulse to use alternative service arrangements (ASA) as e.g. public-private partnerships (PPPs) being given, an assessment of the means to use them efficiently as well as effectively is necessary.

Our study tackles the question to what extent information may help to overcome problems related to missing trust in the introduction of service arrangements that include private enterprises, or, more precise, public private partnerships. This issue is pivotal as evidence from the European Union demonstrates that in particular *ex ante* public resistance may result in the postponement or failure of such projects. Also the *ex post* “failure” of PPPs may be the consequence of missing trust, not performance problems. This may at least in parts be caused by the ignorance of the public sector – as Warner and Hefetz (2002) conclude, governments engaged in high levels of privatization often care more for efficiency than for citizens’ voice, even if “market solutions [...] – private or public – must be assessed for their performance with respect to all three governance goals: efficiency, equity, and voice” (Warner and Hefetz 2002, p. 71).

In the following, we discuss general dimensions of trust in the public sphere. Second, we focus on the role of information if trust is missing and analyze the trust gap in public-private service arrangements from different perspectives. Based on this, we develop an experimental design that may be useful to carve out strategies to overcome the trust gap, and provide preliminary empirical insight from first tests of our experimental setting. Finally, some concluding remarks and policy implications of our research are provided.

2. Dimensions of trust in the public sphere

In a broad general definition, trust can be understood as a “psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another” (Rousseau *et al.*, 1998, p. 393). Our concept of trust is focused on both, the micro- and macro-perspective, “integrating microlevel psychological processes and group dynamics with macrolevel institutional arrangements” (Rousseau *et al.*, 1998, p. 393). This allows us to use the trust concept on an individual as well as institutional level.

Trust as a concept driving citizens’ behavior in the public sphere has been tackled by a wide range of studies, focusing on the transmission chains of trust as well as the consequences of missing trust in the government or the public sector in general (e.g. Van de Walle, 2007). In particular when it comes to citizens’ compliance without coercion, or in cases where enforcement mechanisms are restricted, trust becomes relevant (Chanley *et al.*, 2000; Scholz and Pinney, 1995). Consequently, as Ruscio (1996) points out, “trust is central to legitimate democratic government, to the formation of public policy, and to its implementation”. Most theoretical approaches focus on the role of trust “for

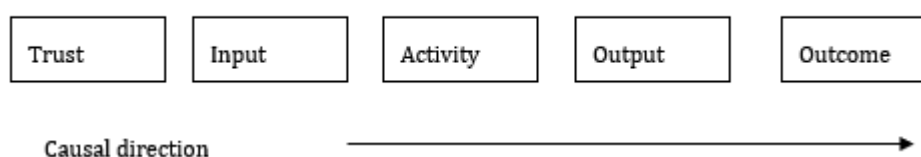
ensuring stability in administrative and political systems while attempting to explain the necessary conditions for trust” (Mizrahi and Cohen, 2009). Being interpreted as a cause as well as a consequence, trust not only is a goal *sui generis*, but pivotal to “foster an effective and performance-driven public sector, delivering better public services more efficiently, and promoting open and transparent government” (OECD, 2011c).

Generally, trust can be interpreted as a substitute for control. Hence, trust should be all the more relevant when control is limited. This, so our assumption, is implicit in all cooperation regimes where not only the public sector is responsible for service provision or the performance of service duties, but collaborates with other societal actors.

Trust in public administrators can be modelled as a function of three categories of explanatory variables, in detail individual characteristics, attitudes/efficacy, and institutional confidence (Marlowe, 2004; see also Glaser and Hildreth, 1999). Different models connect performance and trust using these general categories. Nonetheless, formal models on trust and cooperation arrangements are missing from the PA literature.

For our work, we adopted a driver-oriented model of trust and enlarged it to the dimension of cooperation. Within this model, trust can be the starting point of a causal chain, including not only the PA, but the private partner as well. Hence, trust is conceptualized as the independent variable. The underlying ratio is as follows: If citizens trust their PA (being it in general or only with regards to the management of specific tasks) the probability to support the “system” should significantly be increased (Bouckaert, 2011; Scholz and Pinney, 1995).

Figure 1. Driver-oriented model of trust



Source: Based on Bouckaert, 2011

To put it more detailed, “at the micro level, it [trust] creates a willingness to use the system, to follow regulations [...] There is a willingness to support policies at the meso level. There is a conviction at the macro level that the system needs to be supported actively” (Bouckaert, 2011). At the micro-level that is particularly relevant when it comes to cooperation regimes, there may be a range of features related to the perceived trustworthiness of actors involved, *inter alia* reliability, predictability, ability, consistency, competence, routine, or integrity (Bouckaert, 2011). While this range of dimensions may make the trust-research agenda even more complex, it has a high explanatory value for our study, if we enlarge the approach from the PA to other societal actors.

3. Trust in alternative service arrangements and the role of information

Hence, trust can also be interpreted as a “*conditio sine qua non*” for cooperations between the public sector and other societal actors. “Partnerships [...] can only be successful as long as trust between the partners can be established and maintained” (Klijn and Teisman, 2000, p. 99; see also Bouckaert, 2011; Edelenbos and Klijn, 2007; Van de Walle *et al.*, 2005).

Different causal links or “chains” of trust, covering the various actors in new cooperation mode have to be taken into consideration:

- A) the (missing) public’s trust in the profit-oriented private sector,

- B) the (missing) public's trust in the public administration to provide public services efficiently and effectively,
- C) the (missing) public's trust in the PA's ability to manage new cooperation regimes with the private sector, or to complete these kinds of projects successfully,
- D) the (lack of) trust between the private and the public partner in cooperation regimes (both directions), as well as,
- E) the (lack of) trust of the public administration in the political level if it comes to the general introduction of or decision in favor of these new cooperation forms.

Focusing on the first dimensions, it is likely that missing trust may be critical: While also in public-private partnerships, "both the policy and delivery decisions about services remain under public control, [...] the effect on citizen voice is less clear" (Warner and Hefetz, 2002, p. 71), Control mechanisms by the citizens are limited in these arrangements. Being based on contracts, "traditional" schemes of democratic control are not applicable, once the contract is established. Also monitoring schemes may be restricted in use, as the contractual content is often not transparent to the general public (Iossa and Martimort, 2014). This may be caused by the sometimes informal nature of coalitions, or due to the fact that the newly created institutions assume power without clear accountability lines back to the public. Additionally, as private actors have other underlying rationalities, the incentive structure in these arrangements differs substantially from public-sector driven regimes, increasing the need for control.

