GAUGING SUCCESS:
PERFORMANCE MEASUREMENT
IN SOUTH EASTERN EUROPE

EDITED BY ŽELJKO ŠEVIĆ

LGI Fellowship Series
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This publication is exploring an issue which is gaining considerable importance throughout Eastern Europe—the measuring of public sector performance. Across the region, the ten years following the events of 1989 have primarily focused on constitutional issues, such as the protection of human rights, the creation of stable democratic frameworks, and the introduction of the principles of market economy.

Now, as these tasks have to a large extent been accomplished in most of the countries in the region, the problem of the efficiency of democratic institutions comes to the fore. It appears as though constitutional changes on their own could not tackle the dramatic problems of public sector management inherited from the period of communism. Large, heavily bureaucratized administrations delivering public services of poor quality threaten to undermine the legitimacy of democratic institutions and to alienate people from politics. This danger is exacerbated by the fact that the administrations in the region have been traditionally closed to public participation and scrutiny: administrators have, as a rule, preferred to see themselves as ‘governors’ rather than as ‘service providers’.

Changes in this institutional heritage require systematic efforts and reforms of administrative laws, informal practices, and public attitudes. Introducing efficient tools of measuring of public sector performance in the region would undoubtedly contribute to the rationalization of public sector management, and would give an opportunity for the citizens to make informed choices concerning public policy and institution-building.

The present volume explores the introduction of public sector performance measurement instruments in the Balkan region, and especially in the countries of former Yugoslavia plus Albania; these are the countries which have experienced particularly severe problems with the reform of their public administration. Although not fully representative of the Balkan region, this volume provides a solid picture of the major problems and trends typical for all countries in Southeast Europe. It is a contribution to the wider study of government in Eastern Europe, and throws light on one of its aspects which has attracted relatively little attention thus far, especially concerning the countries of the western Balkans.

In short, this volume contains an introduction and conclusions, written by the editor of the volume Željko Šević, and five chapters on Albania, Croatia, Macedonia, Montenegro and Serbia. The introduction sets out a theoretical framework and explores the issue of public sector performance measurement; the case-studies examine to what extent the countries of the western Balkans have developed practices of public sector performance measurement. In the conclusion, Šević pulls together the major findings from the case studies: the main conclusion is that public sector performance measurement practices are underdeveloped in the region. The volume ends with a number of recommendations for the designing of a performance measurement system in a transitional country.

The study derives its inspiration from the insights of the New Public Management movement, which purports to bring managerial ethos in public administration: the authors view the history of this movement, and its influence in Western Europe in decidedly positive terms. Therefore, by way of preliminary remarks, some words of caution about the intrinsic limitations and costs of the introduction of managerial ethos in the public administration and in the delivery of public services may be in place. Firstly, not all forms of delivery of public services are susceptible to treatment with measurable performance indicators, which would provide a meaningful picture of the monitored activity. The elaboration and monitoring of such indicators are sometimes so costly that it is considered not worth introducing them. Further, as pointed out by the authors, it is hardly meaningful to speak of performance indicators in general—these are heavily activity-dependent, and there are no easy, one-size-fits-all solutions to the elaboration of performance control models.
Secondly, the introduction of performance measurement techniques may sometimes lead to trickery and manipulation of data by public officials, in order to be able to get more funding for their institution, individual promotions, etc. (In the literature, this phenomenon has sometimes been called “creative compliance” with formal constraints.) The enforcement of an objective measurement system, which would avoid such problems, seems to be a costly and difficult task. This seems especially valid when considering the administrative culture in Eastern Europe, where administrators have been for long years accustomed to fiddling with official figures in order to meet the requirements of the governmental plans in a planned economy. Therefore, a danger which should not be neglected is that a misapplication of the insights of ‘New Managerialism’ may resurrect some bits of the ethos of the communist administrator, instead of introducing ‘best value for money’ approaches.

The value of the present volume lies in the concrete case studies, which give examples of successful introduction of performance measurement mechanisms in the delivery of public services in the studies countries. Failures, some of which are also reported by the contributors, are instructive as well. One may not share the belief of the contributors that in the future there will be comprehensive national systems of performance measurement, which will cover the public sector in general. This is an optimistic prognosis not only for the Western Balkans, but also for more ‘advanced’ parts of the world as well. Yet, obviously, the introduction of performance measurement would make public officials in particular institutions more accountable and may contribute to the improvement of services. For this reason, it is necessary to examine the limited experience of the countries of the Western Balkans in introducing performance measurement techniques, their successes and their failures.

The case studies provide a wealth of empirical data, and interesting illustrations of both good practices and innovative, but problematic attempts. Some of the case studies give a picture of the situation in the country in general—like the Macedonian and especially the Croatian one. Others limit themselves to conclusions drawn on the basis of specific cases (Serbia, Albania). The case-studies end with recommendations tailored for their specific context, which would hopefully prove useful for administrators and politicians. Particularly interesting in this regard are the concrete performance measurement tools, designed by some of the authors of the case studies.

Finally, it should be stressed that the hope is that this pioneering volume will be followed by other, more detailed studies on public sector performance measurement in the context of Southeast Europe.

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Measuring Public Sector Performance in South Eastern Europe: Addressing the Challenges of Democratic Transition
Measuring Public Sector Performance in South Eastern Europe:
Addressing the Challenges of Democratic Transition

Željko Šević

1. INTRODUCTION

The early 1990s are characterized by one of the most significant changes of the twentieth century: the fall of Communism in countries across Eurasia. Peaceful ‘revolutions’ as well as armed conflicts brought to an end the regimes that disregarded basic human rights and promoted a high level of centralization, first politically, then economically. Consequently, across the region, the first intended step toward reform was to decentralize the State by relegating more powers to sub-national (elected) governments, primarily at the municipal level. This move required building the capacity of sub-national governments to cope with new rights and duties. However, formal decentralization was not simultaneously accompanied by full fiscal decentralization, and many local governments faced the problem of financing their regular activities. For many municipalities, grants are still the main source of income; as Bryson and Cornia (2002) report, central governments are characteristically slow in introducing a wide range of original sources of revenue for lower levels of administration. Simply put, if a local government lack funds, then it is almost pointless to discuss public sector performance measurement, as the financial component is an input rather than an output (Šević, 2003).

Decentralization *de jure* may have been implemented in many Central and Eastern European countries (CEECs), but across the Balkans (the former Yugoslav republics), in contrast, *centralization* occurred (Šević and Rabrenović, 1999). Many within the former Yugoslav republics explain or justify this shoring up of power as a (nation) state-building process in support of ‘national consolidation’ (see: Bićanić, 1996). Indeed, the nineteenth century idea of ‘one nation—one state’ found very fertile ground at the end of twentieth century in the Balkans. The process of centralization was conducted through a systematic attraction of power prerogatives by central (republican) governments. One of the first acts in this process was to concentrate State property, such that most properties which were controlled by sub-national administrations were transferred to the center. Central administrations were allotted increasingly more power, which enabled them to hide behind ‘tradition’ and to avoid rapid restructuring and reorganization. Meanwhile, in contrast to other CEECs, civil service reform in the Balkans has been postponed for some time. With the change in government in Croatia and Serbia, some moves toward civil service reform have begun, but there are minimal visible results as of yet.

While governments worldwide have wrestled with recent economic tumult and the need to make their public sectors more efficient and cost-effective, transitional countries in particular have meanwhile had to align their civil service systems with the requirements of a modern democratic society. Performance measurement in the public sector was initiated by the Anglo–Saxon (Anglo–American) countries of Western Europe and North America; other countries have merely followed in their footsteps. Authors in this volume analyze how transitional states in the Balkans have struggled to design performance measurement systems while concurrently undertaking major public sector reform. But, as papers here show, significant problems remain as the performance systems are in the very nascent phases of their development. Also, as indicated elsewhere (Šević and Rabrenović, 2000), a performance measurement system depends heavily on the administrative structure and can be seriously influenced by the politico-administrative interface in a country. This is an additional complicating factor in many countries in the region, where fragile coalition governments hold power.
This introductory chapter confronts the theoretical framework of performance measurement and management. Authors contributing the following chapters come from diverse backgrounds, and consequently offer different approaches to the issues of performance measurement. In order to understand the background and basics of performance measurement, I review the theory of performance measurement and evaluation in public policy and management accounting theory. This is followed by a brief, descriptive discussion of New Public Management (NPM) and what NPM is believed to deliver in terms of efficiency and efficacy in the public sector. This is put in the context of conclusions and findings from chapters in this volume.

The contributors here are part of an ad hoc research group, formed under the LGI Fellowship program. Each was carefully selected by the LGI staff and the program mentor; all contributors shed light on a different perspective and offer a unique approach to performance measurement. As noted, their backgrounds are diverse; the groups comprise of two civil servants (one senior and one junior), two scholars (one senior and one junior), and a practitioner with an urban policy think tank. From the outset, a brief research protocol was jointly agreed upon and more or less followed throughout their tenure of fellowship. Case studies focus on performance measurement and management in what is largely referred to as the Western Balkans (Albania, Croatia, Macedonia, Montenegro and Serbia). This geographical classification, however, can be challenged; Albania and Macedonia, for example, might be categorized otherwise. Ultimately, the studies here collectively serve to construct a more generic performance measurement (management) system; the concluding chapter addresses such a system.

2. PERFORMANCE AND EVALUATION: REFLECTIONS ON POSITIVE THEORY

The issue of performance measurement has attracted the attention of many scholars in management accounting for over three decades. However, many in the field focus their attention on performance measurement in the private sector. Only recently, with the ‘New Public Management’ doctrine, performance measurement re-emerged as important in public sector research. This does not mean, however, that no interest in addressing public sector efficiency existed prior to the prominent entrance of management accountants into the sector in many Western European and North American countries.

The problem of ‘efficiency in the public sector’ has also attracted the attention of political and public policy scholars, who typically refer to it as valuation (that is, ‘policy valuation’). However, rather than serving as a performance measurement/management system, it is very useful with regard to public policy perceptions of performance measurement and redefining existing policies and practices. Valuation has two mutually dependent aspects: the use of various methods to monitor public policy outcomes; and the application of some set of values to determine the quality of these outcomes to a person, social group, or the entire society (Dunn, 1994).

In order to evaluate policy, a few approaches can be employed: 1) pseudo-valuation; 2) formal evaluation; and 3) decision-theoretic valuation.

When applied, pseudo-valuation uses descriptive methods to produce valid and useful information about certain policy outcomes, but without assessing the merit of the outcomes (such as the worth or value of outcomes to persons, social groups, and so on). Pseudo-valuation accepts that something is measured as it stands, thereby confirming the usefulness of the exercise. It thus does not come as a surprise that social experimentation, social systems accounting, social auditing and research and practice of synthesis are the major forms in which pseudo-valuation appears. If pseudo-valuation is used, a set of different methods is employed, such as quasi-experimental design, questionnaires, random sampling, or statistical techniques in order to explain variations in policy outcomes in terms of policy input and process variables (Dunn, 1994).

Formal evaluation likewise uses descriptive methods to produce useful and valid information about policy outcomes. In this approach, however, policy outcomes are valued on the basis of policy-program objectives that were publicly promulgated by policy makers. This model assumes that formally announced goals, aims and objectives of policy-makers and administrators are appropriate measures of worth or value. In formally evaluating policy, a scholar can use: 1) developmental evaluation; 2)
retrospective process evaluation; 3) experimental evaluation; and 4) retrospective outcome evaluation. In most cases, summative and formative analyses can complement each other: a formative analysis might look at the public policy process in its all complexity through its application, while a summative analysis will be applied after the policy has been implemented and some targets have been achieved.

- Developmental evaluation is especially useful if the research is to be used by those who technically implement policies, as it can alert staff about weaknesses or unintended failures of the program. In turn, shortcomings can be eliminated along the way (Rossi and Wright, 1977).

- Retrospective process evaluation involves the monitoring and evaluation of program after it has been in place for some time. This approach need not be performed as an ex post analysis; rather, it assumes that policies have been in place for long enough to generate information sufficient enough to assess successes, failures, and social implications. Managerialists contend that the application of management information systems is one of the best ways to have this analysis in place.

- Experimental evaluation involves the monitoring and evaluation of outcomes under strict, direct control over policy inputs and processes (Williams, 1971). The process must meet many stringent criteria before it can be successfully implemented in practice. If it is not possible to provide full internal and external validity, full definition of ‘treatment’ variables, and a system for monitoring the processes, it can be referred to only as ‘quasi-experimental’.

- Retrospective outcome evaluation also involves some monitoring and evaluation of outcomes, but there is no direct control over policy inputs and processes. If there is any control, it is indirect or eventually statistical (isolation using quantitative methods).

A decision-theoretic approach uses descriptive methods to produce reliable and valid information on policy outcomes that are explicitly valued by many different stakeholders (Dunn, 1994). In order to perform this analysis, it is necessary to gather the announced goals not only of politicians and administrators, but also from the members of the public, different formal and informal social groups, or even society as a whole, as all participate more or less actively in the public policy process. Stakeholder philosophy assumes that all interested parties must have their say—and be heard—on different aspects of the process in which they are willingly or unwillingly involved. This approach has the strength to overcome many shortcomings of the two former approaches. A decision-theoretic approach can overcome underutilization and/or non-utilization of performance information, ambiguity of performance goals, and multiple conflicting objectives (Weiss, 1972, Edwards, Guttentag and Snapper, 1975). Essentially, this approach links information about policy outcomes with the values of multiple stakeholders (Rutman, 1977). Different methodologies can be used.

