

Performance Management in the Baltic States and Russia, what are the chances of success?

Tony Verheijen and Yelena Dobrolyubova, the World Bank
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1. Introduction

Performance management is often seen as a theme that holds relevance mainly for advanced public management systems. It is also seen as a concept that is at odds with continental European traditions of public administration, in which Human Resource Management and general management practices are perceived as being driven by formal rules and procedures, and career advancement is still more a matter of seniority than meeting performance targets. Whereas reforms initiated (successfully) in previously seen as ‘traditional’ public administration systems like Austria (and other states) in continental Europe provide arguments to the contrary (OECD, 2005), the notion that performance based public management processes are something for countries at the western and northern edges of Europe continues to prevail.

Discussions on performance approaches to public sector management in Central and Eastern Europe have been even rarer than those in continental Europe in general. Whereas at the early stages of the transition process, during the heydays of NPM, there appeared to be real opportunities for a radical change in approach to public sector management, in reality this area of reform was rather neglected, leading to the state largely withering away in the first half of the 1990s (Verheijen in Peters and Pierre, 2003; Verheijen, 2004; World Bank, 2005), as coined in the UNDP ‘Shrinking State’ report in 1997 (UNDP, 1997).

The largely formal/legalistic requirements posed by the EU accession process after 1995, moved the focus of reform discussions in Central and Eastern Europe away from results and delivery issues to law drafting and basic institution building, which posed significant problems for states in itself, and arguably has not yet been completed in most of the new EU member states, let alone those that are to join in 2007. Thus, in most states there was little appetite for more advanced forms of public management reform (Verheijen and Coombes, 1998)

Beyond the EU candidate states, public sector reforms in the CIS and Southeastern Europe mostly made their appearance on reform agenda at the turn of the century, and there is little to tell about 'reforms' until 1999, as states in both regions struggled with ethnic conflict, establishing basic institutional structures in new states, and the fall out of economic disintegration in former Yugoslavia and the former Soviet-Union.

Why then, one would argue, focus on reviewing performance management approaches in these still very 'young' and in some places even rudimentary public management systems, which in all likelihood lack the basic institutional framework and capacity to build credible performance management systems?

The generally sobering situation in public sector management in Central and Eastern Europe, including in the new Member States (World Bank, forthcoming, 2006b) does not mean to say that there are no interesting practices to review. Most of these are cases of single agency reforms based on performance principles, such as the Ministries of Finance and Labor in Slovakia. Others relate to specific elements of systemic reform, such as the introduction of a new Civil Service pay structure in Serbia, which is performance related, but not yet linked to an overall institutional performance management system. However, three cases stand out where innovations in public management, based on a performance logic, have been taken beyond partial experiments, Latvia, Lithuania and Russia. In all three states a start has been made with the development of comprehensive performance management systems, based on a hierarchy of objectives, and oriented towards building systems that are delivery oriented.

The context, drivers and level of advancement of reforms in these three states are obviously different, Latvia and Lithuania started public sector management reforms in the mid 1990s and Russia only in 2000. The former two now being part of the EU, while Russia has increasingly turned eastward. Regardless of these differences, the cases are nevertheless interesting from a comparative point of view. All three states share a common inheritance in the form of the Soviet system of public management, and all three suffered from a significant economic crisis in 1998-1999, which proved to be the starting

point of a new approach to public sector reform. Whereas the two Baltic States have been pre-occupied with becoming competitive member states inside the EU, Russia has in its agenda focused on WTO integration and economic competitiveness, which means that reform processes in all three cases have significant external as well as internal drivers. Most of all, an analysis of these three cases gives an important insight into what is the scope for the establishment of performance driven public management systems in Central and Eastern Europe and the CIS.

This paper is structured as follows. First, we will provide a brief review of the state of play in the development of performance management systems, as well as analyze what are the main drivers for the introduction of performance management systems. Second, we will break down the review of reform processes in three elements, overall strategic planning, institution level strategic planning and performance management and the introduction of performance measurement at the level of individual civil servants. As the introduction of an overall performance management infrastructure usually proceeds in stages (with different elements moving at different speed), this approach will allow us to highlight where the main bottlenecks in the introduction of performance management are likely to be and, in that context, what lessons can be drawn by other states that are at an earlier stage of introducing performance management systems. Finally, we will draw conclusions on the 'fit' of performance management systems in the context of Post-Communist states and the suitability of performance-based approaches for the specific conditions of transition states.

2. Introducing performance based public management systems: three countries on similar tracks, at different speeds but similar objectives

The introduction of performance based public management systems in Russia, Lithuania and Latvia has in all three cases been an incremental and step by step process, in which the main actors were generally not aware at the start of the process where the finish line would be, nor where the road of reform would lead them. The reform paths of the three states have been significantly different, but have converged in a surprising way over the

last three to four years. Whereas Latvia, which probably has the most interesting administrative reform history in Central and Eastern Europe, shows an experimental approach to reform, with a significant number of changes in directions (though no U-turns) in the process, Lithuania made a deliberate choice of a different direction in reform after the 1998-1999 fiscal crisis, starting with the introduction of strategic planning. The Russian story, if there is such a thing as a 'single story' for a federal state with 88 Subjects, is one of a long lead period before recognition of the need for reform set in and the political window of opportunity to launch the process of strengthening public administration opened. The fragmentation of the reform process created different strands of reform that have only very recently started converging around performance principles. Thus, one important lesson from the start is that in all cases initial approaches were partial and that the thought of overall performance management system design only appeared once one or more elements of the system was established, or at least a consensus on the reform direction was reached.

Performance management systems in Russia, Latvia and Lithuania remain buildings in construction. Whereas in Latvia and Lithuania it is safe to argue that the majority of building blocks for performance management are in place, final work remains to be done in both cases. In Russia, however, what we can observe is mainly a skeleton for the overall system, though rapid progress is now being made in fleshing out the system, especially at the Federal government level.