Hence, the negative effects of lacking trust may be manifold: If the public does not trust private enterprises, assuming e.g. that these profit-oriented firms may not act welfare-increasing and/or in public interest, they may boycott these arrangements, or may at least not support them actively. Anticipating the public opinion, this may result in the consequence that within the political decision making process these projects are ex ante assessed negatively, or that the implementation process at the administrative level is prolonged or impeded. Additionally, ex post – during the cooperation "process" – missing trust of the public may increase transaction costs related to control or monitoring of these arrangements, or missing cooperation of the citizens may result in a low performance level of these projects.

As outlined in game theoretical approaches, based on Nash (1950; 1951), the overall benefit in "game situations" may be substantially higher if cooperation takes place. Hence, the question arises how cooperation can be assured. Trust may be the first choice in this context (Axelrod, 1984). But if trust in the opponent's action is missing, information may be used to overcome a trust dilemma: information may proxy for trust, so that an "optimum solution" may be attainable even if trust is missing.

Scrutinizing the citizens' view, the question how trust can be generated or "triggered" is of pivotal relevance. As outlined, trust can be generated through different channels. Within the "traditional scheme" of service provision, trust in the PA, based on these factors, may be generally given, even if some restrictions exist (e.g. Scholz and Pinney, 1995; also Van de Walle *et al.*, 2005). As for PPPs, most of the trust-creating factors – as e.g. reliability, predictability, ability, consistency, competence, or routine – are not given (yet) or at least cannot be evaluated by the public (as the arrangements are completely new, experience is missing), or may be biased due to the overall perception of the involved private actor as being only profit-orientated (a fact that is often understood as being mutually exclusive regarding trustworthiness).

This may be a specific problem when it comes to "relational trust" that is based on repeated interaction, or, more precise, on the information gained in a relationship. Being "based on identification with desires, intentions, mutual understanding, group-think and shared objectives" (Bouckaert, 2011), it is plausible to assume that this type of trust is very limited when it comes to ASA, as the profit-orientation of the private sector per se may be interpreted by the citizens as a

hampering factor. (Rousseau *et al.*, 1998, p. 393). Also other trust regimes, as e.g. calculus-based trust, being grounded in rational choice, could be applied on alternative service arrangements. The relevance of information in these cooperations being given, it is plausible to assume that the sheer fact that service arrangements follow a new design, leading to a lack of information and knowledge about their performance, may induce problems (Bouckaert, 2011). The same applies in general to institutional trust that initiates trust behavior and allows for risk-taking under uncertainty (while cooperation regimes themselves can be seen as trust-creating institutions in the long run; Rousseau *et al.*, 1998).

Information can bypass the trust gap for different trust types – being it directly or via the signaling function, circumventing uncertainty, or by creating institutional arrangements. Hence, so our first working hypothesis, information that highlights the benefits and chances of these arrangements leads to a higher acceptance in the general public. It stipulates cooperation with the public administration or the political level where necessary (e.g. in the introduction process of these service arrangements) and compliance with the rules in these new partnerships. Information that focuses the potential risk of ASA, so our second hypothesis, will result in less acceptance or resistance against these projects.

4. The experimental approach to test for trust

To test for the impact and drivers of trust and information on the citizens' side empirically, we used an approach that allows us to focus on both interrelated factors. We apply a setting that includes elements of a survey as well as an experimental intervention. The methodology of experiments has been slow to garner a following in public administration (PA) as a scientific discipline, in particular compared to other social sciences (Perry, 2012). Nonetheless, as can be drawn from experiences with experimental research in other disciplines, the contribution experiments could provide for PA are manifold (see e.g. for a discussion Anderson and Edwards, 2014; Margetts, 2011). It is important to emphasize that other methods – being it formal modelling, qualitative approaches or quantitative work – do not compete with an experimental approach. The most convincing reason to use experiments is the fact that this methodological advancement works out best in the intersection of more formal modelling and experimental testing, in triangulation approaches, maybe additionally complemented by surveys or quantitative studies (McDermott, 2002).

Generally, a wide range of experimental settings – experiments conducted in a laboratory context with a study group, internet experiments using a standard subject pool or experiments “in the field” (in these cases either the task or the information set the subjects use comes from reality) can be used. All different types of experimental setting are associated with distinctive advantages and drawbacks whose discussion and analysis would go far beyond the focus of this paper. Nonetheless, two general advantages of the experimental approach are delineated further, as they make this approach particularly suitable for our research focus:

Procedural details can be explored, complex relationships can be tackled in experiments – an advantage which is often not given in large-scale quantitative studies (due to a lack of detailed data) as well as in surveys. Additionally, as particular details can be added or derived from the experimental setting, a change of conditions can be modelled as well – e.g. the question which specific relationship holds under which circumstances, or in how far procedural changes influence the outcome. Additionally, a wide variation in experimental designs, alone or as complements, allows to test for a wide range of questions that are hard to address (only) with other methods.

The conventional lab approach we applied uses a controlled “laboratory” for the experiments. This allows for a high level of control. Our study group is composed of students (in other cases other randomly selected individuals are targeted, but not the bureaucrats that naturally conduct the task tested). Any analysis like the provided one faces several methodological concerns and limitations.

First, the number of participants is limited in number ($N = 80$) and range, as only students are included. This fact restricts the group regarding age as well as the professional background. Consequently, the sample cannot be taken as representative. While this would be a disadvantage in other experiments that test primarily for reactions of the public administration itself, it does not cause problems in our study as we are primarily striving for insights regarding the citizens' evaluation of PPPs.

Second, the experiment is a very basic one. It predominantly tests for a change in the evaluation of alternative service arrangements after a specific experimental intervention, focusing on the question of the general stability of the evaluation of public-private cooperations.

In spite of those drawbacks, the (additional) use of experiments in the sense of a triangulation approach provides us with new insights concerning the role of trust and information, as well as the relation between these two factors, and therefore seems to be suitable to underpin the outcome of our theoretical analysis. This is as all the more relevant as experimental PA research regarding issues related to trust and information is very limited, for exceptions see e.g. Coursey (1992) or recently Grimmelikhuijsen *et al.* (2013).

In the experimental setting used, we control for age, gender as well as if the study participant is a member of the PA. Even if it would be generally beneficial to include variables that capture both, short and long run attitudes toward the public sector and/or the private sector, we do only include one variable that tests for this dimension: The question of satisfaction with public sector service delivery and the initial level of agreement with the inclusion of private enterprises in service provision (in short: public private partnerships).

The experimental setting was as follows: After a basic information about the fact that a scientific experiment will be conducted, and the related question whether the individuals are willing to participate, as well as a short neutral introduction of the issue, questionnaires (whose "intervention texts" differed) were dealt out randomly amongst the study group. The participants were asked to fill in the statistical information and to start with the questionnaire. After filling in the first round of questions (questions regarding the Provision of Public Services Part 1 – questions 1.1. and 1.2.), they were asked to read the intervention text and to fill in the next round of questions (questions regarding the Provision of Public Services Part 2 – questions 2.1. and 2.2.)¹¹.