- Evaluability assessment requires carefully observing a few steps: 1) policy program specification; 2) collection of policy program information; 3) policy program modeling; 4) policy program evaluability assessment; and 5) feedback of evaluability assessment to users (Wholey, 1977).

- The multi-attribute utility analysis is used to assess a set of procedures designed to elicit subjective judgement from multiple stakeholders about the probability of occurrence and value of policy outcomes. Multi-attitude process assumes the following steps to be taken: 1) stakeholder identification; 2) specification of relevant decision issues; 3) specification of policy outcomes; 4) identification of attributes of outcomes; 5) attribute ranking; 6) attribute scaling; 7) scale standardization; 8) outcome measurement; 9) utility calculation; and 10) evaluation and presentation (see: Dunn, 1994). It is argued that the strength of this method lies in its ability to enable those interested to deal systematically with conflicting objectives of multiple stakeholders, looking at general and intra-group socio-dynamics.

Policy valuation methodology is very useful, but it can be used only within a framework which assumes the presence of managerial behavior in the public sector. Where law and legal rules regulate most issues, it is very difficult to assume that efficiency will matter significantly. The concept of governance is ultimately connected with the process of modeling
evaluation procedures. Governance as such generally refers to the means of achieving direction, control, and coordination of wholly or partially autonomous individuals or organizations on behalf of interests to which they jointly contribute (Lynn, Heinrich and Hill, 1999a). Some recent problems in the sphere of governance include: issues of formal control over authoritative decision-makers and decentralization; dealing with a particularly powerful single stakeholder or goals which are difficult to describe (such ‘efficiency’ and ‘high reliability’); and comparing diverse governance regimes. A full description and analysis of a governance model is a prerequisite for the further study of performance measurement of public sector activities. However, the study of governance itself is complicated by its broad scope and defining elements: the configurational nature; the political interests and activities that shape it and exercise influence; and the formal and informal rules and authority that characterize the execution of public policies in any given social setting. Governance comprises both formal authority and the informal exercise of judgement by the numerous factors and entities involved in implementing public policies and program.

The regime of governance itself assumes distribution of resources and responsibility for functions and operations within and between offices and organizations in both public and private sectors. This is further reiterated as the stakeholder philosophy is upheld. The logic of governance in the public sector is fairly straightforward: legislators legislate, administrators implement, and the public pays and, at least theoretically, enjoys the benefits. While legislators are elected to serve a mandate, administrators (bureaucrats and civil servants) are appointed and usually spend entire careers implementing policies and legal acts. Subject to public opinion, that is, politicians are typically elected every four or five years, while civil servants usually stay out of the public outreach. They professionally serve political appointees and enforce legislation passed by legislative bodies—to the best of their knowledge (see: Peters, 1998). To a large degree, it remains open as to how to assess the achievements of civil servants and the efficiency of the policies they implement and politicians define. Governance is more than just sharing responsibility; it must serve as a tool that can facilitate continuous improvement in the public sector. Simply redistributing formal authority may have little—if any—effect on desired outcomes, despite claims to the contrary by many administrative reformers (Bimber, 1994). The redistribution of power (decentralization or devolution) must also take into account the need for associated governance changes, where formal processes and structures of governance should be viewed as necessary, but insufficient, for the public sector improvement agenda.

Whenever empirical work on governance is organized, there is a need to focus upon and analyze a set of a hierarchical relationships between and among:
1) citizen preferences, interests expressed politically and legislative choices; 
2) legislative preferences and the formal structures and processes of public agencies; 
3) formal authority and the structure and management of organizations, programs, and administrative activities; 
4) organizations, management, and administration and the core technologies and primary work of public agencies; 
5) primary work and outputs or results (that is, the availability, quality, and cost of publicly sponsored goods and services); 
6) outputs or results and stakeholder assessments; 
7) stakeholder assessments and reactions and, back to the top of the list, political preferences and interests (Lynn, Heinrich and Hill, 1999a).

A recent and rather basic ‘reduced model of governance’ empirically weighs outputs/outcomes at both the individual and organizational levels, environmental factors, client characteristics, treatments (technology, core processes, primary work), structures and managerial roles and actions (Lynn, Heinrich and Hill, 1999b; Altshuler, William, Harold and Faith, 1999).

An important aspect of any ‘good governance’ model is the possibility to assess the success of implemented policies and how they meet expectations and criteria of end users—in the case of public sector organizations, the citizens. In this regard, performance measurement took its place on the stage with the introduction of NMP and the managerial approach to public sector services delivery. With the rise of the welfare state, the public sector began to be involved in
many activities which, *stricto sensu*, were not full governmental functions. Regardless of how one defines the government, the public sector over time has acquired many functions which were not purely state-prerogative. New Public Management (not to be confused with the unsuccessful ‘New Public Administration’ movement in the 1970s) aimed at releasing the State from all the functions which are not inherent to it, and introducing many elements of business management in the public sector organization and day-to-day practices. It began with ‘disinvesting’ in central government, through the creation of agencies and other executive bodies which were on more or less contractual terms with the remaining ‘core’ government organizations, such as the ministries and various departments. Theoretically, this improves the customer focus and efficiency of government (see: Hood, 1991); however, it is not clear whether empiria supports these claims, as there were many failures in services provision after they were privatized. Recently, many newly democratic or transition countries are very fond of NPM. While little research on this issue is available, this appears to be a result of the significant number of advisers and consultants engaged in the early stage of transition, who hailed from the West. Logically, these experts recommended the implementation of models they knew best and were most comfortable with (see: Gross and Steinherr, 1995).

The publication of *Improving Management in Government: The Next Steps* (Efficiency Unit, 1988) sealed the path that the British public sector chose, just as the Northcote-Trevelyan report had influenced the development of the British civil service in the second half of the nineteenth century. Both reports set in motion huge organizational and constitutional changes. Reflecting on Northcote–Trevelyan, the British Conservative Party’s efficiency strategy, initiated by Margaret Thatcher upon taking office in 1979 as Prime Minister, introduced a transformation in thinking within the public sector and championed a ‘value for money’ (VFM) approach and movement. *The Next Steps* aimed to promote in each department an organization in which managers at all levels would possess: 1) a clear view of their objectives and, wherever possible, the means to assess and measure outputs and performance in relation to those objectives; 2) well-defined responsibility to make the best use of their resources and apply critical scrutiny of output and value for money; and 3) information (particularly about costs), training and access to expert advice needed to exercise responsibilities effectively (Cmd. 8616, 1982).

Furthermore, the launching of the Financial Management Initiative (FMI) in 1982 and strategic management in the public sector also meant that Conservatives, to some extent, ‘reinvented government’ (see: Osborne and Gaebler, 1992). It can be argued that politicians generally demonstrate little or superficial interest in the machinery of government problems (Pollitt, 1984); in many cases, the senior civil service present a serious obstacle to attempts at change (Kellner and Crowther-Hunt, 1980). As such, many British authors (Pollitt, 1990; Hood, 1991) contend that it is far too simple to attribute NPM to the arrival of Margaret Thatcher as Prime Minister; the political drive and need motivating reform cannot be ignored. There was more than a mere rhetorical commitment to restrain public expenditure, and perhaps more tellingly, with NPM, there was a clear policy to revamp the public sector and cut the number of employees.

The introduction of FMI significantly altered the way various management levels in various departments conceptualized their activities, especially the management of resource and the practices of dealing with the Ministry of Finance (Treasury) and other sections of the center. In promoting performance measurement, a number of assumptions were made:

1) public sector organizations are inherently inefficient and the models to be emulated are those of successful private sector enterprises;
2) there are universal ‘secrets’ to organizational success; and
3) bureaucracies naturally resist innovation and implementation has to impose change driven by a strong authority (see: Hood, 1991; Pollitt, 1990).

Performance measurement, in order to be implemented, requires the organization of separate units, the performance of which can be monitored more or less independently. However, organizational change *per se* means little. The purpose of change is to achieve organizational success or to design a structure that will ensure an organization is successful. Change can jeopardize values and perceptions; in such cases, it is not welcome at all. Business historians (Chandler,
1962), and other observers of organizations (Mintzberg, 1979; 1983; Williamson, 1975) illustrate the variety of organizational structures that may be successful in differing circumstances and the capacity of such structures to embrace change. Therefore, the transition from policy as formulated to policy as implemented demands the identification of conditions for perfect implementation and management (Hood, 1976; Hogwood and Gunn, 1984).

Therefore, managerial reform in the public sector assumes the introduction of the following:

1) Inter-organizational change, redefining the relationship between the center and periphery;
2) Intra-organizational change, or change within the existing organizations and a redefinition of the existing power relationships among different parts;
3) contingency planning in the case of a problem with implementing the change.

Importantly, organizational change is just one of the prerequisites for the introduction of performance measurement models. It is necessary to have a strategic management approach applied across the public sector, where different elements know clearly what their role is, what they are expected to do (in relation to others), and how. In other words, it is necessary to establish links between public bodies and indicators. The conceptual complexities facing the design of reliable performance indicators, particularly of effectiveness and the associated aspects of quality and consumer satisfaction have been widely chronicled (Carter, 1991; Carter et al., 1992; Cave et al., 1990; Pollitt, 1986). At the heart of modern public sector reform is the objective of devolving financial and managerial responsibility for service delivery away from the central government and its departments.

Performance indicators and their creation comprise the core of debates over performance measurement. Since the modern public sector consists of a wide range of activities, it is almost impossible to create an exhaustive list of performance indicators that will satisfy all requirements. Different indicators must be in place when measuring the efficiency of regulations or evaluating budgeting or taxation (OECD, 1994a).

Benchmarking can likewise be useful (OECD, 1997), but again, there exists the problem of defining this approach. Generally, it is articulated as promoting best practices (see: Hansen and Mowen, 2000), or promoting the minimum that must be achieved (QAA, 2000). In most cases, benchmarking is understood as promoting positive, best practices across a sector. Developing a benchmarking model can be seen as a step toward the development of a particular performance management system (Berry and Otley, 1996), through promoting responsibility, authority, and accountability.

Performance indicators quantitatively reveal information about products, services, and the processes that produce them. They are tools which promote understanding and management, improve the work or organizations, and are always tied to a goal or an objective (target). Each indicator is composed of a number and a unit of measure: the number gives a magnitude (how much) and the unit gives the number a meaning (what). Indicators, or performance measures can be represented by single dimensional units like hours, meters, nanoseconds, dollars, number of reports, number of errors, or the length of time to design hardware. They can show the variation in a process or deviation from design specifications.

Most performance measures can be grouped into one of the following six general categories:

1) **Effectiveness**: the degree to which the process output (work product) conforms to requirements (Are we doing the right things?).
2) **Efficiency**: the degree to which the process produces the required output at minimum resource cost (Are we doing things right?).
3) **Quality**: the degree to which a product or service meets customer requirements and expectations.
4) **Timeliness**: whether a unit of work was done correctly and on time. Criteria must be established to define what constitutes timeliness for a given unit of work. The criterion is usually based on customer requirements.
5) **Productivity**: the value added by the process divided by the value of the labor and capital consumed.
6) **Safety**: the overall health of the organization and the working environment of its employees.
However, the vast majority of published works in this area address the issue of performance measurement in a rather theoretical manner, looking at the sources of movement and how they might fit into a wider social, organizational setting. Performance measurement is often seen as a normal, expected consequence of the introduction of strategic management. Although the mission statements of public organizations are frequently vague, scholars argue, this is not the biggest problem encountered in the study of performance measurement. Rather, the major problem is how to define performance indicators, not only in countries in different stages of development, but also across regions in the same country. One set of performance indicators is offered in direct service organizations (AMA, 1993), while another can be listed for American municipalities. The American International City/County Management Association (ICMA) offers a list of performance indicators for the local fire service, neighborhood services, support services and police service protection (ICMA, 1999). All these listed performance indicators include clear service area descriptors, service provider descriptors, as well as a number of service specific indicators. In most cases it is necessary to describe a service, and then operationalize the performance indicator that will depict the situation in the best way. However, most American performance indicators are, essentially, America-specific. It is thus difficult to perceive their uncritical application in Europe (especially in ‘police service delivery’).

Results-oriented public management (OECD, 1994b) is key to understanding the logic behind performance measurement and the VFM movement. As noted, the trend of decentralization and power devolution in Western European democracies (see: Bekke and van der Meer, 2000) has been copied in many CEECs; across Central Europe, decentralization (Bird, et al., 1995) has been accompanied by regionalization. In the Balkans, however, the trend has yet to manifest.

3. NEW PUBLIC MANAGEMENT AND CREATING AN EFFECTIVE PERFORMANCE MEASUREMENT SYSTEM

The introduction of a performance measurement system, and management in a broader sense, is usually connected with the NPM doctrine. The very essence of NPM lies in replacing traditional hierarchical bureaucratic models of public service with an administration that is performance-oriented and which operates in quasi-market conditions, thereby fostering competition amongst suppliers of government-sponsored goods and services. Basically, this involves introducing incentives for innovation and efficiency on the part of public servants, especially those occupying senior positions (Cf. Thompson, 1997). The OECD outlines the following as the main features of the NPM model:

1) a greater focus on results and value for money;
2) devolution of authority and enhanced flexibility;
3) strengthened accountability and control;
4) a client- and service-orientation;
5) strengthened capacity for developing strategy and policy;
6) introduction competition and other market elements; and
7) changed relationships with other levels of government (OECD, 1995: 37).

These features could otherwise be articulated as: managerialism; marketization (competition); contractualization; performance measurement and evaluation; consumerism (choice); collaborative working; new information; and communication technologies.