Latvia: from continental approaches to New Zealand dreams and rude awakenings

Latvia initiated its administrative reform process relatively soon after independence, driven by a strong interest in developing a new public administration system for the newly independent state. The initially selected approach to reform was the introduction of a continental style Civil Service, based on a thorough re-selection process of all staff working in the state administration.¹ The Civil Service Law of 1994 made all serving

¹ This is the only attempt in Central and Eastern Europe to re-classify staff and positions by having staff taking a re-entry examination

Civil Servants into civil service candidates, having to pass a rigorous examination to re-qualify for their positions in the administration. A system of training and examination was created to ensure that this system had the necessary in-built quality control. Latvia is one of the few states that has attempted to introduce a full re-selection process for the Civil Service. However, the system was abandoned soon after, in 1995 Mr Skele, a businessman turned politician, took over the Prime Minister position. Inspired by the New Zealand reforms and aiming to introduce a new private sector based management model into the administration, Skele moved quickly to stop the Civil Service selection process and instead worked on the creation of a system of 'management contracts' for senior civil servants tied to a bonus system. This approach included an attempt to re-organize the central state administration on a principal-agent basis, including the development of agencies for service delivery and regulatory functions.

The introduction of radical reforms of this nature in a system that did not have an established personnel management, staff appraisal or accountability system led to institutional chaos, in which core government institutions (such as the Tax Administration) decided to 'opt out' of the core civil service and function on a private sector business model, with limited or no controls over their operations. The Latvian central administration broke up in a confederation of some 750 central state bodies, without clear control or accountability, a move which backfired as citizens felt both at a loss in dealing with a highly fragmented state administration and the 'management contract' system aroused serious suspicion as both the contents of the contracts and the bonuses paid were kept secret. The disorganization that the radical (but not well planned) reforms brought also generated strong criticism from the European Commission, in particular in the 1997 Opinion on Latvia's application for EU membership, in which the country remained outside the first group of states invited for negotiations.

Several attempts to bring order into the system were made in 1997-1999, including by the development and adoption of a Law on Agencies, the design of a Law on Public Administration (which finally was adopted only in 2002, as part of the introduction of the strategic planning and performance management system) and the revision of the Law on

Civil Service. However, the main contours of the system remained in place, in particular the 'management contract' system, which, though potentially a fundamental element of a performance based model, remained a source of dissatisfaction among citizens. In addition, the economic slowdown of 1998-1999, mainly as a result of the 'Russian Crisis', raised further questions about the affordability of the existing state administration system, as well as on the bonus system, leading to further reflection among both politicians and senior officials.

After five years of administrative turmoil, marked mostly by unstructured experimentation with reforms, a turning point was reached in 2001 with the adoption of the Public Administrative Reform Strategy and related Program, which set out a time based plan to reform structures, policy processes and HRM systems and re-adjust them based on a performance logic. Thus, whereas Latvian experiments with performance management have roots in the mid 1990s, a structured approach to administrative reform only emerged in 2000-2001.

Key factors in bringing about the turnaround in this process included the realization that Latvia could not successfully integrate in the EU with a fragmented policy and budget management system, that the ad hoc and disjointed reforms of the 1990s had seriously damaged administrative infrastructure and negatively affected the perception and image of the civil service, and that citizen trust in the administration needed to be revived (Veismane, 2004). The establishment, in 2001, of the Strategic Planning Unit in the State Chancellery was a turning point in this regard. Since 2001, this unit has progressively created the building blocks of an increasingly complex performance management system, based on a new approach towards policy coordination and strategic planning. Following the creation of multi-annual budget planning and overall government strategic planning mechanisms in 2001, ministry level and agency level strategic planning tools, including the definition of performance indicators, were introduced in 2003. This closed the circle opened in 1996 with the start of agency creation without a proper reporting and accountability system. Bringing the indicator system down to the level of individual officials, however, is still fraught with difficulties, especially due to another aspect of the

previous reform, the management contracts. Thus, even though a new Law on Civil Service Pay was adopted in 2006, the issue of management contracts and bonuses remains largely unresolved.

Thus, in terms of the introduction of performance management, Latvia has seen a rather rocky ‘learning by doing’ process, which was finally pulled together in 2001, under pressure of a group of influential senior officials and politicians. Concerns about Latvian ability to perform in the EU, combined with reform fatigue brought about by too many reversals of course before, as well as the impact of the 1998-1999 fiscal crisis, which brought about a movement to re-think public expenditure priorities and the way budget management was conducted, drove a process that is likely to lead towards the establishment of a comprehensive strategic planning and performance management system.

Lithuania: from muddling through to strategic planning: the impact of fiscal shock and the drive of EU membership ambitions

Unlike its Northern neighbor, Lithuania followed a very gradual and incremental path of administrative development until the fiscal crisis of 1999. Like other Baltic states, Lithuania put in place the basis for its post-independence public administration system soon after independence,² including the adoption of a Civil Service Law in 1995. However, reforms remained largely incremental, and the implementation of the Civil Service Law was eventually suspended and the Law was replaced by a new Law in 1999. One of the principal problems with the 1995 legislation was that it opened the door to continued politicization (Verheijen, 2001) and that it was seen as providing an insufficient basis for civil service professionalization. It should be noted that the 1999 Law itself was in turn replaced by a new Law in 2002, which reduced the scope of the Civil Service and, related to this, the cost of Civil Service Law implementation.³

² This is an area where the Baltic States have a fundamentally different track record from other new EU Member States, which generally left administrative reform and development on the backburner until the late 1990s

³ The cost of the 1999 law, which included local government officials in the Civil Service system, was seen as forbidding