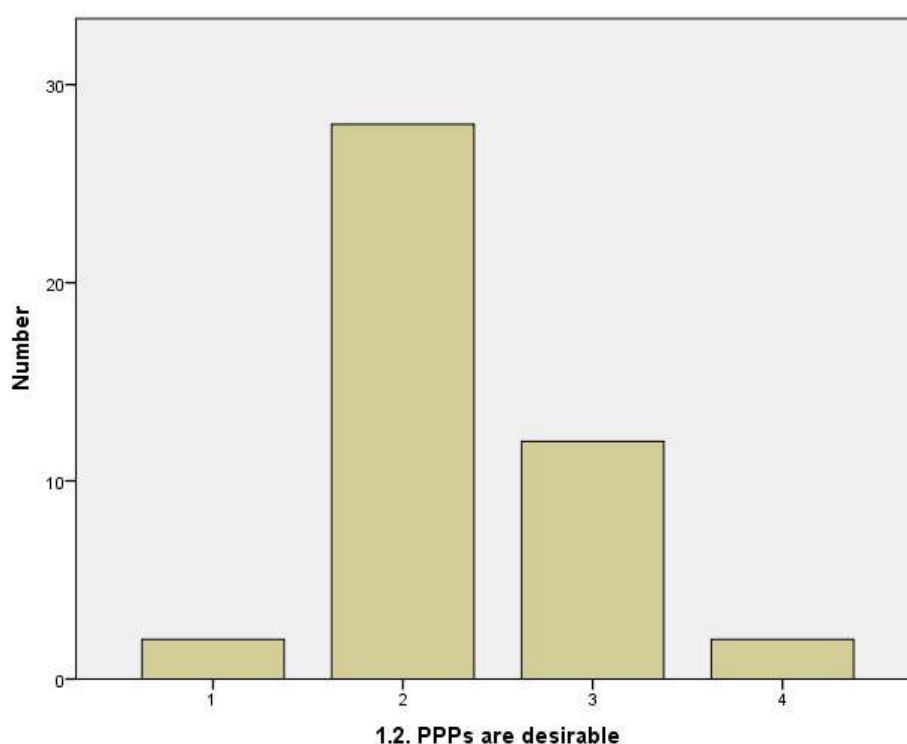
The experimental intervention was conducted using three different texts: The first text for group A ("neutral intervention") solely explains why researchers use questionnaires and surveys. The second text (Group B, "intervention negative") provides information about potential risks and challenges related to the new cooperation regimes between the public and the private sector. The third text (Group C, "positive intervention") provides information about the positive effects and potential benefits related to new cooperation arrangements.

5. Analysis of results

Generally, we found that most of the participants are initially positive about alternative service arrangements, judging them as being very desirable to neutral (columns 1, 2, 3), while only a limited number of individuals judges them as being not desirable (column 4) and no individual judges them as being completely undesirable (see figure 2).

¹¹ As can be drawn in detail from the appendix, questions 1.1., 1.2., and 2.2. have an ordinal ranking (1 = "strongly agree/very desirable", 2 = "agree/desirable", 3 = "neutral", 4 = "disagree/not desirable", 5 = "strongly disagree/completely undesirable"), while question 2.1. is a binary one ("yes"/"no").

Figure 2. Distribution of answers on private sector involvement

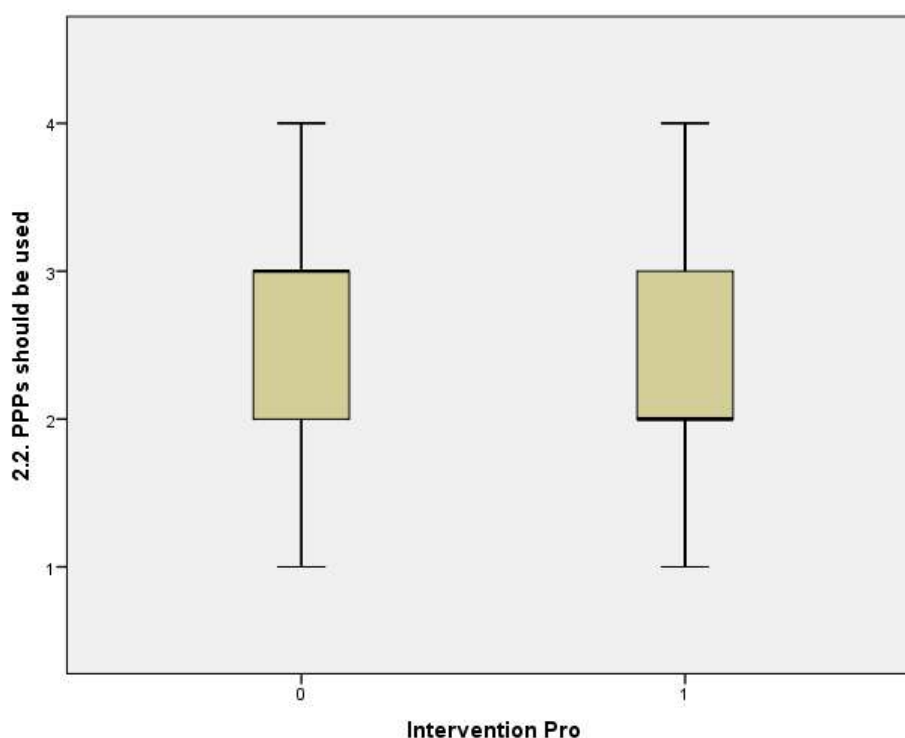


Source: Author's own

As for the outcomes of the interventional experiment, following our theoretical delineations above, one may expect a positive correlation between an intervention to increase trust in PPPs (“positive intervention”) and a high level of ex post consent with questions concerning the desirability of public private cooperations (or a more negative evaluation of cooperations, respectively, given a “negative intervention” that is focused to decrease the trust regarding the effectiveness and efficiency of these cooperations). Scrutinizing the limited N and range of the experimental group, and in the light of the complexity of issues related to alternative service provision, we did not expect to find clear-cut relations like this in our data. Hence, we used our data for some basic analysis first. We applied different kinds of tests (t-test, Levene test, Mann-Whitney test) to control for differences in the variances *before* and *after* the intervention as well as *between* the single groups of intervention (binary tests for positive, negative, and/or neutral). The outcomes indicate that the intervention per se, independent of the initial attitude towards PPPs has no – negative or positive – influence on the decision if more/less alternative mechanisms should be used.