Within a novel framework, citizens and politicians must function in the public policy process as ‘customers’ of the government, or as the major players in evaluating the performance of public bodies (primarily agencies). Evaluations are made on the basis of objective information concerning ‘value received’; in turn, assessment resources can be deployed or withheld accordingly. Of course, the problem is whether NPM today means NPM of the 1990s. Despite the evolving sense and nature of the term, it is generally used as a generic term for the process of modernizing
a government by mimicking business sector models and practices (see: Broadbent, Gill and Laughlin, 2003).

In his seminal paper, Hood (1991) highlights the change from former models of public administration through NPM. Under NPM, changes were not only applied in methodology, based upon ‘borrowing’ from the private sector, but also through the introduction of strategic concepts and accountability models into public management. Decentralization means that each government unit is to be led by a manager who is accountable; he or she will be judged and assessed according to his or her performance. Goals, aims and objectives should be clearly stated and made quantifiable, so that a mission-driven government can be imposed and the separation of strategic planning and operational execution can be made. Management in the public sector must thus refocus from ‘procedure’ to ‘results’. In turn, the monolithic structure of the government can be replaced by a decentralized organization, based on the structure of holding (resembling coupled systems in the business strategy analysis). Delineating between ‘core’ and ‘other’ functions of the State opens a window of possibility to ‘source-out’ or ‘source-in’ tasks, duties, and responsibilities, taking into consideration the current market situation; the highly hierarchical, military-like structure transforms into a business-like structure (with salaries based on merit, and senior civil servants replaced by managers), which promoted a lean-management model. NPM also stresses the constant decreasing in costs of a ‘product’ and getting ‘the best value for money’. The underlying feature of an NPM model concerns the implementation of a performance measurement/management system.

The seven core principles of public management outlined above are performance centered; without performance management, it would be very difficult to justify major reforms in the public sector. In this light, problems associated with NPM can be viewed through two conflicting perspectives. Namely, performance measurement systems can be a logical consequence of NPM being implemented or NPM can, in fact, be a result of ‘obsession’ with performance measurement. Both perspectives deserve consideration. In any highly hierarchical organization, there is resistance to change, and the formal introduction of a new model is necessary to ignite modifications. This is the case with models of civil service across continental Europe, where the reach of the public sector is wide and hierarchy dominates. As such, introducing performance measurement/management initiates further changes.

In a NPM framework, bureaucratic cultures are to be replaced by entrepreneurial cultures, and consequently the public will appreciate government more. The public as a stakeholder will be firmer in supporting the government, and public policy processes will not only be cheaper, but also more effective. The presence of business-like behavior calls for the establishment of ‘quasi-markets’ as an important instrument in implementing NPM-based reforms. A quasi-market can be established for an entire country, or on a segment-by-segment basis. In general, allocating resources based on a segmentation approach can give (and has given) positive results.

However, NPM originated in developed countries, with traditionally strong and socially respected civil service. Can NPMs ‘performance obsession’ work in transitional countries which, simultaneously, must reform their respective civil service sectors to become more efficient and quasi-market oriented? If economic reform is to focus on the creation of a market-oriented economy (Šević, 1999), civil service reform should likewise emphasize the creation of some form of quasi-market. Yet while a focus on too many targets and multiple goals, aims and objectives can endanger the success of both economic and public sector reforms, both sectors require serious action on behalf of national governments. It is not only necessary to build new institutions and give them economic ‘content’, but also to prepare them to be competitive both among themselves and with organizations from the outside of the public sector—such as outsource-contractors.

In a volatile environment, a government, especially at the local level, must ‘reinvent’ itself. Soviet-type public administration was established to serve the Party-State; it was of utmost importance that Party requests were met without any question. In fact, the Party apparatus usually possessed more resources and abilities to perform the duties of public administration than did the administration itself. This dichotomy ensured that the Party supremacy was not challenged. However, with the dismantling of the Party-State, the remaining public administra-
tion system lost all content and orientation. This may be the reason why, in many transitioning societies, governments are particularly ineffective at handling growing social problems. Corrupt practices, for example, found fertile ground.

In contrast to the other former Communist countries, however, Yugoslavia retained a host of traditions of the pre-World War II era, meanwhile preserving a noticeable level of professionalism in the civil service (see: Šević and Rabrenović, 1999). Organizations of the Communist Party (if fact the Union of Communists) were present in all central and local government units, but were not of paramount importance. Only in a few cases did senior party officials hold ministerial posts (defense, internal affairs, foreign affairs, et sim.). With the implementation of the social self-management model in the mid-1950s, the role of the Party was ‘to guide’ rather than ‘to manage’ (see: Koyama, 2003). The decentralized administrative model theoretically should have enabled the Yugoslav civil service to develop itself along the lines of performance management; unfortunately, all processes remained within the classical framework of bureaucratic, hierarchical, periodic reporting, where budgeting control remained the major (if not only) method of control.

In order to move ahead from the classical budgeting control, it is necessary to define the strategy of the government at all levels, and in all their outlets. To define a performance management system, it is necessary to establish an organization’s purpose, and its (long-term) goals, aims and objectives (see: Mintzberg, 2002). This should enable the organization to identify the key areas in which it must succeed, and to define a set of realistic and complementary objectives that will ensure its ultimate success. Generally, it is expected that the organization will prepare a mission statement that should define the purpose of the organization and describe what sets it apart from the other governments (or other administrative units). The statement should express the organization’s general beliefs and values, and assist in identifying competencies, quasi-markets and ‘products’ that the government is to offer. The vision statement should inform the public about where the organization is going, and should clearly state where the organization will be in the foreseeable future.

Strategy per se requires the clear definition of the aims, objectives and action plans that will be implemented in order for an organization to fulfill its mission. Public sector organizations face a serious problem in defining their respective strategies, as it is fairly difficult to quantify their results in financial terms. This is the reason why the ‘value for money’ concept was initially developed, although, certainly, it is not clear whether it is possible to objectively define what the real value is for money. In the private sector, a business organization might include in its goals profit, market shares, shareholders returns, and so on. Such an organization likely promote customer service, technology, innovation, flexibility, staff development, and the like, but most of all, it should focus on financial performance. In terms of non-financial goals, there are more similarities between public and private organizations than one might assume. The NPM concept views these similarities as normal consequences of bringing public and private management concepts closer.

In the case of the former Yugoslavia, strategic planning is not, as of yet, a generally accepted practice. Namely, municipalities claim that they do meet the needs and expectations of a local population (voters), but monitor public satisfaction is near impossible. Traditionally, all government bodies possessed a so-called ‘Knjiga utisaka’ [Book of Impressions], in which citizens offered their opinions about the level and quality of service rendered by a local government body. The main problem of the Book concept is that it is not a real performance management tool, but rather a gesture on the part of an administration to show interest, albeit passive, in public opinion. The Book, that is, promised no guarantee that something might change. However, more recently, the practice of distributing regular satisfaction questionnaires has been introduced. Unfortunately, the results are used merely for monitoring purposes, and not as a strategic management tool. In order to utilize collected information better, it is necessary to define the strategy of each single municipality (for instance Varaždin in Croatia, as reported by Jakir-Bajo). This appears to be a possibility in the future: through specially designed and implemented local election campaigns, the citizens can be informed in advance what a certain party will deliver if given the mandate by the electorate. Almost all mayoral candidates have a vision of what they would like to deliver; under the current model, where governments must obey the politicians, local
administrations are expected to assist incumbents in delivering their promises. But, vision statements are not often formalized, and remain on the level of pre-electoral promises.

Nevertheless, a general government strategy must be implemented, and in order to do that, it is necessary to define specific objectives. These objectives specify how the strategy is to be achieved, as they translate the mission and vision statements into quantifiable targets. Objectives are the core from which a government organization can define the behavior that will enable it to achieve its aims. In defining objectives, the organization must ensure that they cover medium- to long-term timeframes, all the while contributing to the organization’s performance. Objectives must also be realistic, but not financially oriented, as a public organization cannot have its performance based solely on financial indicators. Moreover, objectives should be made in consideration of the current and impending status of the organization, its human resource base, technical capabilities and so on. Interviews with senior local government officials have disclosed that, while they understand the concept of objectives, objectives remain poorly defined. Even if a mayor offers his or her vision for a municipality, the statement is not operationalized through listing objectives that the municipality is to achieve. Learning from business practices (for instance, ‘balanced scorecard’), it is clear that a municipality undergoing the process of performance management system building ought focus on: 1) satisfying citizens (‘customer focus’); 2) internal operating processes; 3) financial (budgeting) accountability aspects; and 4) learning and growth. The expected municipality performance can be achieved only if all objectives are defined and attained.

A municipality must define its own performance indicators. Performance indicators measure an organization’s progress toward its objectives. They should provide a concrete method of quantifying (measuring) progress toward goals and enable early warning if there are problems in effectuating objectives. The indicators must: assess if the organization is moving toward its objectives; determine if its assumptions about its strategies and objectives are correct; and finally ensure that the organization is delivering goods and services that it is required to provide for the public. The measures, or indicators, should be used to communicate to the people what is important and how they should behave. When the measures are in accordance with an organization’s strategy, they encourage behavior which enables the implementation of the adopted strategy. Good performance measures enable managers to see how well the organization’s strategy is implemented, and provide them with a way of communicating the strategy and initiating its implementation. Practice has shown that performance indicators should not be based only on past performance; as indicators serve as a means of communication, so they must reflect organization’s strategic ambitions. They should be chosen and designed with care, generally predictive and consistent, and include both subjective and objective measures. Consistency of performance indicators is tested across different functions and levels. As indicators need to be perceived as a tool for steering an organization, it is of great importance to establish indicators that give an early warning of future problems that an organization might face.

The next step to be undertaken is monitoring, which, in fact, comprises the essential part of any performance management system, as it aims at checking whether the set objectives are met, and what the effectiveness of different initiatives might be. Monitoring should highlight the problems which are to be addressed immediately. Overall, the monitoring process must be set up in such a way that ensures that performance indicators do not contradict or counteract required trends, and pinpoints if indicators provide the organization with useful and trustful feedback. Information provided in a monitoring report should be presented in an accessible way, which enables the vast majority of stakeholders to understand and grasp the general direction taken by the local government. It is of significant importance to understand that monitoring consists of two perspectives: internal and external. The internal perspective allows for monitoring of trends within the organization itself, while the external perspective puts an organization in a broader context, comparing it with other similar organizations. In order to enable an effective monitoring system, it is of utmost importance to review measures, targets and results on a regular basis, ensuring that the internal verification process is properly undertaken. If internal and external verification is done regularly, the organization will be able to assess its place a priori, and the
monitoring process will be more effective and useful from an organization’s point of view.

A modern, innovative organization requires that new initiatives are conceived and introduced through the process of *continuous improvement*. Initiatives are usually understood as program of improvement that are specifically designed to meet an organization's objectives, and which fall in keeping with its mission statement. If initiatives are oriented toward just one segment of the program exclusively, positive results are unlikely. In the public service sector, initiatives are assessed not only from the organization's point of view, but also from a broader public policy standpoint. Namely, useful initiatives local governments are scrutinized by the public, and thus have positive or negative effects on the elected political leadership. Therefore, public initiatives are closely scrutinized by a number of stakeholders, such as the (local) government itself, the (local) political and ruling elite, and the general public, and they may have different perceptions of an initiative in the past, present or in the future. However, from a technical point of view, it is most important to ensure that each and every initiative is aligned with the organizational goals, aims and objectives (‘policy and strategy congruence’).

In order to implement a *performance management system*, it is necessary to assign ‘owners’ to the defined objectives, initiatives, performance indicators and organizational processes. As different objectives and processes are elements of one totality, it is essential to ensure that the organization has a proper structure for dealing with the multiple tasks and issues. There must be defined points (people) responsible for managing day-to-day operations, collecting performance data, tracking processes, provide suggestions for improvement activities, reacting in critical situations, and acting as liaison officers between different units and task groups. Assigning specific responsibilities is a must for the successful implementation of performance management system. ‘Owners’ take better care of their respective tasks and duties when there is a vague and general assumption of responsibility. Also, coordination is easiest when all elements of a system know their place and purpose.

The communication of goals, aims and objectives must be ensured *within* an organization in order to put a performance management system in place; quite simply, if citizens do not understand what an organization is trying to do, they will be unable to share its vision and/or align their actions with its strategies. In the case of a public organization, it is important to ensure effective communication with employees (civil servants) and the public; and between these two. That is, all stakeholders must be taken on board in order to ensure that the organization’s strategy is implemented. Civil servants can implement a part of the strategy with regard to the delivery of service, but the public may be reluctant to receive the service, or will not appreciate at all what a (local) government body has been trying to do for them. Therefore, good communication requires a consistent and continuing set of activities to convey an organization’s strategy and to provide useful feedback on actual performance. In the process of communication, it is necessary to ensure that an organization actively maintains an *instrumentarium*, or ‘toolbox’, to assist in the process of performance management itself; as well, the organization must stay abreast of outside ‘good’ or ‘best’ practices. Periodically observing results is extremely important, as it opens two-way communication both within an organization and with the external stakeholders (primarily the general public) in the case of public organizations. A complete and enticing model of performance measurement system must be presented in a comprehensive way that will give all stakeholders a solid grasp of what is going on within the organization. Communication of a model’s targets and results to the public has to be aggressive, as it is important to have general public on the side of the organization and its proposed strategy.