The need to speed up the European Integration process,⁴ combined with the impact of the Russian crisis, which had a severe economic impact on Lithuania, eventually proved to be a key factor in moving Lithuania off the gradual reform track and into a process that was to radically change the Lithuanian public management system. The shift in the reform process was brought about by Andrius Kubilius, who, as an interim Prime Minister between November 1999 and the October 2000 elections, inherited the difficult task to address the deep fiscal crisis in the country and move Lithuania forward on the European Integration track.⁵ The period from Autumn 1999 to 2000 laid the foundation for the deep reform of the Lithuanian public management system, starting with a radical review of functions and public expenditure by the so-called 'Sunset Commission', which was created to review expenditure items and reduce state functions, and the creation of the Strategic Planning Committee, which was to review all policy and expenditure proposals based on overall Government strategic priorities, and act as a filter for government decision making. The latter move was also to facilitate the EU accession process, where in 1999 Lithuania had started to lag severely on the adoption and implementation of key policy measures (Evans and Evans, 2002).

The further process of introducing performance management principles in Lithuanian public management has been built on these two measures, which, interestingly in the context of Central and Eastern Europe, were taken further forward by a government led by a different political party. The period of 2000-2005 has seen a further rationalization in government structures, the expansion of the remit of the Strategic Planning Committee and the development of professional support structures to its operation, as well as the development of linkages between overall government strategic planning, ministry-level strategic planning and budget allocation. With the revision of the Civil Service Law in 2002, the basis was also created for the design of a new performance appraisal system that was to be linked to overall strategic planning. The results of the introduction of these reforms are well documented (see Evans and Evans, 2002, World Bank, 2004a), government effectiveness in terms of program implementation has increased significantly

⁴ Like Latvia, Lithuania was not included in the first group of countries to negotiate for membership

⁵ The fact that Kubilius had previously served as the head of the Parliamentary European Integration Commission provided him both with a strong incentive and credibility in this regard

since 2000, fiscal performance has been strong and Civil Service employment conditions have significantly improved to make the Civil Service a more competitive employer (World Bank, 2004a). One interesting factor to note in the Lithuanian case is the significant role played by the European Integration management structure in driving administrative innovation. Many of the new management approaches were ‘piloted’ by the European Committee (now integrated in the State Chancellery as the European Integration Department) in the EU accession management process, including new approaches to budgeting, impact assessment and the use of advanced planning tools. The high profile of this institution and the professional ability of its staff were a highly important factor in giving some of the reform elements the visibility and credibility that were needed to overcome political and bureaucratic resistance to the reform process.

The Lithuanian case shows a relatively fast, politically driven process, strongly attached to the European Integration agenda. Whereas driving forces for reform were very similar to Latvia, the role of politicians (and in particular PM Kubilius) has been more prominent. The importance of the European Integration unit in driving innovation is another interesting feature of the process. As in the Latvian case, the continuity of the reform process under different governments is to be noted, this is rather unusual in the general context of Central and Eastern Europe, where it is rare for politicians of one side of the political spectrum to continue institutional reforms started by their predecessors from a different political force. Finally, as in Latvia, the main difficulty in making the performance management process comprehensive would appear to its application to individual civil servants.

Russia: from three separate reform processes to an integrated approach to performance management?

After the first years of transition characterized by liberal euphoria and belief in the *laissez faire* principles of economic development, the Russian government recognized the need for strategic planning and performing public administration already in mid-1990s. At that point, the country still had not recovered from a deep economic recession (with GDP

falling lower than 60% of the level of 1990 at some point), public administration was still dominated by the former *nomenclature* – mostly the cadre from former communist party organizations, and the distrust in the government policies among the public was growing.

Civil service legislation as well as legislation related to government planning and forecasting practices (both issued in 1995) did not help much to reverse the situation⁶: the access to the civil service – free to all citizens in accordance to the Constitution – remained constrained by lack of competitive practices; civil service pay and promotion depended more on connections and seniority rather than on merit. Moreover, by late 90s – early 2000s, the prestige of the civil service declined – partially because of increasing public-private sector remuneration gap⁷. While most of requirements to strategic planning and policy analysis were formally adhered to, government socio-economic development programs contained only long lists of priorities with less attention to policy implementation issues and – hence – could not provide adequate basis for formulating second generation reform programs. In this context, inefficient governance system more and more constrained sustainable socio-economic development of Russia and had a negative impact on the country's international competitiveness.

Hence, by the late 1990s the need for strengthening governance and public administration was recognized; this time also presented a political window of opportunity to engage in governance reforms with the future President Putin preparing for the election campaign and placing “building the state” as a core stone of his political agenda in 2000. Competitive and professional civil service and functional public administration accountable for the results were the key principles proclaimed in the so called *Gref II* Long-term Program for Social and Economic Development of the Russian Federation for the first decade of the 21st century which served as a basis for the Presidential elections.

⁶ World Bank (2004c)

⁷ By early 2003, for some of comparative positions the remuneration gap (adjusted for benefits) reached 5 – 7 times for Moscow-based civil servants and about 2 – 2.5 times for those residing in other regions of Russia. World Bank (2005)

The promise was made; reform design and implementation, however, proved to be of a much greater challenge with various parts of the agenda allocated as functions to various central government entities often competing with each other; the multi-level governance system of Russia comprising – at that time - 89 subjects of the Federation presented a further challenge to the reform. As a result, three distinct reform strands in public sector area developed:

- *Civil service reform* was launched in 2003 and aimed at developing professional civil service and strengthening performance incentives at the individual level. The reform resulted in adopting new civil service legislation unifying the principles applicable to civil, military, and enforcement services, further promoted competitive recruitment to the civil service, and introduced options for term performance contracts with some categories of public officials. However, little change has been made to the structure of civil servants pay (still one of the most cumbersome in the CIS) that consists of a very low base pay and numerous increments focused primarily on seniority and some other unclear criteria, such as ‘increment for specifically complex and urgent tasks’ normally distributed evenly among all civil servants and thus providing no performance incentives.
- *Budget reforms*, and especially *budget process reform* launched in 2004 and aimed at increasing efficiency and effectiveness of public spending through introducing performance budget reports at the ministerial (and later on also at the government) level linking public expenditures with performance outcomes, introducing medium-term budgeting, simplifying budget classification, separating budget of accepted commitments from the development budget, etc. These were important steps forward from input budgeting to bringing in performance issues to political deliberations and strengthening strategic planning capacity in the line ministries now responsible for determining their key priorities in the medium-term perspective. To-date, the outcomes of the reform are mixed with quality of performance reports (now prepared by all executive bodies reporting directly to the Government or the President) found generally insufficient with the main lesson learnt being the need for much more substantial capacity building effort

(specially targeted at the staff of financial departments) to complete the reform agenda. The President, however, is determined to roll-out the practice also to sub-national (regional) level of public administration.

- *Administrative reform* started in 2004 with a massive central government restructuring (based on review of functions conducted in 2003) and introduction of three tier government structure (Ministry – Service – Agency) with functions of policy development separated from the functions of policy implementation, oversight, control and property management, and then continued with adoption of Administrative Reform Concept in 2005 aimed at introducing performance management as a focal point for improving service delivery and decreasing administrative barriers in the country.

Implementation of these reforms was accompanied by a process of delineation of powers between the national and sub-national government as well as local self-government reform (still in progress).

As the reforms progressed, it became more and more apparent that an integrated approach to resolving the issues of public administration development was to be created based on performance management framework. Indeed, achieving performance targets linked to strategic objectives set out in the Presidential Addresses to the Parliament and the Medium-Term Socio-Economic Development Program calls for the provision of adequate resources to meet these targets (thus linking results with funding) while managing the process of achieving these targets calls for performance management at the departmental and regional level, as well as at the individual level. Looking at the same issue from another angle, building a merit-based professional civil service calls for modern evaluation procedures (rather than rudimentary and time-consuming checks of knowledge and formal qualifications that make little impact on actual performance and distract attention of HR units) that again need to be based on some performance measures so as to be transparent and acceptable to the public officials.

The challenge, however, is to implement such integrated approaches in the context of competing central agencies with insufficient clarity of division of responsibilities and powers among these.⁸ The practice demonstrates that currently such integration is easier to find at the regional (and also municipal) level where – due to smaller administrative apparatus and significant reporting burden imposed by the federal authorities – such optimization seems to be the only way for addressing numerous parallel reforms designed by the federal authorities. In addition, clearer political will of a regional leader (if such will is in place) makes it easier to implement the new public administration approaches across the board. In fact, these were the subjects of the Federation and municipalities who pioneered strategic planning in the new economic conditions (with St. Petersburg City Strategic Plan being the first one prepared with broad public participation and approved by the City Governor in 1997 followed by strategic plans prepared by other regions and municipalities) and established an Association of Regions and Cities – Strategists⁹ - a rare example of active horizontal interregional network in Russia.

While it might seem too early to evaluate the results of the reform, it is evident that for the past three – four years significant progress has been achieved in making the Russian public administration more accountable to the public and better oriented at the results of its performance than at the amount of funds the government agencies get and spend annually. Much more information on government plans and actual performance levels is now readily available; policy deliberations are more focused on final outcomes rather than on inputs and processes; and government agencies at the federal and regional level are engaged in a number of pilot projects aiming at improving internal accountability and performance frameworks. A performance measurement mechanism has been established at the federal level within which ministries prepare performance budget reports summarizing the results achieved and the key areas of activities planned for the next 3 years with budget expenditures broken out by programs presenting various areas of

⁸ For instance, the Ministry of Finance is formally responsible for budget reform, while it is the Ministry for Economic Development and Trade which is responsible for government consolidated budget report (jointly with the Ministry for Regional Development providing inputs on regional performance targets), all of them falling under a specially established Government Commission for Raising Efficacy of Public Spending lead by a Deputy Prime Minister.

⁹ www.citystrategy.leontief.ru

activity, and the government consolidate sectoral strategies in national – level consolidated performance report (which now also includes regional targets).

At the regional level, the progress has been uneven with the regions genuinely interested in implementing the reform (usually those with committed political leaders and also those running small budget deficit and therefore motivated to improve the efficiency if not effectiveness of their administrations such as Republic of Chuvashya, Arkhangelsk and Saratov oblasts, etc.) moving significantly faster as compared to those that have no buy in to the reform process or that have no capacity to implement these reforms. Indeed, the diversification of regions in terms of socio-economic development, budget revenues, and governance capacity in Russia is enormous with lagging regions being extremely poor and capital/oil and gas regions being extremely rich. To add to the list of challenges, part of the country is in post-conflict (or even civil conflict) situation and is simply not ready even for quite basic public management reforms. The problem therefore is how to get the reforms implemented across the country without adding to further developmental disparities.

However, the first years of the reforms also demonstrated some risks that could potentially negatively affect the further reform progress. First, it is apparent that performance measurement is increasingly being applied as a control rather than incentive mechanism designed for “punishment” rather than “motivation”, especially in terms of federal – regional relations. Multiple sets of regional performance indicators being currently designed by – again - various government bodies (including the Administration of the President, Government Office, Ministry for Regional Development, Offices of Presidential Envoys in the Federal Districts) are being perceived by the regional administrations as ‘control measures’ rather than indicative levels and, intuitively, such perception may well appear to be a correct one. In other words, performance management is increasingly used for strengthening “vertical of power” and centralization rather than providing a means for effective decentralization and public accountability to the regional government.