Testing for the general effect of the intervention on the attitude, there is no significant variation: if the ex ante consent that alternative service arrangements are desirable was high, the valuation did not change significantly after the intervention, neither for a positive or negative intervention nor in the control group. Both pairs of questions that were tested (case 1: 1.2. PPPs are desirable – intervention - 2.2. PPPs should be used as well as case 2: 1.2. PPPs are desirable – intervention - 2.1. Private Enterprises should be included YES) show no significantly different variance (for the example of the positive intervention see figure 3). To support these findings, with regards to a potential change related to the kind of intervention, we tested both cases (positive as well as negative intervention) separately and did not find a significant difference in the variances between the two intervention groups when it comes to the ex post classification that PPPs should be used/are desirable (question 2.1. and 2.2.).

Figure 3. Impact of positive intervention



Source: Author's own

Based on this, we could draw the preliminary conclusion that the attitude towards public private partnerships is a stable trait, and cannot easily be changed through a simple intervention providing information on these kind of projects. This finding would be conflicting the theory as outlined above, being counterintuitive to some extent, as one may expect that in particular the “positive intervention” may generally lead to an increased level of agreement afterwards.

On closer inspection, the underlying ratio should be adjusted to come to valid result: It is plausible to assume that a relatively high level of agreement cannot easily be further enhanced due to information related to the benefits of alternative service arrangements. If the respective individuals are convinced already, they may not be amenable to influence any longer. Additionally, higher values of agreement ex post may technically not be possible (if the best category would have been chosen before). Nonetheless, in cases of a relatively low ex ante level of agreement, this kind of positive information may lead to a change in attitude regarding private participation in service arrangements.

To test for this specific effect, we constructed an interaction variable, indicating for a low level of initial agreement (neutral to negative attitude, score 3 to 5 in *question 1.2.*) and a positive intervention. The dependent variable in this test is the ex post level of agreement regarding private sector inclusion (*question 2.2.*) as well as the binary variable on ex post agreement (*question 2.1.*). As expected, this model delivered significant results: the effect of the positive interaction if the ex ante level of trust in the private sector is low (at 10% level) is positive, indicating that a higher level of trust after the intervention is more likely if the intervention was positive and the initial trust level was low.

This finding underpins our theoretical claim that information influences the public acceptance of PPPs, substituting for trust. As our outcomes demonstrate, the probability that the binary variable “Yes” is chosen or that – on a Likert scale – PPPs are evaluated as “very desirable” or “desirable” is

significantly higher if there was a positive intervention. The link between a “negative intervention” and decreased acceptance ex post remains very weak and statistically insignificant, but is existing. Consequently, individuals that are negative towards PPPs may be even more skeptical after receiving information about negative effects and inefficiencies related to such arrangements.

6. Conclusion and implications

As can be drawn from the general theoretical discussion, trust in the respective actors is of crucial relevance if it comes to (public) service provision. As elaborated on in previous (empirical) works, trust can be enhanced through a set of actions, as being carried out by the government. Thus, even if alternative service arrangements or new forms of cooperation between the public sector and private enterprises may not be initially trusted by the citizens, and the public administration or the private actor itself may have only limited scope to increase trust via the traditional “channels”, this trust dilemma can be bypassed via sound information policies.

This finding is also covered by our initial experimental outcomes. We developed and introduced an easy-to-use experimental setting that can test for the effect of information on the ex post agreement regarding new service arrangements. Our findings demonstrate that in particular the initial attitude towards private sector inclusion matters: the lower the initial trust level is, the better positive information about the chance related PPPs works. On the contrary, information about inefficiencies in PPPs as e.g. cost- or time overruns influences in particular groups that have an initial negative attitude towards PPPs negatively.

Interpreting our findings with the necessary caution, we can recommend that promoters of public-private cooperation be aware of the effect positive information can have on PPP acceptance levels of citizens. If the political will to increase the number and range of PPPs exists, then information policies regarding the benefits of these partnerships are clearly an important policy instrument to increase acceptance. This applies in particular among skeptical groups within the general public, e.g. initiatives that work against the implementation of alternative service arrangements, as information may lower resistance in these cases.

XVIII

Alternative service delivery in South African local government

Lyndon Du PLESSIS

1. Introduction

Chapter 13 of the National Development Plan Vision 2030, which outlines the South African government's long term vision for governance towards service delivery and development, emphasises the need for the state to be capable in order to give effect to this Vision. This text revolves around the question of alternative service delivery mechanisms in building a capable state with specific reference to local governance.

South Africa finds itself amidst a complicated period in its history. 2015 marks the “coming of age” or 21st celebration of the transition to a democracy of the country and yet there is divided opinion on the significance of this transition. Whilst at a political level this landmark period is widely celebrated, there is a sense that from a service delivery and development perspective, serious shortcomings exist. Municipalities, as important governance structures in service delivery and development efforts are constantly struggling to satisfy community needs and expectations amidst pressure from communities as well as the dilemma of a shortage of means to do so.

According to a study by Matebesi (2015) protest action by local communities in South Africa had increased from approximately 10 in 2004 to 111 in 2010 to 173 in 2012. In the first nine months of 2014, 134 demonstrations were recorded. The study defined service delivery protests as “collective action taken by a community which was directed at a local municipality over poor or inadequate provision of basic services”. Based on this study one could therefore easily be tempted to argue against the “capability” of local government organisations in South Africa. Although it would obviously be an unbalanced approach to use the number of service delivery protests as the only yardstick to measure local government capability, it has to be recognised that the ability of South African local governments to provide in the basic service delivery and developmental needs of local communities, is under constant scrutiny.

Utilising alternative service delivery mechanisms have therefore become a popular way of attempting to increase service volumes and standards to local communities. Question is, are they working in terms of satisfying client needs and therefore improving the capability of local government?

There have been attempts by local governments to improve the quality of service delivery with the assistance of alternative service delivery mechanisms (ASDM). These mechanisms have been employed at various levels of municipal endeavours. Question is whether these efforts have improved the level and quality of municipal services, but perhaps most importantly whether it has strengthened municipal capacity to, in future be able to render such services on their own?

2. South African local government and its present performance challenges (influencing also ASDM)

The White Paper on Local Government of 1998 indicated that when alternative service delivery was considered, the following should be the guiding principles:

- accessibility of services,
- affordability,
- quality of products and services,
- accountability,
- sustainability,
- value for money,
- competitiveness for local commerce and industry,
- promotion of democracy.

In addition the White Paper on Municipal Service Partnerships, 2000 referred to the following guidelines:

- efficiency,
- skills (specialist knowledge and expertise),
- lower costs,
- value for money,
- certainty, because the municipality would know its cost in advance and can do the budget planning accordingly.