However, the designing and implementing of a PM system well are two completely different things. Namely, the system can be very well defined *on paper*, but when it comes to implementation, many problematic issues might emerge. In the public sector, the situation is even more complicated than in the private, or business, sector. Public organizations tend to be hierarchical, resistant to change and require longer to introduce novelties. Moreover, culture, tradition, and history are more prevalent than in private organizations. Processes that have been in place for several years in public sphere are often perceived of as effective, even if they clearly show some degree of inefficiency. In organizations not subject to major change over a long period of time, the introduction of minor alterations or modification often requires an immense
4. BUILDING A NATIONAL PERFORMANCE MEASUREMENT/MANAGEMENT SYSTEM: SELECTED COUNTRY STUDIES

It is extremely complicated to construct a performance management system in a transitional country. Remnants of the former Party-State persevere, here and there, despite more than a decade of social change; democratic institutions themselves are still struggling in attempt to become more efficient and effective. It is not a problem to simply build an institution, but it is a difficult task to build an effective and efficient institution. Often, institutions are too expensive to maintain, as their social costs outweigh their social benefits. In such a situation, members of the public tend to question whether ‘transition’ is really worth all the trouble. Adding perpetual economic crises, failing public infrastructure, and underperforming social services, it is relatively easy to understand why some social forces are calling for the restoration of the former regime. In such situations, former Communist elites or party members can easily argue that all was, after all, better when they were in power.

In a volatile social environment, public perceptions change rapidly, and are often made with incomplete information. This creates an additional problem of how to communicate effectively with the general public, which is nominally a significant stakeholder in any reasonably democratic public policy process. Under Socialism, general perceptions of the public were usually not taken into account; if some kind of public consultation was exercised, it was, rather, a motion. Therefore, it is now also necessary to educate the public as to what it can—and should—expect from the government, and what role of a modern, democratic government really is. Citizens should see the government as a provider of services, rather than a mere concentration of power. The execution of laws and the exercise of power may be an important, or ‘core’, government function, but the government has a much wider role that is reflected through the provision of (certain) public goods. When there is a quasi-market for (public) goods, one may start contemplating about the building of a performance management system. The provision of measurable service is an important prerequisite for the introduction and design of a comprehensive performance management system.

The experience of (Western) Balkan countries with regard to many aspects of transition is, generally, different from other CEECs because of the very nature of the former Yugoslav republics. There, economic and societal liberalization began in the 1950s, and consequently the practices widely differed from those countries that closely followed the Soviet blueprint and implemented some kind of the ‘state socialism’. Wide decentralization of Yugoslav society, introduced in the late 1960s, initiated many liberal practices which further allowed a range of actions considered to be ‘retrograde’ in the Warsaw Treaty countries. The 1960s also witnessed the reform not only of economic life, but also within public administration. In the former Yugoslavia, independent government non-ministerial bodies emerged. ‘Administrative Organizations’ (as opposed to ‘administrative bodies’, or ‘organs’), were charged with delivering highly technical, non-mainstream government activities. These organizations ranged from the ‘Agency for Circulation of Special Goods’ to the National Archives. While the former was involved in trading in arms, the latter ‘cared’ about the country’s historical heritage. However, these agencies reported in the same manner as did ministries, and their performance was measured in a classical budgetary manner. The only difference generally was that they were empowered to charge user fees and build an independent revenue stream (Šević, 2003).

Basic statutory reporting is characteristic for all the countries studied here, regardless of whether some other performance measurement (management) model is in place. A typical report comprises of a narrative part and annual financial report. While financial reports generally present revenues and expenditures corresponding to the items planned in the budget, it is fairly rare that annual reports offer comparisons of budgeted and realized sums. In a few rare occasions, some departments compare these sums, but no attempts are made to link the results to the departmental performance. Therefore, with such limited information, it is rather normal that the interviewed mayors believe that the current practice is generally effective. However, they agree that it would be better to have a reporting system which
would point out the problems and shortcomings in the process of implementation. They generally agree that a model for performance measurement must be developed and that the municipal assembly must be in a position to evaluate the work of both local government bodies and public enterprises founded by the municipality. The particular problem appears with the performance of public enterprises, as municipalities struggle to assess the success of public enterprises. They provide a service; this is what, as a 'bottom line', municipalities are currently interested in (see: Jakir-Bajo in this volume).

Studies in this volume indicate that some local governments have tried to create independently some form of a performance management/measurement system. It is, of course, too early to discuss attempts to create performance-based organizations, as a similar initiative failed in the US (Cf. Lynn, 1998). Initially, it appears that local government officials did attempt to collect information on people's perceptions local governments/services. Traditionally, federal and republican governments commissioned public opinion surveys on the public perceptions of civil service; similar studies have never been executed at sub-national (especially local) level. Questionnaires were used to assess perceptions of the speed, effectiveness and efficiency of the services received and on the quality of civil servants' attention or performance. As a rule, civil servants were fairly uninterested in treating citizens with respect: they did not perceive themselves to be service deliverers (for the people), but rather as executors of government power (over the people).

The full introduction of performance measurement and management systems requires much more attention; a long road lies ahead. Civil servants, especially those occupying senior positions, were expected to comply with the rules and procedures derived from the structures of the formal authority (established by law). Yet, the introduction of a performance measurement system requires that public employees are perceived as public managers rather than pure civil servants, and that they are judged based on their performance. Some formal structures must remain in place; however, the quality of delivery is measured against objective criteria of performance, rather than political compliance and mastering the art of not 'rocking the boat'. Classical client- and interest oriented politics is to be replaced with politics based on expert assessments and disinterested calculations (Lynn, 1998). New public organizations must be able to act as regulatory, distributive and production centers; performance measurement indicators should reflect this (Wilson, 1988).

Contributors to this volume stress the importance of focusing on strategic issues and providing a strategic perspective on the public sector work and development. In fact, contributors contend that it is necessary to move from a project to program management. Local governments, that is, should take a broad, long-term perspective on their activities and assess how to meet the needs of citizens (voters). Indeed, the provision of a strategic perspective is a prerequisite for the introduction of a workable performance measurement/management system.

By looking at how to promote strategic perspective in the functioning or planning of public sector activities, these studies highlight the importance of differentiating between core and non-core public administration functions. Core functions are those that cannot, in regular circumstance, be delegated to any other body outside the public administration. The most classical, legalistic view usually focuses on duties that, ultimately, can rely on the use of physical force (law and order enforcement, security, or defense). All other activities can be more or less successfully delegated, under terms defined by law, to an outside body. The contract (often called a 'performance contract') defines what is expected from an organization that acts on behalf of the public administration. Authors here do not address contract monitoring and its enforcement explicitly; rather, they focus on measuring performance of the services/activities that are delivered by a public administration, regardless of the very nature of the service. Often, performance measurement is applied to assess the efficiency and effectiveness of the provision of public utilities (electricity and water supply, sewage, and so on).

In discussing the process of designing and implementing a performance measurement system, contributors stress that the stakeholder analysis must be applied. The major stakeholders are citizens, as the predominant end-users of public services. As such, the interface with the citizens can be perceived as fairly complex. One possibility for obtaining the most reliable information, in this respect, involves combining many various methods of extracting data and public
opinions. From regular questionnaires and interviews to large surveys, and a wide range of methods can be used to secure as precise input as possible. However, the view that citizens’ opinions are advisory and consultative still dominates. The final decision on how certain services will be provided rests with the government body. Also, the clear need to develop more complex stakeholder analysis has been highlighted. Citizens may be the most important factor in the stakeholder analysis, but there are also other stakeholders to be consulted (different interest and pressure groups, associations or clubs), as well as ‘insiders’ (the civil service itself). The opinions of all these stakeholders should be taken into account when defining a policy. In transitional countries, and especially in the Balkans, however, the lack of a widely agreed-upon, minimum domestic policy agenda among stakeholders presents a critical dilemma: political factions often conflict unnecessarily, unable to negotiate a minimum political agenda for change. Such an agenda is crucial to the long-term survival of democracy in any society. The success of the Western democratic model is based upon a broad social agenda—the result of negotiation, and agreement among all major political players.

An important related issue concerns the design and promotion of Public Private Partnership (PPP), a model in which the private and public sector collaborate in order to produce new values, services, and quality. In this model, partners must be complementary; the private sector might provide financial resources, while the public sector manages rights, licenses, and so on. However, due to the fairly low level of investment capacity in the private sector across SEE transitional economies, PPP is still in a very early phase of development. Due to budgetary limits and the chronic lack of money in the public purse, however, PPP might be promoted in the near future. Measuring the performance of services delivered by or through PPP is very important, as those enterprises are under constant public scrutiny. Not only must the State provide a reasonable regulatory framework and supervision, but both the State and enterprises must work consistently to develop innovative approaches to measure their efficiency and effectiveness. As private parties seek to earn high profits, service provision is competitive and must be above the average; the public is expected to be more critical of such services (see: Lewis, 2003).

Other framing performance measurement in terms of public service provision, some contributors believe that it is an important political issue or tool, particularly in democracies. Indeed, the quality of service provided in a working democracy influences the outcome of local elections, but it is, perhaps, an over-statement to view performance measurement as, solely, a political instrument. Performance measurement can be used by political appointees as a specific tool for controlling and assessing the public administration, but certainly it should not be regarded an instrument of political struggle. Most importantly, resources must be allocated appropriately and services provided effectively; in Balkan countries, the latter is particularly troublesome. As a result of the dramatic decline and damage to public infrastructure and the financial capacity of the public services as a whole, classical ‘provision failure’ often arises. For instance, in Serbia, hospital patients have been advised to bring with them all materials necessary for surgery. Such cases, it is particularly difficult, if not impossible, to discuss performance measurement, as the very provision of crucial public services, such as public health, is minimal.

Case studies stress the significance of national features, which distinguish Western Balkan countries even from one another. Again referring to Serbia, public transport could, possibly, be provided in a several forms: by the local government; as ‘socially owned enterprise’; or simply as private enterprise that was given a license to maintain a particular bus line. Whatever the form, all three clearly exemplify the common problem of transitional economies—the lack of knowledge as to how to regulate licensed industries. Even if a private company is the provider of service, the standards of service are often not defined, or are defined very vaguely: this is a problem of capacity. While in this volume, there is little focus on building the regulatory capacity of local governments (as a prerequisite for tendering public service provision by private enterprises), this is just one aspect of capacity building. Across the board, it is important to promote fiscal, technical, operational and other forms capacity building. With the introduction of decentralization, many local governments face a lack of capacity to perform well the functions suddenly attributed to them. In order to deliver to the standard, local governments require accelerated
training, professional advice, and, in the first phases of decentralization, close supervision by the central government. This might present some damaging effects, especially if central government bodies do not realize the substantial changes in relationships with newly-empowered local governments.

Contributors here have primarily applied a legalistic approach. The Balkan countries, traditionally under the influence of Franco-German continental (European) law, predominantly focus on legalization in the process of provision of public services. ‘Public law’, that is, has been greatly influenced by the French; the German-Austrian experience shapes developments in different areas of civil law (understood as property, contract and torts in Anglo-American legal terminology). However, the application of performance measurement, which is a primarily Anglo-American ‘innovation’ requires re-focusing on processes and procedures. This is a significant cultural step that must be taken in order to ensure the quality of the application of performance measurement techniques.

The performance measurement system cannot be built on nothing; resources for system building must be clearly earmarked. The lack of infrastructure is a big, although not-so-obvious problem. Training is essential, politicians must be made aware of the advantages and disadvantages of strategic planning, and the public must be informed of their rights and the importance of their opinions. An effective system, meanwhile, requires critically sorting, evaluating and processing data, with an eye for inconsistencies. There is also a danger that the organization might lose focus. Two possible reasons for this can be identified: first, the lack of enthusiasm on the part of employees and politicians who are to implement the system; and second, as result of the quick and uncritical introduction of the model. Both factors might logically play an important role in preventing the successful introduction of a performance measurement system in both national and sub-national governments.

Overall, contributors focus on the development of performance measurement implementation programs. All perceive performance measurement as an issue crucial to the reform of governments. The first step in this process involves institutional reform, which provides a necessary framework for proper functioning and action. Second, it is necessary to empower institutions to take the required actions in their operational framework. In each case study, the process of power transfer and capacity building has been initiated, although it is not entirely clear who holds responsibility for transfer and training. The conclusion to this volume offers a response to this, in the form of a blueprint of PM system implementation.

5. CONCLUDING REMARKS

Over the past several years, economic reform has comprised a priority for transitioning states; civil service reform, meanwhile, has been implemented far more slowly. In no Central and East European country has intended reform of the civil service sector been completed.

Building a performance measurement system requires developing new infrastructure and even ideas to address the outstanding political problems of the ongoing social transition. In this respect, it is necessary to re-educate the current political elite about the necessity to implement strategic planning models in local development. Local politicians and local government officials must understand the importance of their mission and strategy, and the salience of a vision statement. The move from a classical control model of periodical budget reports to a more strategy-based performance management system furthermore requires a shift in theoretical thinking, as primarily legalistically-based government bodies struggle to develop a performance measurement system.

Despite different levels in the reform of the public administration or service in each Balkan country, the region is still far from having an integrated performance management system in place. The focus has been more on technical issues of how to introduce the system, rather than what must be done to simply change the underlying organizational structure. Contributors stress the importance of communication within public administration and with other stakeholders outside the administration. This is a fairly important policy move for public administrations traditionally emphasize the importance of hierarchy and have not expressed significant interest in feedback from citizens. Along these lines, contributors encourage public administrators and service providers to explain and justify their decisions and actions. Case studies focus
particularly on the definition of indicators, rather than how measure, taking into consideration organizational and other constraints that may emerge.