Second, current performance management practices in Russia (both at the ministerial level and – especially – at the national level) tend to rely more on impacts of government policies measured through the dynamics of socio-economic development indicators rather than on outputs of activities of particular ministries and departments. As a result, the linkage between the actual inputs and direct outputs, on the one hand, and outcomes and impacts – on the other is still weak. Hence, the risk in the medium-term perspective is that the whole accountability performance-based framework may become less trusted (especially by the public administration itself) as it tends to hold government bodies accountable for issues prone to the influence of the factors that are far beyond the government control (especially in the context of the market economy). In the extreme case, this might mean a re-invention of the *Gosplan*, a huge planning administration which used to be an economic and administrative ‘heart’ of the command economy of the USSR. In a non-extreme case, this risk might result in increasingly formalistic approach to performance management through creating incentives of under/over-reporting. While the linkage between the output and outcome level of performance indicators framework is a common problem encountered in introducing performance management/performance-based budgeting frameworks across the board (OECD 2003, World Bank (2005d)), the approach taken in Russia where the process for designing performance framework is more top-down (i.e. starting with strategic objectives and policy impacts) rather than bottom-up (i.e. based on departmental direct outputs) has not yet proved to be an optimal one.

Last but not least, separating various parts of public sector reform into various interconnected programs and making various agencies responsible for these reforms so far has brought more problems than gains. It has been partially recognized in designing administrative reform management system relying on interdepartmental commissions representing all core central government bodies both at the federal government level and at the level of the subjects of federation. However, further integration efforts would be required to further promote the performance management agenda as defined in the broad sense of the word.

Conclusions

The three cases discussed here show a variable and step by step approach to the introduction of performance management systems in the public sector. There are several important factors to be noted in the cases:

- Competitiveness and external factors have been key drivers of reform
- Service delivery quality is considered important, but was in none of the cases the initial driver for reform
- Capacity constraints are the most significant factor of difficulty in introducing change processes of this nature
- Individual performance management and – especially in the case of Russia - the link of direct outputs of programs/activities to higher level outcomes/impacts appear to be the most difficult element of reform processes

All these four aspects of reform somehow set these three cases apart from what we often see as drivers of performance management. Whereas competitiveness has been a strong arguments for introducing performance related management tools in some OECD states, such as for instance Austria and Australia (World Bank, forthcoming, 2006), the general driver of performance based approaches is improving public service delivery, especially in states such as the UK and Canada. Whereas service delivery is an important element of reforms in Russia, especially in the presentation of reforms, the overall drivers of public administration reform are rather competitiveness and the recognition of severe constraints on government capacity to implement any kind of a reform agenda.¹⁰

The Latvian and Lithuanian cases are even more clear cut. The reform process in both cases was driven, at least in the decisive phase in 1999-2000, by fiscal constraints and the EU accession process, with very limited attention to service delivery as a rationale for

¹⁰ Arguably the economic crisis of 1998-1999 has also influenced the Government and in particular President Putin of the need to improve significantly the quality of governance, though competitiveness have remained on the forefront of the debate

reform. Whereas in both states (as well as in Russia – on a pilot basis) service delivery innovations have been introduced, they have never been at the forefront of the debate.

The second interesting, though not surprising, conclusion is the issue of capacity constraints. Administrative capacity to introduce and manage successfully a public sector operating based on a performance logic takes time to develop. Whereas in all three cases there are ‘islands of excellence’ in the administration able to drive reforms (the State Chancellery and European Integration units in Latvia and Lithuania, the Ministry of Economic Development and Trade as well as the Office of the Government in Russia), moving reforms beyond these units into day to day public management processes has posed a serious challenge. This is to some extent due to problems with incentive structures in the administration, which has made it difficult to attract and retain high quality staff (World Bank, 2004a and World Bank, 2005), but more importantly a reflection of the fact that the successful introduction of performance management tools is a ‘second generation’ institutional reform that requires a certain level of sophistication in administrative structures. Thus, whereas this can be compensated for to some degree in small administrations like those in Latvia and Lithuania, building the necessary critical mass of capacity in a complex multi-level governance system such as Russia poses a serious challenge, especially where Subjects of the Federation are not required to replicate reforms at the regional level. This issue is closely related with the top-down approach of performance management prevailing in Russia both in terms of managing the reform process and centralizing the performance framework substantively (through the consolidated government performance report, for example) which makes it at some point ‘de-linked’ from the direct outputs of government entities.

Finally, in terms of the different components of performance management systems, it is surprising to note that the most difficult element in Latvia and Lithuania, and, though for different reasons, also in Russia, is turning out to be the development of individual performance appraisal systems. This is surprising from the point of view of complexity. Whereas individual performance appraisal systems require certain technical skills to operate, they are less complex than strategic planning systems or systems for designing

and measuring institutional performance indicators. When considering the previous point of capacity constraints, the development of overall strategic planning systems could have been expected to be the main bottleneck in the development of performance management systems. At least in Latvia and Lithuania this has not been the case so far, and in Russia there is some evidence of reforms individual regions (such as St. Petersburg city, Arkhangelsk, Saratov and Murmansk) that show an ability 'in principle' to operate strategic planning systems. The answer as to which individual performance appraisal is an important bottleneck can probably be found in the history of public administration systems in the region, which combines a very weak HRM function in the state administration with a general reluctance to engage in individual performance appraisal, which is often seen as counter-cultural. We will explore this issue further in the next section of the paper.