South Africa's National Development Plan (NDP) Vision 2030 recognises strides that have been made in terms of providing access to basic services to many South Africans who did not have such access previously. By the same token the NDP attributes the "uneven" performance by inter alia local government (limiting the chance to achieve above indicated national objectives in relation to ASDM) to:

- tensions in the political-administrative interface,
- instability of the administrative leadership,
- skills deficits,
- the erosion of accountability and authority,
- poor organisational design,
- inappropriate staffing and low staff morale.

Furthermore, the 80/20 report of the South African Institute of Race Relations on the state of local government after twenty years of democracy (2014, pp. 6-17) states the following as "root problems facing local government:"

- political appointments,
- lack of capacity,
- lack of accountability.

Managa (2012, pp. 3-4) points to the following performance challenges of South African local government:

- lack of institutional capacity,
- financial mismanagement,
- high levels of corruption,
- lack of public participation.

From the above references to local government challenges in South Africa, one common factor is highlighted namely the lack of institutional capacity. It could off course be argued that some of the other mentioned factors contribute to such a lack of institutional capacity. Whatever the case may be, this supposed lack of capacity has led to some emphasis on alternative service delivery arrangements or mechanisms, as was referred to in the introduction to this paper.

In fact, provision is made in Sections 76 to 84 of the Local Government: Municipal Structures Act, 2000 (Act 32, 2000a) for the consideration of and implementation of alternative service delivery arrangements in cases where individual municipalities are not able to provide services to communities at an acceptable level. The Act thus recognises instances where municipalities are unable to satisfy minimum standards requirements of services and proactively provides for alternatives. According to Managa (2012, p. 5) there remains substantial service backlogs “despite this crucial policy tool that enables municipalities to provide a better service for all. Managa (2012, p. 6) in this regard continues to state that one of the major pitfalls as far as alternative services are concerned was the “one size fits all” approach to solving service problems. Municipalities had, according to Managa, realise that communities have different needs according to geographical and other differences and that potential solutions to service problems had to consider this. Therefore the exact nature of such arrangements and the extent to which it serves to improve the status quo as far as service quality is concerned is obviously important.

3. How to improve alternative service delivery arrangements in South Africa?

3.1 Customer orientation towards local services

A more customer focused approach is essential for local governments to meet the ever-increasing expectations of local communities. Although there is no “competition” for municipalities in terms of alternative service providers to local “customers” there is more and more resistance to service levels that are either non-existent or that does not meet the quality expectations of people.

A customer can be defined as a person who pays for a product and/or service. In return, the person has preconceived expectations as to the quality of the product or service, in order to satisfy their needs. In the absence of such quality, individuals often feel that they have the right to bring such deficiency to the attention of the service provider, in order to improve the standard of products. This is increasingly happening through often violent protests in the case of South Africa.

When considering a traditional private sector enterprise, there are certain considerations with regard to the customer, and the relationship between the enterprise and its customer. The enterprise normally caters for, and targets, a specific market within which it wants to promote and sell its products. There is thus a differentiation in terms of certain factors, such as the income levels of the targeted customers, their levels of sophistication, and therefore their expectations. Based on this, pricing of the product would obviously also be in a particular range. This implies that, in this scenario, different customers could purchase similar products or services from different providers, depending on factors such as affordability and the quality of the product or service. It could therefore further be assumed that an organisation’s strategy, in terms of producing, marketing, and ultimately selling its products, will primarily depend on the target customers.

When considering local government, the situation differs quite dramatically. Municipalities, as organisations, have no choice as to their customer base. They therefore have to provide products and services to all residents under their areas of jurisdiction, regardless of factors such as ability to pay more or less for particular services, and/or the level of sophistication of its customer base. Indeed, irrespective of residents’ levels of sophistication, all need basic amenities such as water, electricity and sanitation. Although measures, such as the indigent policies (as part of municipal

credit control and debt collection strategies), provide price relief for poorer customers, there is not a possibility of different price structures based on customers' ability to pay.

In addition to the above, it should also be borne in mind that some residents are more dependent on municipalities than others. This is because of the varying socio-economic conditions found in South African towns and cities, and the accompanying reality that in most municipal areas, the majority of residents remain poor and therefore dependent on government for promoting their well-being. It could therefore be argued that self-sufficiency, which could be regarded as one of the cornerstones of local development, remains a major challenge to South African municipalities. Although many local residents are only dependent on municipalities for basic amenities such as water, electricity, sanitation and refuse removal, the majority of residents, in addition to needing basic services, are also dependent on the municipality for promoting their daily livelihoods, and in so doing ensuring their prosperous existence.

When considering the aforementioned, it becomes evident that determining strategy from a municipal perspective might be complex. Pollitt (2003, p. 8) encompasses this essential differentiation between private and public organisations aptly by referring to:

- A perceived lack of efficiency in terms of satisfying the needs of its customers on the part of public organisations, as opposed to their private sector counterparts.
- A perception that private sector organisations provide customers merely with what they *want*, whereas public organisations' business entails interfering with people, whether they like it or not (e.g. the inability to purchase municipal amenities from alternative service providers, whether customers are satisfied with their current service or not).
- The notion that the role of public organisations could at times seem broad/poorly defined, and where the extent to which the organisation is successful could be difficult to determine.
- The fact that private organisations have competitors that keep them efficient, while public organisations do not, and customers have to purchase products and services from a single provider which ultimately disadvantages them.

It can therefore be deduced that, as far as the business concept of local government is concerned, the customer relationship between municipal organisations and their customers differs vastly from that of private organisations. In line with this, municipalities' activities also differ vastly, mainly because municipalities cannot research a particular market and choose their customers on the basis thereof, but have to provide in the varying needs of all local customers. Municipalities have a responsibility, albeit on a varying scale, towards all citizens who live in their areas of jurisdiction, and their strategies have to cater for the needs of all their customers. Many municipalities are thus arguing that in the absence of the ability to deal with high customer expectations, they should rather employ alternative service providers that are more able.

3.2 Reacting to financial constraints

From a financial resource management perspective, one of the factors impacting on a municipality's ability to independently work towards achieving its mandate was the extent to which these municipalities possessed financial independence. Furthermore, financial independence is determined by access to funds, received in the form of grants and allocations mainly from the national sphere of government, as well as the local communities. The latter depends on the ability of individual municipalities to collect revenue owed to them. In this regard Venter and Landsberg (2006, pp.149-150) highlights the continued culture of non-payment for services. According to Schoeman (2011, p. 3) outstanding debtors of municipalities for which data was available amounted to 3.7 billion US dollars in the 2009/2010 fiscal year compared to 3,4 billion US dollars in the 2007/2008 fiscal year. Although there is recognition that many local consumers default in terms of service payment due to dire socio-economic conditions, Venter and Landsberg (2006, pp. 149) are of the

opinion that the political and administrative inability and unwillingness to consistently and fairly apply credit control and debt collection strategies represents the main reason for the current debt crisis in local government.