All the contributors conducted surveys in attempt to understand perceptions of either public or elected officials towards performance measurement. Interestingly, those who compared opinions found that elected officials (politicians) are more critical of public administration performance than the citizens themselves. This might be attributed to the short amount of time that many interviewed officials have spent in office; understanding rituals in public administration is crucial for supporting, designing and evaluating any reform program. Some contributors even suggest that performance measurement in the public sector might be a monitoring method for the proper execution of the social contract.

Performance measurement assumes freedom to choose management methods for meeting agreed objectives; all objectives must be upheld, or else the PM system cannot deliver. Performance measurement usually goes hand-in-hand with NPM ideology, although there is no empirical proof that NPM is a prerequisite for the implementation and success of a PM system. Therefore, the de-politicization and ‘professionalization’ of the civil service should comprise necessary prerequisites for successful PM design and implementation. As well, these prerequisites should fall in keeping with overall civil service reform. Where responsibilities are properly delineated, performance measurement system will deliver better government, but first, a government must decide to reinvent itself.

Authors focus heavily on the issues surrounding performance measurement, rather than looking at performance measurement systems per se; this highlights the current state of the performance measurement/management debate. Regardless of the focus, many important ideas and concepts are discussed, such as investigating different aspects of a ‘cost recovery model’ in public services provision. Across the board, however, authors directly link PM systems with democratic government; the possibility that a such systems can exist under an autocratic or dictatorial regime is not confronted.

Clearly, it is of utmost social importance to achieve general consensus at the national level about performance measurement—or the need for a PM system at all. As with any reforms, thorough political preparation will make implementation easier. The general political consensus at the national level, meanwhile, must be followed by a comprehensive review of the administrative system. Namely, a continental European civil service system promotes legally-defined formal and hierarchical responsibilities, including how it is to comply with legal requirements. Across the Balkans, a shift is needed toward a more entrepreneurial framework, in which responsible civil servants are fully accountable for their performance, but are also given more freedom in choosing with which instruments they will deliver services. Along these lines, a new framework must be developed as part of wider, more comprehensive public sector reforms—reforms devised for national civil service sectors. This might, however, both positively and negatively impact the development of a performance management system. Namely, rebuilding the civil service enables the inclusion of a performance management system as its ‘own’ element; at the same time, resistance to civil service reform (which is expected) might have a clear, negative impact on PM system design and implementation. Costs are relative: in support of reform, has any significant change ever been won without a fight?
ENDNOTE

1 Upravna organizacija [Administrative Organization] vs. Upravni organ [Administrative Organ/Body]

BIBLIOGRAPHY


GAUGING SUCCESS

Zana Vokopola

Performance Measurement of the Public Sector in Albania

PERFORMANCE MEASUREMENT IN SOUTH EASTERN EUROPE
1. INTRODUCTION

Performance management (PM) helps local governments focus on service delivery, set standards for improving performance, and strengthen relations with citizens. In this sense, it plays a valuable role in the decentralization process; in Albania, PM facilitates the improvement of chronically impoverished public services. However, local governments have little experience in both citizen outreach and independently working to improve the ways in which services are delivered. PM indicators, for example, are often used by local governments to measure quality, or the outcome of services from the perspective of the citizen. Some indicators of inputs (the budget for a service) and of outputs (the number of kilometers of paved roads) are tracked regularly; others, such as outcomes (citizen satisfaction with a public service), are not.

Simply put, there is no tradition of performance management in Albania based on outcomes. A 1999 USAID-supported, Urban Institute-implemented project of US and Albanian specialists serves as the basis for the current, accepted definition of PM, which refers to the measurement on a regular basis of the results (outcomes) and efficiency of services. This project aims at:

1) improving service quality and outcomes,
2) improving resource allocation decisions and justify budgets or service cuts in the face of fiscal limits,
3) holding public agencies accountable to the public; and
4) increasing the trust of the public in their government.

Under this project, four local governments have worked to establish a system of performance indicators with which they could evaluate progress in improving municipal services. In order to obtain data for this system, the governments surveyed citizens’ perceptions of public services; this involved a representative sample of 500 inhabitants in each locality. The indicators developed have helped identify particular problem areas, enabling program managers to set targets for short- and long-term improvements. For example, these efforts have led the city of Elbasan to rethink its entire social sector. According the objectives redefined after the survey and the action plan prepared by the working group, the city has developed a new social program.

A special feature of the project is the use of model action plans for specific sectors—roads, garbage and cleaning, water provision, and social services—in each city. These plans have been prepared by local governments and other members of the city working group, and offer insight as to how the selected service might be improved. The results—works in progress—are seen to illustrate the different approaches four local governments have taken toward evaluating their services and seeking ways of improving the management of those services.

Originally, this project was developed for local governments seeking to improve the quality of services they provide and increase accountability to their citizens. Project results were published both locally and nationally. The various workshops held through the project established performance management as a system that enables local governments to perform meaningful self-evaluations, regularly track, measure, and report service delivery improvement—or decline —over time and across services, and to respond with appropriate management decisions.

The major use of performance information has been to develop and justify budget proposals. In general, municipality managers have argued that performance information would not help them, because their
biggest problem is that they lack resources for the many services they have to provide. Regardless, most managers have agreed, at least, to use this information to perform better and use their resources more efficiently.

Tracking expenditures and physical outputs has certainly been carried at the local government level before, in Albania and elsewhere. Tracking such elements is useful to a municipality or any agency personnel, yet it offers little with respect to results or benefits for consumers and the public. Regular tracking of the outcomes is seen to fill gaps in service provision. But again, performance data does not itself explain outcomes, nor does it reveal the extent to which a program has caused the measured results. Performance measurement systems must make use of enough information to understand results, and how they might be improved.

This paper provides general information on performance measurement in the public sector, reviews the basic elements of PM and their importance to new developments in Albania, and summarizes elements which might be incorporated into a national performance indicator database.

1.1 Performance Indicators in Practice

The four-cities project utilized a category of performance information that included: inputs; process (workload or activities); outputs; outcomes; and explanatory information.

- **Input** information is the amount of the resources actually used such as the amount of funds and the number of employees for the chosen public service delivery (the amounts used, not those budgeted).
- **Process** (workload or activities) includes the amount of work that is used for service delivery, such as the number of the households served.
- **Output** information indicates the amount of services (or products) delivered during the reporting period. Outputs have been reported by local governments and virtually all public agencies in Albania, in order to measure, for example, the number of kilometers of roads paved, or the number of students finishing the school. Outputs do not, by themselves, reveal anything about the results, but they are bound to outcomes.
- **Outcomes** are the events, or changes in conditions, behavior or attitudes, that indicate progress towards achievement of the mission and the objective of the program. In Albania, outcomes are directly linked to overall goals and objectives of each municipality. In other words, outcomes are not what the program itself did, but the consequences of the program. For example, in a road project, the output indicator would be the number of kilometers paved, while the outcome indicator refers to the number of persons socially and economically impacted.
- **Explanatory information**, quantitative or qualitative, helps those who read the performance report to properly interpret the data.

Some indicators can be used as both ‘output’ or ‘outcome’ indicators, especially those that deal with service quality. In regard to customer participation, for example, if participation is mandatory, the number of participants can be classified as ‘output’. If participation is voluntary, it would be an ‘outcome’, as it depends on a program’s ability to attract participants.

2. INSTITUTIONAL FRAMEWORK

2.1 The Need for Change

Like other countries in the region, Albania has been hard-hit in virtually every sector and sphere by transition. As a traditionally rural country, political, economic, and social developments and been slow, troublesome, and wrought with conflict. Meanwhile, lessons learned from past mistakes help form clear, long-term policies for the creation and consolidation of democratic institutions and ways of thinking. Today, Albania possesses an advanced legislative framework, a democratic system based on the division of power, an active parliament, and a free press allowing for diverse public opinion. Progress is being made in all areas, particularly with respect to human rights and the responsibilities of citizens. While slower than initially anticipated, the growth of a vibrant civil society is underway.

It is unquestionable that democracy requires citizens to be educated about community issues: an
informed citizenry makes and supports sound decisions. In addition to the right of citizens to participate in the governance process, there is a critical need for elected officials to provide information about municipal services, the administration of public funds, their plans for improvements in the future, and any other information on how local government works. Performance measurement informs citizens of public service delivery according to needs and realistic goals, given municipal resources.

2.2 Values in Transition

There are many reasons why there is no social contract between the government and citizens in Albania. While history is party to blame, the manner in which the country has been governed in the last ten years as well as the way in which the political and economic model for Albania was conceived also contribute significantly.

Capitalism was often perceived as a game with no rules, where getting rich justified breaking the law, and where participation in politics was sometimes seen as a fast way to prosper. On one hand, this created dynamism; on the other, it encouraged mass idleness: one could get rich quickly through illegal means without really having to work. The infamous pyramid schemes were part of this logic.

Meanwhile, the adoption of a new liberal model, allowing the State to rapidly relinquish many of its functions, created an administrative void. Although there were many achievements during the first years of transition, the administrative vacuum created by the collapse of former system has yet to be filled fully. Given the rampanty of mismanagement, corruption and abuses of power by law enforcement agencies and the judicial system, it is not surprising that mistrust toward formal institutions of governance has been growing, and more people are taking the law into their own hands. As a result, there has been a revival of revenge killing and vendettas.

Society relies on a judicial system that works; reforming the Albanian judicial system should be a priority. Yet, after years of debate, there has been little change. The failure of the judicial system exacerbates the overall sense of insecurity in across the country.

The approval of the new Constitution of Albania in 1998 (with the aid of a number of international organizations), and the signing of the European Charter of Human Rights, were important steps forward in the consolidation of Albanian State institutions. But there remains a serious discrepancy between the law as written and its enforcement. With respect to the judicial system, there exists a multitude of problems concerning the political independence of the system, the professionalism of the judges and prosecutors and, above all, corruption, which eats away at the heart of Albanian justice.

The contribution of international institutions is crucial to the efforts being made to strengthen state and government. But this assistance and the special attention given to Albania have not helped to create a long-term vision of development. There is a tendency to think of governance as a partnership with foreigners rather than management of the needs and concerns of the public and the country.

Political transformation has progressed more slowly than the opening of Albanian society to the world. As arguably the most closed country in Europe, the country’s history of isolation is reflected in the mentality of the people. The sudden opening of political and social borders has encouraged wide-reaching change, at the same time making transition more complex.

All of the above have brought about a crisis of values and identity since the fall of Communism. The lack reliable, accountable of institutions during transition has only promoted mistrust and confusion. Meanwhile, for many, democracy is simply understood as anti-Communism; transition is conceived as a change of places, whereby communist ideology was replaced by a ‘democratic’ ideology. Democracy, in other words, was viewed as a set of principles, or the rule of law. This approach has defined the terms of the political debate and maintained not only the mentality of the former era, but its characters as well.

2.3 Decentralization and Reform

Decentralization has comprised the focus of government policies since 1997. The legal framework and government support for decentralization are based on the Constitution, the European Charter for Local Self-Government (ECLSG) and the National Decentralization Strategy (NDS).
The National Decentralization Strategy (NDS) was developed in 1999, and based on a comprehensive participatory approach. The method was a unique, and involved series of consultations around the country. Interested stakeholders (the central and local governments, NGOs, local and business communities, and the general public) participated in the development of the draft strategy, appropriate policies and principles, as well as the building of a broad consensus. The international community, additionally, actively offered full support. The Strategy was finally discussed at the National Conference for Decentralization and Local Autonomy (November 1999) and adopted officially by the Government of Albania (GoA) in January 2000.

Since 2000, the process of implementation followed the same participatory and consensus-building approach used successfully during the drafting of the strategy.\(^1\) The process is based on a detailed action plan attached to the main document of NDS. The action plan is regularly updated without affecting the core objectives to reflect changes and the identification of new priorities.

2.4 Adoption of the New Legal Framework

The legal framework is the top priority in the implementation plan of NDS, and has been undergone significant changes since 2000. The most important new piece of legislation is the Law on the Organization and Functioning of Local Government (No. 8652) of 31 July 2000, which sanctions the rights and authorities of local government units in conformity with the Constitution and the European Charter for Local Self-Government. Twelve regional meetings of local stakeholders were organized to discuss drafts of this law, which entered into force in October 2000.

Another major task during concerned the preparation of the Law on Immovable State Property and on Transfer of Immovable State Properties to Local Governments, both of which were developed during regional and local meetings with stakeholders.\(^2\) The former regulates the state immovable property rights and management; the latter defines:

- immovable properties to be transferred in property or in use to the local governments;
- the regime of property rights;
- the administrative process of property identification, listing, claiming and transfer; and
- deadlines for the various steps in the process.

As a rule, immovable properties linked with certain functions are to be transferred as property to local governments.

The Law on Territorial and Administrative Division of Local Governments, which defines the borders of each municipality, commune, district and region, was also adopted in 2000. A specific Law on the Organization and Functioning of the Municipality of Tirana, the capital, was also prepared, discussed and approved by the Parliament at the same time as the Law on Local Government.

An innovative feature of the Law on Local Government is that it contains clear deadlines over a period of two years for preparing and adopting other, more specific laws and regulations to implement the transfer of power and financial resources to local governments. In this sense, the law creates pressure to complete the process of decentralization. The law is fully inspired from the subsidiary principle. On the other hand, the two-year time frame allows for ongoing analysis of policy and technical options, and for ample and continual dialog with all stakeholders. This process has been occupying much of the attention and resources of the National Decentralization Committee (NDC) and the Group of Experts for Decentralization (GED) since 2001.