3. Completion and consolidating performance management systems: removing stumbling blocks

The previous section has reviewed the state of play in the design and implementation of performance management systems in the three cases discussed here. In this section we will review some of the main issues that have arisen and could hinder the successful completion and consolidation of these systems, some of which are relevant to all three cases, while others are country specific. One of the most striking aspects of the reform processes in the three states concerned is their relative continuity. Those that study administrative reform in Central and Eastern Europe would be aware of the merry-go-round of reforms that have hindered the successful transformation of administrative systems, caused in particular by the short-lived nature of most Governments and governing coalitions, and the continuing high level of polarization in party politics (Peters, Vass and Verheijen, 2005). Against this background, the track-record of the reforms discussed here is an interesting exception. The Lithuanian and Latvian strategic planning and performance management systems have been gradually developed and expanded over at least three governments of different party composition, while Russian reforms, though not as advanced as reforms in the other two states, have proceeded in a

relatively linear fashion over the last five years. Thus, political support, which is often an issue with complex public sector management reforms, appears to have been relatively constant. Three other issues, raised in the previous section, pose a potentially higher challenge to the successful completion and consolidation of performance management systems, capacity constraints, weak HRM systems, for all three cases, and the complexity of introducing public sector reforms in multi-level governance systems, in the specific case of Russia.

Capacity constraints: from islands of excellence to comprehensiveness

Experience with the introduction of performance management systems in OECD states provides a strong indication of the importance of implementation capacity (OECD, 2005). Effective performance management systems require the solid foundation of an established public management system, including established accountability and reporting systems and merit-based recruitment and promotion systems, as without these even the best designed performance management systems can lead to chaos in practice, as the experience from the initial attempts to introduce a principal-agent based public management system in Latvia has clearly shown. In addition, the ability of those that are at the forefront of designing new public management systems to transfer knowledge and build a broader constituency for change is crucial, as shown for instance in the case of Austria (World Bank, forthcoming, 2006), where effective leadership was a key factor in the radical transformation of a public management system that was deeply set in its ways.

Leadership has been a strong factor thus far in the three cases discussed here, both at political level, where the Lithuanian and Russian cases stand out, and at the top civil service level, where strong capacity is in place in all three cases. The Latvian case is of particular interest in this regard, as reforms have been led to a significant degree by top civil servants in the State Chancellery, and in particular the Director of the Chancellery, Gunta Veismane. This comes after a strong political drive for reform by Prime Minister Skele in the mid 1990s did not lead to the expected results and arguably worsened the condition of the Latvian administration, as the organization and structure of the

administration was further fragmented and accountability and reporting relations remained underdeveloped. As discussed above, in Lithuania the European Committee played a leading role in driving reform, while in Russia a combination of politicians and senior management in the Office of the Government and the Ministry of Economic Development and Trade drove the reform process.

Diffusion of reforms has been problematic in all three states, and this explains to a certain degree why initial success in the creation of strategic planning systems, which function at a macro-level, was not always easily translated into progress in establishing ministry-level performance indicators and, finally to individual civil servant level performance appraisal. In both Latvia and Lithuania the development of strategic planning systems, including the development of additional 'filters' for policy proposals in the form of strategic planning units and committees, was relatively easy, as Ministers and their senior advisers accepted the system. Furthermore, the introduction of strategic planning came at a time when strategic policy priorities were relatively clear cut and the need for radical improvements in Government performance as a condition for meeting deadlines for EU accession was obvious. Linking strategic planning to budget allocations only followed at a later stage, with the introduction of Medium Term Budgeting Planning in both states. Again, the introduction of this element of the reform program was linked with the preparation for EU membership. However, capacity constraints emerged much more clearly once it came to moving strategic priorities down to Ministry level and operationalizing them in terms of performance indicators.

In Latvia the move to ministry level reforms exposed the uneven quality of the administration as well as the drawbacks of the strong fragmentation of the system. More advanced ministries, such as the Ministry of Agriculture and the Ministry of Welfare, which had undertaken functional reviews and introduced organizational reforms in the late 1990s, were well prepared for introducing ministry level strategic planning systems and elaborate performance indicators. Other ministries, such as the Ministry of Justice, followed suit in 2000-2001. However, in a system based on strong ministerial autonomy and characterized by fragmented coalition governments, a government-wide move to

modernize ministerial management was highly difficult to achieve and addressing uneven capacity became a key pre-occupation of the State Chancellery after 2000. It required a concerted effort to expand and universalize the strategic planning and performance management process. This was done through the design and adoption of strategic planning and performance management methodologies, approved in 2003, binding on all ministries, and the elaboration of detailed mandatory policy planning guidelines (www://mk.gov.lv), combined with a training and capacity building program, implemented through the Latvian School of Public Administration. The former also included guidelines for ministries on establishing and monitoring performance indicators for subordinated agencies. Whereas these moves have helped create a more consistent level of quality in policy design and ministry level strategic management (Sturis, presentation, 2005), significant further work needs to be done to bring overall capacity in the administration up to the level needed to effectively operate a performance oriented public management system.

Similar issues affected the Lithuanian reform process, with the difference that capacity constraints were more evenly spread between ministries and that one of the main driving forces in the reform process was the European Committee, which saw the strategic planning process as a way to push the transformation of the Lithuanian public management system into one that could function effectively in the EU (Maniokas and Dimitrova, 2005). The European Committee found allies in the State Chancellery and the Ministry of Finance in its attempts to transform the Lithuanian public management system. Whereas the State Chancellery was initially pre-occupied mainly with the operation of the strategic policy filter at overall government level, the Strategic Planning Unit increasingly got involved in attempts to modernize ministerial management systems. The Ministry of Finance viewed the move towards performance management as a good opportunity to anchor its work on medium term budget planning. However, since the Lithuanian effort lacked the driven and clear single-institution based leadership that managed to overcome resistance in Latvia, the process of introducing performance based management at ministry level has moved forward more slowly, though it was set out as an explicit objective in the Public Administration Development Strategy in 2003.