The way in which available resources are managed, will also play a vital role in the provision of services. To this end Venter and Landsberg (2006, pp. 149-150) highlights the following financial management deficiencies in municipalities, as a fundamental contributing factor to the undesirable financial position of municipalities:

Financial management

Considering service backlogs and the limited resources municipalities have at their disposal, sound financial management should logically be one of the cornerstones of operationally managing a municipality. The importance of sound financial management lies in the fact that it can contribute to municipalities' efforts to transform their local areas into better places to live and work. Furthermore it can aid councillors and officials in terms of monitoring activities, so that the vision of creating this better place is operationally implemented (www.etu.org.za). However, Venter and Landsberg (2006, p. 150) are of the view that in too many municipalities, politicians and officials embark on irresponsible expenditure to the detriment of sound financial management, and ultimately service delivery. It is therefore imperative for municipal councillors and officials to align the allocation and utilisation of scarce resources with actual organisational and service delivery needs so as to avoid unnecessary and wasteful expenditure.

Legal measures to enforce accountability

According to Brinkerhoff (2001, p. 2) "the availability and application of sanctions for illegal or inappropriate actions and behaviour uncovered through answerability constitute a defining element of accountability." This implies that there can be no real accountability unless individuals and/or organisations (municipalities in this case) are subjected to punitive measures, in the event that they are responsible for irregular behaviour and/or expenditure. Venter and Landsberg (2006, p. 150) are of the view that, although municipal managers as accounting officers are subject to being held accountable, in terms of various municipal laws, there is limited authority to hold councillors accountable for fruitless, wasteful or irregular expenditure. This is important as councillors are more often the root cause of financial mismanagement. It is therefore important that individuals responsible for the misguided utilisation of municipal resources be exposed, but more important that appropriate sanctions be instituted in order to avoid repetition of such behaviour. On the basis of the above discussion, it becomes evident that South African municipalities are too reliant for financial aid, in various forms, on the other spheres of government. In the absence of financial dependence, municipalities cannot really be said to be autonomous, as those who control the money inadvertently control the activities of an organisation.

In September 2006, the various provincial departments responsible for local government reported to the Parliamentary Select Committee on Local Government and Administration, that municipalities in their respective provinces were facing financial problems due to the following inter alia:

- Escalating consumer debt caused by the lack of an effective revenue collection system.
- The failure of municipalities to implement the MFMA due to strained relations between the council and administration (www.pmg.org.za accessed on 05 May 2015).

The above issues refer to an inability to ensure the current financial viability of municipalities in the country, because by definition, revenue from outstanding debt belongs to a municipality's current assets. It would therefore be difficult for municipalities to sustainably "do business" on a day to day basis if the main source of day to day revenue is neglected. The second, and perhaps the most significant, problem these organisations are faced with is the failure by the municipalities to

implement the provisions of the MFMA. This represents an issue of political conflict that involves the power relations between politicians as policy makers, and executive officials as the drivers of policy implementation.

Furthermore Managa (2012, p. 4) cites financial mismanagement as one of the major problem areas for South African municipalities. It is pointed out that in the 2010/2011 Auditor General's report, only 7 of the 283 municipalities audited, received clean audit reports.

When examining statistics provided by the national treasury, it is evident that a substantial number of South African municipalities depend on the grants received from the national government for a substantial part of their revenue. This means that in essence, these municipalities are not financially viable, and it can logically be anticipated that they would struggle to provide basic services to their constituencies, and moreso to promote local development. It is logical to conclude that, if the financial resources of municipal organisations are limited, these municipalities must ensure that the limited financial resources are utilised for the most possible interest of the municipality, and the communities the municipality serve by implication.

When considering all the above financial constraints encountered by South African municipalities, it becomes evident that providing services on their own accord could prove to be a risk that many municipalities simply cannot overcome. One can thus see the emphasis on alternative service delivery mechanisms as averting risks associated with local governments themselves rendering these services because of an attempt to satisfy customer needs and also dealing with financial constraints.

4. Conclusion

In the above discussion the main points for rationalising the use of alternative service delivery mechanisms revolve around satisfying the needs of municipal customers to their satisfaction and secondly to deal with the issues of risk created by various issues of financial constraints.

Furthermore the potential risks associated with alternative service delivery mechanisms were discussed and various guidelines for averting these risks pointed out. All these factors in the employing of alternative service delivery mechanisms are vital to improve the organisational capability of local government to render services and thereby contributing to the vision of the National Development Plan 2030 of serving communities through capable state structures.

XIX

Factors determining the results of externalisation (Slovak case)

Beáta MIKUŠOVÁ MERIČKOVÁ and Juraj NEMEC

1. Introduction

Externalisation of the production of public services (contracting) or of production of internal services in public organisations (outsourcing) represents common type of alternative service-delivery arrangements. The relevant literature suggests that if, and only if the externalisation is properly implemented, then it may, but need not improve cost-effectiveness and service delivery quality.

This goal of this chapter is to discuss core factors determining the success of externalisation, with the use of concrete data from Slovakia. The first part presents the overview of the existing literature on the topic. The core part uses Slovak data to explore why externalisation does not produce the expected results and may even have perverse effects.

At the core of this chapter is an attempt to determine the factors that account for success in contracting for services in the public sector in Slovak conditions. This involves testing for a link between contracting performance and selected factors connected with contract management; such as competition, evaluation of bidders, contract monitoring, contract payment and sanctions. The key importance of the study is its originality in both Slovak and regional perspectives. We use a quantitative approach to investigate the research question and analyse original survey data generated by our own research undertaken in the Slovak Republic.

2. Factors determining the success of externalisation: A Brief Survey

The trend towards externalisation is very much connected with the liberal New Public Management theory (Lane, 2002; Pollitt and Bouckaert, 2004), however, the empirical evidence from developed countries does not confirm the validity of the general assumption that externalised production is better compared to in house production of local services (Bel and Costas, 2006a).

The existing research indicates that the success of contracting and outsourcing depends on two categories of factors as follows:

- A) *External environment factors* (such as level of corruption, level of competitiveness, rule of law situation, social attitudes, etc.).
- B) *Internal organisational factors* (especially quality of contract management in all its phases).