3. DELIVERY MODELS

The new law on the organization and functioning of local government clearly defines the exclusive functions of local governments. For the first time, municipalities and communes are clearly entitled to substantial autonomy over a large list of functions, specifically in the areas of:

- local infrastructure and public services;
- urban planning and land management;
- economic development;
- social and culture activities;
- public order for the purpose of guaranteeing the implementation of local government administrative acts; and
- civil protection.
In exercising their exclusive functions, local government units possess full administrative, service, investment and regulatory authority. These sets of authorities allow for the adoption of a variety of management alternatives, such as private or public (State) service delivery; contracting out the delivery of some core public services to a private provider is becoming a generally accepted method of public services provision. Most local infrastructure rehabilitation and construction is carried out under contracts to local or even international construction companies. Very few local government units continue to use those inherited communal public enterprises which are generally assigned with the maintenance of local infrastructure.

Generally, services such solid waste collection, maintenance of green areas and the management of public lightning are delivered by private providers, which are contracted out by local government units under competitive bidding procedures. Most big and medium size cities are, to some extent, successfully privatizing of service delivery, while some assets of those services remain state-owned. Locally-elected officials of smaller cities, meanwhile, appear more reluctant, although some do find rational reasons for involving the private sector in service delivery.

Water and sewage, although transferred as an exclusive function of local governments in January 2002, is still managed as a shared function. As a side note, water is regarded as a strategic—and thus particularly important—sector of the Albanian economy. Most water supply systems have been managed by stockholding companies, with the national government holding 100 percent of all stocks. Privatization of the service and assets has not shown significant improvement in the quality of delivery. Currently, financial subsidies to the enterprises or companies have been increased; these subsidies compensate for cost-price differences. The NDC and GED have prepared a sector decentralization policy paper addressing the full transfer of water functions to local governments. As well, changes and amendments to laws that impact the sector and the transfer of water and sewerage assets to local governments will guarantee assist the process of decentralization.

In February 2001, the Parliament of Albania adopted the Law on State Immovable Properties and the Law on Transfer of Immovable State Public Properties to Local Government. The former requires an inventory of all State-owned immovable properties; the latter divides the inventory among levels of governance. For the first time, local governments will have the right of ownership over those properties that will allow them to exercise their exclusive functions. Properties defined as transferable are linked, enhancing local government units’ managerial role.

This process is ongoing, and is expected to be completed in two years following the establishment of responsible structures and the issuance of inventory and transfer procedures. A pilot project is now underway, involving seven local government units. The overall objective of the project is to develop forms and procedures for the inventory and transfer of public properties to local government units countrywide, based on practical experiences gained during field operations.

### 3.1 Fiscal Decentralization

Fiscal decentralization in Albania began in 1998, as part of a wider reform process aimed at clearly and transparently allocating sufficient resources for local governments to discretely execute their exclusive functions. A policy paper on fiscal decentralization, prepared for the Medium-Term Expenditure Framework (MTEF) 2002–2004, identified the exclusive functions which should have been included in the unconditional transfer in 2001, but which, in fact, remained part of the conditional budget; changes have been made since by the Ministry of Finance to account for full transfer. For the first time, local governments were required to present a consolidated local budget, including all sources of revenues and expenditures in one table.

In regard to fiscal decentralization, 2002 was a year of significant change. The budget allocation for the unconditional transfer of funds to local governments was calculated on the basis of objective, transparent criteria. These criteria are published in the 2002 budget law. In addition, part of the transfer is allocated as equalization funds, again based on defined criteria, in compliance with the Country Growth and Poverty Reduction Strategy (GPRS). Decentralization is considered as one of the key cross-cutting areas of reform, as well as an instrument to
improve the effectiveness and efficiency of public service delivery.
Further changes are expected to bring about better vertical equalization of state budget allocation to local governments.

3.2 Shared and Delegated Functions of Local Government

New legislation defines *shared functions* as those activities that are undertaken jointly or coincidentally by the central government and one or more local governments. As these functions must be provided according to national standards of service provision, they can be financed from conditional transfers from the central government. These transfers could increasingly be in the form of purpose-related block grants. Shared functions relate to:

- education;
- primary health care and public health protection;
- social welfare, poverty reduction and the functioning of relevant institutions;
- public order and civil protection in terms of crime prevention and investigation;
- environment protection; and
- other functions as defined by relevant sector laws.

*Delegated functions*, meanwhile, refer to activities which local governments perform as agents of the central government while operating particular services or facilities. These functions are wholly financed by specific conditional transfers. Modalities to these functions can also be delegated to local governments. Along with the delegation of a specific function, institutions of national government guarantee local government units' sufficient financial resources to exercise delegated responsibilities.

3.3 Exclusive Functions of the National Government

Core functions that are still exercised by National Government include basic services that are classically considered non-transferable. In addition to some public services (such as energy production and distribution, telecommunication, national roads, environmental protection, and social welfare), the Government exercises undivided, full authority over diplomacy, defense, public order, and national security.

The first group of function (or public service) are, however, subject to sector-specific strategies, whereby privatization might be an accepted alternative for better and efficient management.

3.4 Decentralization as a Measurable Process

The current legal framework and Albanian Government support for decentralization are both based on the Constitution, the European Charter for Local Self-Government (ECLSG) and the National Decentralization Strategy, for which 2000 represents the first year of implementation. Decentralization reform has developed thus far as comparative process in compliance with the ECLSG, based the new legal framework rather than the actual implementation of already-adopted legislation. Such legal texts include:

- The Constitution (28 November 1998)
- Law on Organization and Functioning of Local Governments (No. 8652 of 31 July 2000)
- Law on Territorial and Administrative Division of Local Governments in the Republic of Albania (No. 8653 of 31 July, 2000)
- Law on Organization and Functioning of Tirana Municipality (No. 8657 of 31 July 2000)
- Amendments to the Law on Property Tax in the Republic of Albania (No. 8344 of 13 May 1998, which amends Law No. 7805 of 16 March 1994)

Considering the overall framework established through the adoption of these laws, Albanian cur-
rently is in full compliance with 19 paragraphs of the European Charter (eleven of which are core, or required, paragraphs). The main area in which Albanian legislation is only partially in compliance with ECLSG is Article 9: local finance issues. This stems in part from the fact that the relevant articles of Law entered into force in two phases, on 1 January in 2001 and 2002.

While it is clear that the new legal framework, adopted in 1998, has started to bring Albanian legislation into compliance with the Charter, in practice, implementation of the laws was only initiated in 2001. Therefore, actual compliance is, in fact, low.

Issues that are not yet fully in compliance with the Charter concern the development of mechanisms for consultation between central and local governments, and administrative supervision to ensure compliance with key areas of financial autonomy defined by the Charter. These areas include:

- adequate financial resources;
- resources commensurate with responsibilities;
- the diversification of resources to keep pace with changing costs;
- equalization to protect financially weak local authorities,
- consultation on matters of resource redistribution;
- the minimization of conditional grants; and
- authority to borrow.

All these issues can be addressed and assisted by means of performance measurement information.

4. HOW AND WHAT TO MEASURE

Based on experiences in Albania, it appears as though there are some prerequisites for successful performance measurement. Four local governments were selected for participation in the PM program on the basis of regional and economic diversity; these governments were to serve as representational models for other administrative units in future efforts to replicate performance management. It was also decided to include one commune in the group, as communes represent more than 80 percent of all local governments in Albania and their problems different considerably from those faced by cities. The local governments selected were: the commune of Baldushku and Elbasan, Korca, and Lushnja cities.

Based on this project, the following can be stressed for future endeavors:

- support from elected officials and program managers, as well as for local government activities. Two reasons make this a necessity: first, to secure adequate time and resources and to develop and implement performance measurement properly; and second, to ensure the interest of municipal officials in PM work and information use. Sometimes, when officials do not ‘approve’ of results, they do not make them public and pay little attention to the improvement plan;

- stability, such that there is no use of performance measurement information in a service program or department that is under change in mission or personnel; and

- technology for data-processing. Not all municipalities or communes in Albanian have computers and staff familiar with standard spreadsheet software; in such cases, they were unable to handle data processing and postponed this exercise.

Importantly, this study refers to performance measurement of public services, but this includes many activities discussed here. With limited resources, local government units must decide on the services or activities they would like to cover with the performance measurement activity. Once they have made a decision, they must organize a working group to oversee the development of the PM process. In general, steps undertaken in this process are listed below.

4.1 Steps in the Performance Measurement Process

4.1.1 Establish Performance Goal(s) or Standards

The only way to meaningfully interpret the results of local government measurements is to develop goals and standards, and to tie all performance measures to these defined goals or standards. A goal should identify what the program is intended to accomplish.
Thus, the first technical step is to prepare a mission statement which identifies customers. This statement expresses the major results sought by the public service delivery program, and serves as the starting point for identifying the outcomes to be measured and the performance measurement indicators needed. Objectives are stated in general, not quantitative, terms; in Albania, they refer to the quality of the service delivered. Typically, there is more than one objective in a program, and each will be identified in the statement. Objectives should be stressed in terms of efficient service provision. In the multi-service project discussed here, for example, one working group identified as their objective: “to ensure swift and safe access for all citizens of the commune from their homes and villages to the main road and/or school.” This objective refers specifically to measuring the performance of the roads unit (Public Service Department).

4.1.2 Identify Responsible Party(s)

A specific entity (as in a team or an individual) must be held responsible for each step in the performance measurement process. In the Albanian case, a working group was established to oversee the process. In addition to the program manager, who normally is the group facilitator, the working group should include:

- other staff from the same department (such as roads);
- a representative from the budget office;
- an individual with experience in performance measurement; and
- an individual with data processing knowledge.

In Albania, working groups for each city consisted of six persons, though bigger programs might involve eight to twelve individuals. Members met frequently and regularly, and collectively pinpointed key steps for performance measurement.

4.1.3 Establish Performance Indicators

Any PM system requires the identification of outcomes. The same logic used for developing the mission (or objectives) statement is useful to search for outcomes. In Albania, outcomes were identified through:

- focus groups, with customers and with program staff;
- input received from meetings with other stakeholders (ministries, state agencies, or other donors); and
- customer survey, as an important source of information about service quality and outcomes.

Before completing a list of candidate outcomes, some issues deserve careful consideration. These include customer responses to negative changes, such as necessary price hikes for services. Once such issues are addressed, outcomes obtained from all sources can be assembled in list together.

The next step is to assess what outcome indicators should be tracked. Outcome indicators are not the same as outcomes. Each outcome to be measured must be translated into one or more outcome indicators. An outcome indicator identifies a specific numerical measurement phrased as ‘the number of...’ or ‘the percent of...’. Outcomes, that is might address the condition of roads, while the outcome indicator refers to the percent of roads in good condition. Further clarification is need to rate roads—such as location and amount of traffic. Yet in this example, the selected option was to measure conditions from the point of view of the customer. The outcome indicator would thus be the percent of sampled respondents who rated the condition of roads as good. Data collection procedures and the costs related to it often determine the type of outcome indicator to be used. (Box 1)

4.1.4 Data Collection

An important step is to collect data from the defined sources using agreed-upon collection methods. Alternatives used in Albania for data collection include:

- administrative data from program/department records;
- customer surveys; and
- trained observer ratings.

(i) Department and agency records have been widely used to obtain performance measurement information, and these records are used to calculate performance measurement indicators. Depart-
ment records are also the main source of the input (money and other resources) and outputs produced by the program. This information is needed for efficiency indicators. Data provided by an agency can be made available at a very low cost; the procedures for transforming data into indicators is often familiar to departments personnel. However, training on how to use data for performance measurement indicators is often needed. Additionally, agency records rarely contain enough information about service quality and outcome data to create the needed set of performance measurement indicators.

(ii) Customer surveys are a very good source of information about service quality and outcomes, especially in terms of customer satisfaction for a service they have received. Surveys provide good data and direct input, adding not only valuable information, but credibility. Indeed, a valuable tool in instituting a viable indicator measurement process is to directly survey citizens. Input (customers’ answers) is used to establish performance indicators which will in turn be used to respond to citizens’ concerns and needs. The survey both provides content for indicators and establishes a direct connection between citizens and the services provided for their benefit. Results can then be used to identify both key problem areas, as well as areas that are performing well. With the help of this information—along with indicator information from service records—responsible local government departments can create action plans for improving upon results and for providing recognition for good performance.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Outcome</th>
<th>Specific indicator</th>
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<tbody>
<tr>
<td>To create a pleasant and nice environment</td>
<td>• Streets and neighborhood cleanliness.</td>
<td>• percentage of streets, the appearance of which is rated satisfactorily</td>
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<tr>
<td></td>
<td>• Offensive odors</td>
<td>• percentage of households, rating their neighborhood cleanliness, as satisfactory (or unsatisfactory)</td>
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<tr>
<td></td>
<td></td>
<td>• percentage of households reporting offensive odors from the solid waste.</td>
</tr>
<tr>
<td>To create a healthy and safe environment</td>
<td>• Health</td>
<td>• number and percentage of blocks with one or more health hazards</td>
</tr>
<tr>
<td></td>
<td>• Rodents and pests</td>
<td>• percentage of citizens who report having seen animals or pests in the garbage area</td>
</tr>
<tr>
<td>To reduce possible inconveniences for citizens</td>
<td>• Missed or late collections</td>
<td>• Number and percentage of collections not completed on schedule</td>
</tr>
<tr>
<td></td>
<td>• Spillage of trash and garbage during collections</td>
<td>• percentage of households reporting spillage by collection trucks</td>
</tr>
<tr>
<td>To attain general citizen satisfaction</td>
<td>• Perceived satisfaction</td>
<td>• Percentage of households reporting overall satisfaction with the solid waste service.</td>
</tr>
</tbody>
</table>

The Albanian Citizen Survey, conducted in March 2000, was carried out on a representative sample of 500 households in each of the four participating communities. The Survey sought performance feedback for a number of public services, including roads, water, social services, garbage and cleaning, citizen relations, and parks.