In Russia reform efforts have been fragmented, as performance based budgeting and strategic planning have developed under separate initiatives and programs (the Budget Process Reform Concept 2004-2006 and the Administrative Reform Concept 2006-2008 respectively) with the former proceeding faster than the latter. However, reviews of Performance Reports submitted by nine pilot institutions in 2005 revealed a low quality of budget reports and obvious conceptual misunderstandings over the application of the methodology (World Bank, 2006, forthcoming, p.47). This happened partially due to the fact that the institutions tried to link expenditures to broad programs without having any type of activity costing in place and with the lack of measurements for direct outputs of their activity. In addition, excessive centralization of performance framework and over-reliance on impacts in performance management and assessment poses additional risks to credibility of the initiative. Hence, implementing the more advanced performance based budgeting initiative to is likely to pose a serious challenge, both due to institutional turf wars between the Ministry of Finance and the Ministry of Economic Development and Trade and due to capacity constraints. The question in Russia is therefore how far implementation of a performance management system can move beyond the current stage without a significant investment in training and staff development.

HRM systems, the weakest link in the chain?

The previous section addressed the problems inherent in moving down overall strategic planning approaches into ministry-level performance standards. Whereas all three states have started to address this element of the reform process, capacity constraints have hindered rapid progress, especially in Russia. Moving down into individual performance appraisal systems, and linking these to institutional performance management, has been an even more difficult step.

The Latvian system has experimented with (controversial) management contracts, but has not moved beyond that into a more concerted effort to design individual performance appraisal systems. This is in part due to the fact that the Civil Service Administration,

which was established in 1996, has played a very low key role in strengthening civil service management. The Bureau mainly focused on a monitoring role, and took a purely administrative view of its functions.

The Russian Civil Service Law (2004) defines a plethora of assessment tools (qualification examination, attestation, ongoing performance assessment), most of which are highly formal and applied as negative selection elements rather than performance reward systems. Furthermore the application of these instruments has been complicated by the delays in adopting secondary legislation outlining their purpose and method of application. This has led to individual regions adopting their own approaches to introducing performance appraisal, including performance related pay, which remain controversial.¹¹ The design and application of all these assessment tools remains disconnected from institutional performance management. In addition, at Federal level there has been prolonged uncertainty about the establishment of a central Civil Service management unit, a decision on which has been repeatedly postponed, which further complicates the development of performance assessment systems. Whereas at the level of the regions there is in some instances more clarity about the management role, management units with the appropriate authority to lead and direct reforms are lacking also there.

Lithuania has struggled to design a functioning horizontal management system for the civil service, largely due to strong ministerial resistance to oversight over personnel management. Only under the new Civil Service Law, adopted in 2002, a Civil Service Management unit was established, albeit in a line ministry, that has authority beyond simple monitoring of the implementation of the Civil Service Law, and thus could work on the development of methodological tools for performance appraisal of civil servants. Previously, the Lithuanian civil service was, like most other Civil Service systems, largely a loose conglomerate of institutions, barely held together by unequally enforced rules and procedures. The Civil Service Department at the Ministry of Interior has since

¹¹ Chuvasya is the main example of this approach, where significant performance related bonuses have become a routine element of rewards, though the basis for their application remains contested

its creation taken a more pro-active position on civil service management issues, including the design of performance appraisal and assessment tools. However, like in the other two countries innovations in personnel management are lagging far behind those on strategic planning.

The discussion above, which focuses on institutions that could lead changes and facilitate the use of individual performance management practices, is only a tip of the iceberg. Beyond the problem of weaknesses in reform management lie two further important issues that hinder the implementation of performance management mechanisms at the level of individual civil servants. First, the weakness of personnel management systems overall; CEE and CIS countries inherited systems in which personnel management functions were a feature of political party rather than public administration structures. Thus personnel units had a purely administrative role, such as keeping personnel records and administering recruitment processes. The pro-active role that modern personnel management units play in career management of individuals requires an entirely different role and capacity for these structures, in particular when it comes to the development of individual performance management systems. Personnel management units need to have the capacity to provide guidance to line managers, address questions and complaints on staff, take part in decision-making processes on recruitment and promotion issues, etc.. The systems in place in CEE and CIS states were generally unsuitable for this enhanced role, and, surprisingly, their role has generally seen little change in the last 15 years. Thus, the development of the third building block of performance management systems requires a serious investment in upgrading personnel management systems before modern mechanisms of performance appraisal can be successfully applied. Moreover, the institutional culture in Central and Eastern Europe is highly adverse to individual performance appraisal, which is understandable considering the polarized and politicized context in which the Civil Service operates. The level of belief in objectivity of assessments is very low, and the suitability of advanced performance appraisal systems is often questioned as 'culturally incompatible'. Thus, whereas strategic planning and institutional performance indicators are increasingly accepted as tools for improved public sector management, their linkage to individual performance appraisal and career

management tends to meet much more resistance. The unfortunate experience with bonus systems in the region, not just in Latvia, has added further strength to such arguments.

Considering the above, it is not surprising that individual performance appraisal, as part of comprehensive performance management systems, is the most difficult building block to be put in place and developed. Latvia and Lithuania have started taking measures to address capacity constraints and concerns, in the former case by adopting a new Law on Civil Service Pay (Veismane, 2004), in the latter through the modification of the wage system (World Bank, 2004a), and in both cases by designing methodologies for appraisal combined with training of managers and personnel units, the effort that will be required should not be underestimated.

The Russian context is even more difficult. Not only does Russia lag behind on Civil Service Reform in general, it also has done very little to change antiquated personnel management methods in the Civil Service (World Bank, 2004b). Thus, whereas thinking on strategic planning and performance management and budgeting is advanced, the ability to extrapolate this to successful performance management at the level of individual civil servants is very low. Whereas recently the government has started to show more awareness of this problem, the fact that the three strands of reform are managed by very different institutions will make it very difficult to address capacity constraints in personnel management. Thus the risk that Russian attempts to introduce a comprehensive performance management system will remain at a relatively abstract level continue to be high.