General environment has, without doubts, important impact on the final results of externalisation in any conditions. The existing data support this argument and also suggest that chance for successful externalisation is much more complicated in developing and transitional countries compared to more developed ones. Several socio-economic preconditions for successful contracting are insufficiently developed (Table 1 and 2 with data from 2016). Competitive markets may not be well developed yet, and may be characterised by monopolistic or oligopolistic structures and behaviour. Under these conditions, it is rather optimistic to expect a comprehensive supply of competitive bids, and therefore, the argument about possible unit cost savings is far more controversial than in developed countries. Corruption is another factor that reduces the efficiency-

enhancing potential of contracting. High level of corruption in developing and transitional countries can be partly linked to democracy gaps. Citizens still need to learn why and how to execute effective participative democracy when connections between economic lobbies and public officials are too close. The possible success of externalisation is also connected to the quality of the rule of law. If the state switches its role from provider to regulator, efficiency improvements are impossible where regulatory guidelines do not exist, and where the law is not respected. Full cost accounting is confined to only a few public organisations and the current systems of public sector control/auditing still have the character of predominantly the old-fashioned administrative procedural type of control.

Table 1. Selected macro-indicators I (higher=better)

Country	Functioning of government	Impartial public administration	Government effectiveness	Regulatory quality	Control of corruption	Professional public administration
Selected developed countries						
Austria	12	0.87	1.72	1.52	1.79	4.45
Denmark	12	1.21	2.29	1.91	2.48	5.67
France	11	0.69	1.48	1.22	1.40	4.83
Germany	12	0.54	1.57	1.53	1.70	4.52
Norway	12	1.33	1.75	1.42	1.98	3.75
Sweden	12	1.07	2.04	1.71	2.27	5.65
UK	12	1.06	1.50	1.60	1.54	5.40
USA	11	0.73	1.40	1.40	1.26	4.41
Selected large developing countries						
Brazil	7	-0.02	0.2	0.14	-0.11	3.92
China	1	-0.84	0.13	-0.19	-0.54	4.13
Kazakhstan	2	-0.79	-0.21	-0.32	-0.91	3.75
Russia	3	-0.92	-0.35	-0.35	-1.12	3.29
South Africa	9	-0.76	0.46	0.44	0.11	2.95
Selected small CEE countries						
Czech R.	11	-0.18	0.98	1.29	0.38	3.74
Hungary	10	-0.21	0.70	1.09	0.36	3.67
Poland	10	0.23	0.59	0.95	0.43	3.80
Slovakia	10	-0.12	0.89	1.08	0.27	3.79

Source: authors from different data sources

Table 2. Selected macro-indicators II

Country	Corruption perception index (10 = best value)	Rule of law (higher=better)	Independent judiciary (yes or no)	Economic freedom index (higher=better)	Ease of doing business (in world ranking)
Selected developed countries					
Austria	7.90	1.78	1	71.60	28
Denmark	9.30	1.91	1	77.90	5
France	6.90	1.46	1	64.20	32
Germany	8.00	1.65	1	71.10	18
Norway	8.60	1.90	1	69.40	7
Sweden	9.20	1.95	1	72.40	8
UK	7.70	1.74	1	76.50	6
US	7.50	1.55	1	78.00	4
Selected large developing countries					
Brazil	3.70	-0.20	0	55.60	128

Country	Corruption perception index (10 = best value)	Rule of law (higher=better)	Independent judiciary (yes or no)	Economic freedom index (higher=better)	Ease of doing business (in world ranking)
China	3.60	-0.34	0	51.00	91
Kazakhstan	2.70	-0.64	0	61.00	56
Russia	2.20	-0.78	1	50.30	118
South Africa	4.70	0.09	0	62.80	41
Selected small CEE countries					
Czech R.	4.90	0.96	1	69.80	67
Hungary	5.10	0.79	1	66.10	49
Poland	5.00	0.63	1	63.20	74
Slovakia	4.50	0.55	1	69.70	46

Source: authors from different data sources

Externalisation is based on contracts – and contracts shall be well managed. When a public body authority enters into a contract with an economic operator, the arrangement cannot just be left to run. It must be managed to enable both the contracting authority and the economic operator to meet their contractual obligations and to achieve win-win results. Contracts are frequently complex, may involve multiple actors, may last a long time and may consume many resources. It is therefore vital that they are properly managed.

Contract management should not be pure – technical “market” relation. Several more recent approaches to contract management argue that contract management should be a more flexible and cooperative approach to managing contractual relationships based on mutual trust, shared norms and values, and standards of behaviour. Such approaches also treat communication and joint problem solving between principal and agent as determinants of contracting performance (DeHoog, 1990; Sclar, 2000; MacNeil, 1978; Fantová Šumpíková and Rousek, 2009; Vaňová, 2004).

The absence of systemic contract management is one of the core reasons for contracting failures (Hodge, 2000; Sclar, 2000; Brudney *et al.*, 2005; Kamerman and Kahn, 1989; Stejskal and Charbusky, 2004; Štrangfeldová and Hronec, 2008). The literature suggests that the following factors determine the quality of contract management: the degree of competition in bidding for the contract (Savas, 1987; Kettl, 1993; Greene, 2002; Hodge, 2000; Pavel and Beblavá, 2008); the quality of the ex-ante evaluation of the contractor/agent (Rehfuss, 1989; Marlin, 1984; Romzek and Johnston, 2002); a clear definition of the contracted/outsourced service – contract specification (Rehfuss, 1989; Marlin, 1984); the quality of contract monitoring (Rehfuss, 1989; Marlin, 1984; Prager, 1994; Seidenstat, 1999; Brown and Potoski, 2003a; 2003b; Hefetz and Warner, 2004; Šebová, 2007); sanctions (DeHoog, 1990; MacNeil, 1978); the experience of the public body/government/principal responsible for contracting/outsourcing with contract management (DeHoog, 1990; Rehfuss, 1989; Romzek and Johnston, 2002); and the technical knowledge of the contracted service (Kettl, 1993).

3. Existing data about externalisation in Slovakia

There is a substantial body of published research about contracting in Slovakia. We may list our studies (see Meričková, Nemec and Vítek, 2005; Meričková and Nemec, 2007; Meričková, Nemec and Ochrana, 2008; Meričková, Nemec and Šumpíková, 2010; Meričková *et al.*, 2010) and the findings of other authors (especially Balážová, 2006; Čapková, 2010; Majlingová and Šagát, 2006; Pavel, 2007; Sičáková-Beblavá and Beblavý, 2007; Sičáková-Beblavá, 2009; Sičáková-Beblavá and Beblavý, 2009; Vozárová, 2012). The key common finding of these studies is that in Slovakia contracting has not delivered the expected results.