Because one same survey might be conducted simultaneously in more than one community, information from the other local governments can be used as benchmarks or targets for certain performance indicators. Cities can then work singly or together to explore why some cities’ outcomes
were high relative to others and to identify best practices that may be applicable in certain environments.

(iii) *Trained observer procedures* are used to rate perceived outcome conditions, and are a valuable method of obtaining performance indicators for some services. Trained observers can rate physical conditions, such as the condition of roads and buildings, or progress serving special clients, such as the ability of disabled citizens to perform common activities of daily living. The trained observer process requires a systematic and well-defined rating scale and thorough training, such that ratings are consistent across the board, in different situations.

Because this is inexpensive and straightforward, it was particularly appropriate for use in Albania. Thus, the team worked with the commune of Baldushku to set up a system that could serve as a permanent model. Assessing road quality serves as the example here.

The first step was to establish a clear range of conditions. In this case, five levels of road quality were established, ranging from very bad to very good. To depict the level of quality, many photographs—a total of about fifty—were taken of roads in the commune. The working group then selected two photos appropriate for each level. Armed with this set of photos and a brief summary of conditions that characterized each level, an observer could independently fit what he or she actually saw into one of the pre-defined levels. In this way, different raters were likely to reach the similar conclusions.

The complete Baldushku rating system included photographs and descriptions of each level (see Box 2). The grading system prompted a rater to consider smoothness, bumpiness, presence and size of potholes, how conditions affect the speed at which vehicles can drive, problems with drainage, potential safety hazards, and need for repair.

### 4.1.5 Analyze Actual Performance Data

To assess performance, it is needed to compare outcomes with benchmarks. Types of benchmarks used in Albania include: (i) performance in the previous period; (ii) performance of similar programs in different geographical areas; and (iii) targets established at the beginning of performance period.

(i) *Comparison of current to previous performance* are the most common type of comparisons. They help program managers understand whether performance has improved or deteriorated over time. Reporting periods compared should be of the same length (such as over two 12-month periods).

(ii) *Performance of similar programs in different geographical areas*, helps managers assess which areas are performing well and which areas are performing in a relative manner (Figure 1).

---

### Box 2

Road Condition Grading System

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very good</td>
<td>Appears to be smooth and has little—if no—standing water.</td>
</tr>
<tr>
<td>Good</td>
<td>Slightly bumpy, requiring minimal decrease in speed. May be characterized as having some minor bumps or minor potholes, or one large, single bump or pothole. Some minor maintenance required.</td>
</tr>
<tr>
<td>Acceptable</td>
<td>In need of repair (40 km/h maximum in normal conditions). Characterized by many bumps and/or potholes and may have problems with drainage during rainy season.</td>
</tr>
<tr>
<td>Bad</td>
<td>In need of heavy repair (25–40 km/h maximum). Considerably bumpy; potential safety hazard or cause of major jolting. Two-way traffic inhibited by large holes or other interruptions in paving/grade.</td>
</tr>
<tr>
<td>Very bad</td>
<td>In need of total reconstruction (0–25 km/h maximum). Safety hazard; disappears almost entirely under bad weather conditions.</td>
</tr>
</tbody>
</table>
Figure 1
Condition of the Road Surfaces in Cities Neighborhoods

Figure 2
“If You Need to Get to School or Work, Are Roads in Good Condition at Present?”
As mentioned, comparison between cities offers managers information and motivation for improvements, if needed. Comparing neighborhoods, meanwhile, is also useful, as it shows where services can be improved, or where budgets should be reallocated (Figure 2).

4.1.6 Analysis and Reporting of Performance Measurement Information

An analysis is used to improve and review public service delivery. Program managers can use data analysis to:

- Identify conditions under which the service is being delivered well or badly and think of improving actions; and
- Raise questions regarding service that can help staff develop and carry out improvements strategies.
- Generally, for systematic analysis of performance measurement data, any working group should focus on:
  - Examining changes over time (after PM information becomes available for more than one reporting period, the findings can be to see trends and other significant changes); and
  - Obtaining and analyzing explanatory information. This information can be in the form of a qualitative judgment, provided by program staff, explaining certain outcomes. Possible changes in the program, in staff, legislation, program implementation, or training might thus be addressed.
  - Transforming performance measurement data into useful information for program managers involves:
    - Configuring the data to reflect relevant indicators (such as age, gender, or geographical area of the city);
    - Comparing survey findings to benchmarks; and
    - Providing explanatory information as to why—or why not—a program appears successful.

4.1.7 Determine Necessary Actions to Improve the Situation

This is also known as a Service Improvement Action Plan. Depending on the degree of variation between measurements and goals, different steps or actions may be required. An action plan is, essentially, a detailed work which explicitly responds to an indicator or a series of indicators that appear problematic. Normally, action plans can be formed around success stories as well.

An example of Elbasan city illuminates how performance indicators were set for the Social Services Sector follows.

4.2 Case Study: Elbasan Social Services Sector

Albanian local governments distribute a social assistance benefit to needy families as well as disability and caretaker allowances. They also support a limited number of direct services, such as daycare centers and educational institutions for disabled people. The most significant benefit is, however, the social assistance benefit to needy families, which, in Elbasan, totaled 21 million leke for 5,250 families in 2000. The per family maximum benefit is 6,500 leke, or USD 40. While the social department believed this was much less than needed, there were also fears that some benefit recipients were actually above the poverty line. Many families did not know about the assistance available; moreover, services offered by local government or the multitude of NGOs were not well coordinated.

Decisions about benefit recipients were made at the council level, which was a slow and laborious process. There were a total of twelve social administrators located in five administrative unit offices throughout the city. Each administrator covered about 500 families, instead of 300 families, which is likely a more manageable number. The social department also complained of insufficient training for administrators.

4.2.1 Outcome Targets and Indicators

The overall objective was to provide minimum subsistence level for all families, and provide a healthy and secure environment for the elderly and for disabled people. To measure the effectiveness of service provision (the targeting of needy households), selected outcome indicators referred to the number and percent of citizens with incomes below the poverty level, and
the percent of cash benefits paid to households in the lowest income quartile. An additional outcome indicator was designed to measure the percent of citizens who feel they lacked sufficient information about social services.

Five hundred citizens were asked for their overall satisfaction with benefit provision. Responses indicated that targeting in Elbasan was weak, with only a third of recipients actually in the lowest income households. Services received by benefit recipients were generally below average throughout the city, with the exception of Zone 1 (of five), where the helpfulness and support of staff was the most satisfactory. Experiences Zone 1 were thus useful to improve performance city-wide. Information seemed to be an important problem (though not as great as in the other local governments surveyed), as 32 percent of those interviewed felt they lacked information on available social services. The major source of information was through the media—likely a result of the concerted efforts carried out by the city. More than half those interviewed had a family member out of work (see Figure 3).

The Elbasan working group proposed to first establish an information center for citizens to learn about all available social assistance, including services, provided by different NGOs as well as by the local government. The immediate target would be to decrease the number of those who felt uninformed from 32 percent to 25 percent (see Figure 4). Other
actions included taking steps to improve targeting to the poorest households and obtaining funds for staff training. In regard to targeting, the working group hoped to increase the percent of recipients in the lowest income groups from 33 percent to fifty percent.

4.2.2 Project Results and Public Outreach

During the development of the Elbasan Service Improvement Action Plan, city staff revealed their concern about the lack of consistent and comprehensive information on available social services. As a result, the working group developed a plan to establish an information center—which became a reality within a few months. They also sought and obtained grant money to continue operating the center, including a visit to Bulgaria to look at effective information center models.

The working group was also interested in creating a monthly newsletter for city council issues that would be distributed through the local government’s public information office. As funding for such an ongoing publication would be uncertain, they decided to start by producing a one-time informational bulletin, to be distributed through the public information office, or directly to households with water or electricity bills. The booklet included the social assistance survey results and a description of local government plans. The working group also suggested holding an open meeting with local NGOs to discuss the issues included in the bulletin and to ask for their assistance with dissemination. Local journalists were invited to the meeting as well in order to encourage media coverage of the council’s activities. The working groups then used the finished bulletin as part of a proposal to the Soros Foundation to fund a monthly or quarterly newsletter.

The service-level objectives for the Elbasan Social Service Improvement Plan were:
• to categorize the families in social assistance scheme according the economic and social needs; and
• to provide necessary information for marginal categories and the ways to alleviate social problems.

Box 3 shows the indicators used in Elbasan.

5. HOW TO MAKE IT WORK

5.1 National Database of Indicators

Although little work has been done thus far in terms of installing a national system of performance indicators in Albania, the groundwork is in place, along with the will and support from both central and local levels of government. The performance indicators (or performance standards) database will assist local governments assess and report on progress towards achieving their strategic objectives. The database is thus a critical tool for planning, managing, and documenting how performance data is collected and used by municipalities and communes. Interested individuals, government officials and staff or representatives of organizations can use the information to compare and set targets across a range of public services.

Short-term improvements in local public service delivery and accountability are essential for the success of the Government of Albania’s decentralization strategy. Local political leaders and administrators face a range of significant challenges. Key among these is the transforming of local governments into effective and accountable entities. From the survey previously discussed, citizens were asked who they believed should be responsible for provision of the following services. Overwhelmingly, for basic services, such as water and roads, citizens hold local government authorities responsible (see Figure 5).

This reflects the growing concern in Albania regarding performance, as public agencies are held accountable for delivering more and more services, especially to the poor. Most accountability mechanisms for public agencies focus on inputs (such as the number of personnel, facilities, and expenditures) and occasionally on broad outcome indicators such as literacy and mortality rates. Beyond this arithmetic, little is known about the *quality* of services delivered by the public sector. For localities to function effectively (and to capture the potential efficiency gains) in an environment of increasing decentralization, it is essential that all stakeholders—from public agencies to individual citizens—at the local level are well-informed.

The Institute for Statistics is the sole institution in Albania that records and publishes standards; in
PERFORMANCE MEASUREMENT OF THE PUBLIC SECTOR IN ALBANIA

Box 3
Indicators Used in Elbasan

<table>
<thead>
<tr>
<th>Desired Outcome</th>
<th>Outcome Indicator</th>
<th>Baseline values (as of 6/2000)</th>
<th>Target 2001</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households are assured a minimum subsistence level</td>
<td>No. and % of citizens with income below poverty level that apply for social assistance compare with number of recipients</td>
<td>27% apply 5% receive</td>
<td>N/A*</td>
<td>Department records</td>
</tr>
<tr>
<td></td>
<td>No. and % of citizens with income below poverty level</td>
<td>23,283 citizens 19% of population</td>
<td>N/A</td>
<td>Survey</td>
</tr>
<tr>
<td></td>
<td>% of households with below poverty income that reported that are now above the poverty level because of public assistance</td>
<td>N/A</td>
<td>N/A</td>
<td>Survey of households and agency records</td>
</tr>
<tr>
<td>Service and health provisions for the disabled</td>
<td>No. and % of disabled people below poverty line</td>
<td>770</td>
<td>N/A</td>
<td>Survey</td>
</tr>
<tr>
<td>Orphans well-housed</td>
<td>Number of Children provided (a) decent housing and (b) decent care, by public assistance or NGO assistance:</td>
<td>130</td>
<td>N/A</td>
<td>Municipal statistical records</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% of children at risk</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elderly people are healthy and secure</td>
<td>Elderly people whose life was improved by public assistance programs last year</td>
<td>80</td>
<td>N/A</td>
<td>Agency records plus trained observer ratings</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Percent of elderly at ‘risk’</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Necessary information provided to poor families and marginal groups</td>
<td>% of different clients that feel they do not have sufficient information about social services</td>
<td>32%</td>
<td>25%</td>
<td>Survey of households</td>
</tr>
<tr>
<td>Successful targeting</td>
<td>% of cash benefits paid to households in the lowest income quartile (in survey, from households with annual income less than USD 700)</td>
<td>Survey data: 33% 50%</td>
<td>Survey of households and agency records</td>
<td></td>
</tr>
</tbody>
</table>

Intermediate Outcome Indicators

| Work conditions for administrators: | % of site visits cancelled due to risk | 20% | N/A | Agency records |
| Work conditions for administrators: | % of the work computerized | 30% | N/A | Agency records |
| Error rate: | % incorrect procedures followed by cashier | N/A | N/A | Random audit |

* N/A: Not Available

the future this institute will be a useful tool to gather, analyze and disseminate information for performance indicators, locally and nationally.

The benefits of developing a database are numerous. Most importantly:

- Local governments will see where they stand with respect to other local governments within each service sector—who enjoys, for example, high fee collection rates—as well as ideas on successful strategies ('best practices').

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5.2 Suggestions and Options

Local governments should be charged with collecting necessary data under the oversight of an independent inspection team. The agency housing the database might then maintain all municipal data and, in close cooperation with other stakeholders, such as national institutes or agencies, private companies and NGOs, produce a national average. The database would be made available to all interested, such as local and central governments and citizens. Some obstacles might arise in the process, such as:

• personnel training needs;
• cost and feasibility of this activity;
• legislative changes;
• resistance from program managers or officials;
• little participation from the private sector and NGOs;
• aggregation of outcomes across programs, services or sites; and
• political will.