Complex reforms in multi-level systems: How to make them work?

The final stumbling block is mostly specific to Russia. In view of the above discussion on capacity constraints to ensure across the board implementation of reforms, the task of securing their implementation across levels of government in a system with 88 very different regions is daunting, even more so when considering the fact that in both administrative and budget process reform the Federal Government cannot mandate

reforms at the level of the regions. Thus, the Federal authorities not only have to deal with a problem of uneven capacity at regional level to introduce complex second generation public management reforms, but in addition also need to find ways to stimulate regions to take over and own these reforms.

Russia has significant experience in using fiscal stimuli to promote reforms, in particular in the reform of fiscal intergovernmental relations, which was initiated in 1998. Competitive approaches were used to stimulate regions to define and implement regional level budget management reforms to mirror federally initiated reforms. This approach was successful in improving budget management in those regions that won in competitions, but at the same time increased the gap between weak capacity and strong capacity regions, as technical assistance was limited to those regions that participated in the reform initiative (World Bank, forthcoming, 2006). The current reform initiatives in performance-based budgeting and administrative reform are planning to apply similar approaches to secure regional buy-in, though financial support is in this case to be targeted to the specific implementation of reform programs. Furthermore, in the case of administrative reform, which includes the introduction of strategic planning and performance management, a special initiative to stimulate reforms in low capacity regions is also being considered. The question remains, however, whether this will be sufficient to build the critical mass of capacity at regional level that is required to move public sector reforms beyond first generation reforms that aim to put in place the main building blocks for effective public sector management, a process which itself is far from complete. It is early yet to say whether Russian reformers are over-reaching with the current reform initiatives or whether, as is hoped, the stimuli developed by the Federal authorities will generate the critical mass of support that is needed to overcome reform fatigue and capacity constraints. However, the experience of using fiscal stimuli and other incentives to move forward reform processes at sub-national level will certainly be followed with interest by other multi-level states struggling with similar issues, such as Brazil, India and others.

4. Conclusions

The review of three somewhat unorthodox cases of attempts to introduce performance management in Post-Communist states provides interesting insights in what can drive and hinder performance-related public management modernization. Latvia, Lithuania and Russia still have significant work to do to complete the performance-related public management structures they started to put in place since 1999-2000. However, the fact that much has been achieved, in particular on strategic planning and ministry and agency level performance management, contradicts the often heard notion that advanced public management tools cannot be effectively introduced in public sector environments that are not advanced. Whereas the Latvian experience of the mid 1990s gives credence to Schick's 'why most developing countries should not try New Zealand's reforms (Schick, 1998)', the more recent structured attempts to introduce performance principles in very new public management systems in the three states reviewed here show that with political support and a cadre of high quality and devoted reformers, much can be achieved, even in an adverse environment.

Nevertheless, it is important to review the specific conditions under which the performance based systems emerged, which include the impact of fiscal and economic crises (directly or indirectly), that focused policy-makers on issues of effectiveness of public spending, external pressures for better fiscal management, whether as part of EU accession or broader international competitiveness and only to a very limited extent public and business pressures for better services. The external therefore far outweighed the internal when it came to driving reforms.

Coalitions of forward looking politicians and senior civil servants are a further factor in getting new notions of public sector management accepted in the broader context of the administration. Whereas the Latvian and Lithuanian, and especially the Russian case show how thin the cadre of reformers is, the cases also provide evidence that with the right amount of support, resistance both from politicians and officials can be overcome. The radical transformation of policy management and budget systems in all three

countries (for Russia mostly at Federal level) has exceeded expectations of most external observers involved in it.

The experiments with performance-based management remain vulnerable, in particular as long as the final step, translating overall performance objectives into individual performance targets and creating a sense of personal responsibility for results among civil servants, has not been completed. The main stumbling block highlighted in the third section of this paper is a combination of low overall capacity levels in the state administration, and still very weak personnel management systems. However, as long as performance management systems remain at the macro-level, expected improvements in service standards are unlikely to occur. Even if quality of service delivery may not have been the main driver of the reform initiatives discussed in this paper, it has definitely become part of the political agenda that surrounds it, especially in Russia. Thus, the danger to further progress in introducing new performance management systems lies in the detail of personnel management. This is something that decision-makers have realized late on in the reform process, and whereas the focus in discussions on reforms has shifted more in this direction, a fundamental effort in improving HRM systems will be needed to make performance management systems bear fruit in terms of improved service standards.

The final point of conclusion relates to reform design, where the lesson from these three cases is that incremental planning has been instrumental to moving reform processes forward. It is unlikely that a full scale and comprehensive announced reform would have succeeded in either of these three cases (though Latvia tried in 1995). All three started from reform elements (strategic planning in Lithuania, separate Budget and Civil Service Reform initiatives in Russia, Budget reform and strategic planning in Latvia), and moved further into other related areas of reform over time. This is due to some degree to the conditions that started reforms, which focused on fixing specific problems in the public management system. However, at the same time the scope of reform fit the capacity available to make reform happen, and in neither of the three cases the next phase of reform could successfully moved forward unless an earlier phase was close enough to

completion. The current problems in Russia, where the introduction of more radical organizational management reform is proceeding more slowly than planned, are in part a result of reform overload in the overall public management system. Thus, whereas performance related approaches to public management can be applied in transition and low capacity environments, the scope and speed of their introduction should be adapted to available capacity. If this principle is respected, performance based reforms in public management can have important pay-offs both in improved fiscal management and, in the longer run, service delivery quality.

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