The most common approach is simple economy comparisons which uses the costs of internalised services as the base (= 100) and the index scores are constructed by taking the ratio of costs for outsourced services to costs for internalised services (measured per inhabitant per year) and multiplying by 100 to normalise. This kind of study is very frequent and Table 3 summarises results from selected samples.

Table 3. Comparative Efficiency Index for Contracting vs. Internal Production (Internal Form = 100)

Service / Year	2001	2005	2006	2008	2009
Waste management	94	94	125	184	60
Cemeteries	64	13	67	146	66
Public green areas	82	192	150	151	133
Maintenance of local communications	70	109	119	114	104
Maintenance of local lighting	100	138	128	156	127

Source: Meričková *et al.*, 2010

As indicated above, existing research data for the Czech Republic and Slovakia are not able to show any clear picture. In some cases internal delivery delivers better results, in other cases contracting is the better solution (independently from the type of service and the size category of a municipality). With such results we can only conclude that there is clearly not a more effective mode of delivery, the results differ and obviously depend on concrete local conditions.

4. Quality of contract management: Slovak data

Given the above provided theoretical background, based on the application of the Delphi method (Vozárová, 2012) we decided to test the following five factors concerning their influence on the quality of contract management on the sample of Slovak municipalities (primary data from our 2009 research on a representative sample of 131 Slovak municipalities of varying sizes) with contracted public services:

- x1 – level of competitiveness of the award
- x2 – selection criteria
- x3 – frequency of contract monitoring
- x4 – sanctions
- x5 – method of payment to supplier/agent.

All five factors have a qualitative character. Table 4 shows how we transformed them into quantitative data.

Table 4. Conversion to quantitative data

Factor	Description	Points
x ₁ – Level of competitiveness of the award	Open tender	100
	Restricted procedure	70
	Negotiated procedure	50
	Price quotation	30
	Direct award	0
x ₂ – Selection criteria	Best bid	100
	Lowest price	50
x ₃ – Frequency of monitoring	Regular	100
	Irregular	50
	No monitoring	0
x ₄ – Contract sanctions	Cancellation of the contract	100
	Financial sanctions	70
	Right to request improvements	30
	Other	0
x ₅ – Method of payment to supplier	Performance payment	100

	Mixed performance and lump-sum payment	50
	Lump-sum payment	0

Source: Author's own.

The findings are set out in Table 5 and are not very positive. The average contract management score is about 60 (out of 100). Better results are normally received for soft indicators, where evaluation is based on the subjective opinion/response from the staff involved.

Table 5. Quality of contract management for contracting local public services

Service	Competitiveness	Ex-ante evaluation	Monitoring	Sanctions	Payment conditions
Waste	42.84	67.12	70.32	42.08	65.65
Public lighting	47.11	72.73	65.26	45.20	63.72
Local communications	50.12	64.40	64.13	43.50	74.15
Public green	58.89	66.39	54.72	46.81	75.90
Cemeteries	29.43	68.27	64.29	45.18	45.79
Average	45.68	67.78	63.74	44.55	65.04

Source: Author's own.

We also tested the existence of the relationship between the quality of contract management and the contracting performance for this Slovak sample by calculating Spearman's correlation coefficient, where the dependent variable is the efficiency of contracting (data for this sample – see Table 3) and the independent variables are the factors determining the contracting efficiency ($x_1 - x_5$). The assumed null and alternative hypotheses were:

$H_0 : \rho_s = 0$ (no statistically significant correlation)

$H_1 : \rho_s \neq 0$ (statistically significant correlation exists) (1)

The level of significance for the hypothesis test was $\alpha = 0.1$ (2)

With SPSS Data Editor we calculated the value sig. (2-tailed) for statistically significant correlations between the dependent and independent variables. The results (Table 6) suggest that the hypothesis H_1 is confirmed.

Table 6. Correlations for Contracting Local Services

Service	Contract management factor	Sig. (2-tailed) value	Spearman's rank correlation coefficient	Correlation
Waste	x_1 – Level of competitiveness of the award	0.000	0.333	Positive
	x_3 – Frequency of monitoring	0.031	0.209	Positive
Public lighting	x_1 – Level of competitiveness of the award	0.000	0.579	Positive
Local communications	x_1 – Level of competitiveness of the award	0.000	0.666	Positive
Public green	x_1 – Level of competitiveness of the award	0.000	0.804	Positive
	x_5 – Method of payment to supplier	0.083	0.361	Positive
Cemeteries	x_1 – Level of competitiveness of the award	0.001	0.731	Positive

Source: Meričková *et al.*, 2010

The data clearly indicate that the level of competitiveness of the award is the rather important contract management factor influencing the efficiency of contracting (however, this does not mean that in specific cases positive results cannot be achieved in limited competition environment – supposing positive behaviour of agents – see Soukopova, Mikusova Merickova and Nemec, 2017). The Slovak conditions indicate one interesting fact connected with limited competition - even though competitive selection of external producer is mandated by the procurement law, it often does not happen (Table 7).

Table 7. Methods of Selecting External Suppliers in Slovakia (%)

Procurement method used	2001	2005	2006	2008	2009
Open procedure	16	17	27	32	17
Restricted procedure	5	0	5	3	14
Negotiated procedure	0	13	30	0	7
Price bid	0	0	0	25	4
Direct purchase	31	17	38	30	11
Municipality not willing to provide information	48	55	–	25	66

Source: Merickova *et al.*, 2010

5. Conclusions

The theory suggests that externalisation has the potential to improve efficiency, given certain conditions. If core external and internal preconditions for successful contracting are insufficiently developed, externalisation delivers less positive outcomes than might be expected. In this chapter we tested the above conjectures using Slovak data by measuring the impact of qualitative contract management factors, selected by the Delphi method, on determining contracting efficiency. The results indicate that there are several important factors limiting success, by far the most important being the degree of competition for the contract. One purpose for this is that too few contracts involve a competitive bidding process between would-be suppliers.

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XXI

Key words

Administrative law
Alternative service delivery
Anti-poverty measures
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Brazilian Public Administration
Citizens
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Co-production
Croatia
Diamond model
Digital governance
Digital services
E-governance
Electronization of public services
Experiments
Externalisation in public sector
Good governance
ICT
Inclusion income
Innovation capability
Institutions
Jobseekers guidance
Kosovo
Liberalisation
Local government
Local self-government
New public governance
New Public Management
Outsourcing
Participation
Participatory budgeting
Partnerships

Private Providers
Private sector inclusion
Privatization
Public administration
Public employment service
Public private partnership
Public private partnerships
Public services
Public services innovations
Quality of contract management
Regulation
Regulatory authorities
Relational goods
Results
Service quality
Slovakia
Social rights and services
Strategies

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