Regardless of the fate of the national indicators database in Albania, it must remain clear that public services are for the benefit of the public—the customers of services—and not for the benefit of the service providers.

As mentioned, there are some prerequisites for a successful performance measurement system:

• data processing support;
• analytical support;
• support from all levels of government.
5.3 Recommended Steps to Measure Performance of the Public Services Locally

The implementation of the above-mentioned national strategy and related action plan has thus far focused primarily on reforms at the central level. However, as a result of the decentralization policy that is being finalized in Albania, more and more public services will (eventually) be delivered by local governments. Therefore, the government intends to expand its good governance efforts to the local level, by improving transparency and the quality of public service delivery to municipalities. It is expected that improved local service delivery to the population—particularly services related to public infrastructure and social services—will help increase the credibility of the government’s overall development strategy.

The tools described below are designed to encourage more transparency and accountability in local service delivery by supporting municipalities to develop their own strategies for performance measurement. Quite theoretically, this strategy can be implemented through the following steps:

**Task 1—Assemble a Performance Measurement Team**
A team approach to PM will help facilitate a shared sense of ownership among those who use performance measurement, and bring creativity and innovation into the development of each PM element. An effective team will have a balanced set of skills that include:
- experience in the relevant sector/sub-sector;
- educational background/training in the relevant sector/sub-sector;
- in-depth knowledge of the target country and an understanding of local conditions and habits;
- knowledge of performance measurement methodologies and best practices; and
- strong facilitation, analytical and report writing skills.

**Task 2—Develop Performance Indicators**
Reliable and timely data—and patience—are crucial. Performance indicators specify the data that the team will collect in order to measure program progress and compare actual results over time against what was planned. Outcomes and outcome indicators to be tracked should be developed primarily by the program, with input from upper level management to make sure the indicators are appropriate.

Team members and the selected local government units and their programs need to distinguish between and agree on outputs and outcomes. It should be clear for them that outputs are products and services delivered by the program, while outcomes are events, actions or behaviors that occur outside the program that the program serves to affect.

The limitations of PM information should be made clear to all personnel and users. Everyone involved with preparing and using performance measurement information should recognize that outcomes only tell what happened, and not why. Thus, outcome data alone should not be used to blame or praise a program or a service.

Performance indicators can also be used to orient and motivate operating staff toward achieving results and to communicate achievements to customers.

Performance indicators are used to observe progress and to measure actual results, compared to expected results. They serve to answer how and if an operating unit is progressing towards its objective, rather than why or why not such progress is being made. Performance indicators are usually expressed in quantifiable terms and should be objective and measurable (numeric values, percentages, scores and indices).

Also important is the development of a list of potential indicators. Determining appropriate potential sources of data will require conversations with people knowledgeable about various data sources (such as government statistical or service agencies, public opinion survey organizations, and university social science research centers). Meetings with these persons will help to understand:
- what data has already been collected;
- if existing data would be appropriate for a candidate indicator;
- if candidate indicators are relevant and feasible for the situation; and
- what alternatives are available.
Once the list of potential indicators is developed, each potential indicator must be assessed. The quality of a potential indicator can be assessed to determine if it is:

- direct;
- objective;
- adequate;
- practical;
- useful for management;
- reflecting progress toward achieving results; and
- disaggregated, where appropriate.

The next step is to narrow the list to the final indicators that will be used in the national performance indicators system. In Albania, selectivity proved essential, as costs were associated with data collection and analysis. The number of indicators used to track each objective should be limited and must be selected such that only those which represent the most basic and important dimensions of project aims are used.

Task 3—Identify Data Sources and Collection Methods
Data collection methods include:

- local government data units through public service or finance departments;
- databases of public agencies;
- focus group interviews (small-group, facilitated sessions designed to quickly gather in-depth information while offering stakeholders a forum for direct participation);
- key informant interviews (in-depth discussions with experts on a specific topic);
- informal surveys (these differ from formal, or sample, surveys in that they focus on few variables, and use a small sample size and non-probability sampling, and thus typically permit more flexibility to interviewers in the field); and
- formal surveys (a rigorous and detailed method of gathering information from stakeholders and others through direct questioning).

In order to track outcomes, the national team of performance indicators must surpass data currently available, and use as many data collections procedures as possible.

Performance information, particularly on outcomes, will be more useful if the data are broken down by key characteristics—such as by geography, demography or gender. This will provide major clues about existing problems and provide information on service equity.

Task 4—Collect Data and Verify Quality
Everyone needs information, but not everyone knows what to do with raw data. Data must be processed and synthesized before reporting and using. Sound analysis of performance data will provide useful information about what happened (against expected results) and why progress is or is not on track.

Properly planning how performance data will be analyzed, used and presented is at the heart of performance management. To plan for this, some key question should be answered:

- How will the data be analyzed?
- Who will be involved in the analysis?
- Who will use the data and for what purpose?
- How will the data be presented?

The best data collection systems are designed to be as simple as possible—not too time consuming, not unreasonably costly, but which provide good information at a frequency that meets management needs.

Therefore, practicality must be taken into account when selecting a data collection tool, such as the level of effort and resources required to collect and analyze the data. Selection of performance indicators in Albania was based on:

- data collection capacity and tradition in data gathering in Albania;
- access to government information;
- local government unit capacity;
- capacity of implementing partners, think tanks and academic institutions;
- public attitudes toward social data and surveys; and
- available data documentation.

Task 5—Establish Baselines and Targets
Baseline data and performance targets are crucial, as they are key reference points for assessing program
performance. When a team establishes performance targets, it commits itself to specific, intended results to be achieved within explicit timeframes. Each year, the team assesses performance by comparing actual results against these targets. Indicator or baseline targets of the most important indicators should be generalized and unified on a national scale. The process of establishing baselines and targets can be broken down into two sub-steps.

Establishing baseline measures for each indicator. A baseline measure establishes the reference point for the start of a program period. However, it will not always be possible to secure baseline data for a chosen year. In such instances, the baseline may be the most recent past year for which the relevant information exists or can be acquired. In Albania, the baseline information was inadequate, and it was suggested to public services departments to initiate a data collection effort as soon as their strategy was approved and the performance indicators they intended to use to judge progress were selected. The same applies for the national indicators database. The first set of data collected on these indicators becomes the formal baseline against which targets are set and future progress is assessed. For people-specific indicators, baselines should disaggregate data by gender and other relevant customer groups.

Establishing indicator targets. Once performance indicators have been developed and baseline data collected, it is needed to establish final and interim (usually annual) performance targets. Targets should be optimistic, but realistic. A common practice is to set targets that will encourage surpassing past performance. Collaborating with others who are knowledgeable about the local situation and about reasonable expectations for accomplishments is key to target setting.

The implementation of performance measurements for a specific process should involve as many cognizant employees as possible to stimulate ideas and reinforce the importance of collaboration.

As a process, performance measurement is not simply concerned with collecting data associated with a predefined performance goal or standard. Performance measurement is better thought of as an overall management system aimed at achieving conformance of the work product or service to customers’ requirements. Additionally, it is concerned with process optimization through increased efficiency and effectiveness of the process or product. These actions occur in a continuous cycle, allowing options for expansion and improvement of the work process.

5.4 Case Study: Performance Indicators in Korca, Albania

In Korca, local government plays a larger role in providing water and managing the water supply than elsewhere in Albania. Water supply is a state-owned company administered by the local government which, in the near future, is planned to be transformed into a joint stock company. A German company has been involved in the investment, and they have demanded that they deal with the local government as opposed to the central government.

Korca provides water services twice a day, from 6:00 to 8:00 in the morning and 3:00 to 7:30 in the afternoon. Service provision is sufficient, but the sector suffers from average losses of around 65%, due to technical reasons. Additionally, the local government is struggling to provide for a growing population. With the investment from the German company, the entire system will be overhauled and will develop a modified water fee.

Overall Service Level Objectives: To ensure the provision of an adequate supply of water that is free of health hazards and of satisfactory quality for household use.
### Table 1

*Desired Service Outcomes and Indicators (Sample Chart)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction</td>
<td>Customer ratings of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>water pressure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• taste</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• odor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• color</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% of customers complaining or requesting service who were satisfied with the handling of their complaints</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health concerns</td>
<td>No. of health-related water quality characteristics exceeding standards one or more times during reporting period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>'Pollution' occurrences/year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service adequacy</td>
<td>% of consumption metered</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of water line breaks/year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% of breaks repaired within x hours of notification</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% of customers reporting a high frequency of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• water pressure too low</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• bad taste</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• bad odor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• color (cloudy)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% of customers with access to water four hours/day or less</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Definition Baseline value 1999 2001 Target 2002 Source

### Inputs:
- Total service cost (including equipment, lines, etc.)
- Loc. gov. personnel, if applicable
- Subsidy
- Fees: Household meter
- Household flat rate
- State-owned institutions
- Private entities
- Investment

### Outputs:
- Quantity of water produced/year
- Quantity of water consumed (due to tech. Loss)
- % of population served/population
- # of customers (household)
- # of customers (institutions)
- # of customers (private entities)
- Meters of water lines maintained regularly/year
- Meters of water lines repaired/year
- # of households metered
- # of households at a flat rate
- # of institutions metered
- # of institutions at a flat rate
- Billing rate as a percentage of water produced
- Collection rate as a percentage of water billed
- Illegal connections (estimated)
- % of costs covered by fee

### Efficiency:
- Cost per cubic meters distributed
- Cost per customer served
- Number of meters read/inspected per employee/hour
- Estimated cost per # of customers indicating satisfaction with their water supply
- Accumulated arrears by type of users as a percentage of the annual billed tariff:
  - Households
  - Institutions
  - Business

With a baseline value and target value for these indicators, a national average can be developed to serve as standard (of comparison) for the future.
For a national database, these tables are integrated as such:

<table>
<thead>
<tr>
<th>Performance Targets</th>
<th>National Average 2001</th>
<th>City X 2001</th>
<th>City X 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of households who have access to water more than four hours/day</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of fee collected</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of citizens who rate the quality of the water as fairly bad or worse</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of households metered</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of businesses metered</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of citizens rating street name signs as fairly bad or worse</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of street lights per km or road</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meter of water lines repaired/broken lines</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost per customer served</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. CONCLUSIONS

Performance measurement is a timely initiative, which can both highlight the needs of users of government services, including the poor, and assist a government to ‘live up’ to its commitment to democratic principles: responsiveness; transparency; and accountability.

In order to deliver results, public sector agencies delivering services must come to think of citizens as ‘customers’ or ‘clients’—rather than as end-point ‘recipients’ or ‘beneficiaries’. This shift requires recognizing that the ‘voices’ of users must be attended to in the design, delivery and assessment of public services. Performance measurement is one means of collecting and presenting information on users’ views of public sector performance.

A key advantage of performance measurement is its participatory dimension, which ensures the incorporation of views from diverse stakeholders—including the poor and vulnerable. Performance measurement provides information on users’ awareness, access, use and satisfaction with publicly-provided pro-poor services. As well, PM systems are designed for decision-makers. Analysis of the data collected during the development of a PM system allows for the identification of: (i) key constraints the poor face in accessing public services; (ii) their views about the quality and adequacy of services; and (iii) the treatment they receive in their interactions with service providers (especially government officials).

In the above water supply example, the City confronted its own performance. Out of five districts, the supply was reasonably good in four, and very poor on one. As such, to build up the supply in the one lacking district, they planned to reduce the supply in the others. Citizens, however, voiced their opposition. The City was thus faced with a dilemma: to follow the majority, or to assist the needy. Two approaches were available:

- Encourage citizens to agree first on how to make decisions and the objectives for each service. For example, is the goal to provide a minimum level of service to all districts equitable, or to provide roughly similar levels of service to each district? With an agreement, the dilemma would be effectively solved.

- Provide performance measurement data on each service in question, by district, and than let citizens decide on what is fair.

With information attained through performance measurements, local governments are able to assess
service quality, as well as specific aspects of service, all the while supported by the input of citizens. Within any country—Albania being no exception—differences among communities necessitate individual approaches and PM systems. As a result, citizen’s needs will be addressed as effectively as possible.

Ultimately, political commitment to responsive government and the decentralization of political and economic resources are not sufficient to achieve improvements in service delivery. A local public sector must possess the practical means for both receiving citizen input and disseminating important information, as well as the capacity to develop and implement a comprehensive reform strategy. Performance measurement contributes to this.

Risks or obstacles inevitably remain—vested interests, for example, may resist greater openness and accountability and might complicate efforts to enhance accountability and transparency. However, judging from the initiatives undertaken by four municipalities in Albania, creative ways are being found to overcome such resistance.

ENDNOTES

1 The National Decentralization Committee and Group of Experts for Decentralization were and continue to be the leading structures of the decentralization reform. Both structures have been re-confirmed by the all Governments that have been constituted following national elections or/and changes because of other political reasons. Regional and local consultations have been organized for each of the draft laws prepared by the NDC/GED.

2 Both laws were approved by Parliament in February 2001, while the government adopted the necessary by-laws in August 2001. The process of transferring the immovable properties to Local Governments has already started.

3 Albania Decentralization Progress Report 2000; prepared by the Urban Institute, USA and Institute for Contemporary Studies; October 2001.

BIBLIOGRAPHY


Gauging Success

Ivana Jakir-Bajo

The System of Performance Measurement in the Croatian Public Sector

Performance Measurement in South Eastern Europe
The System of Performance Measurement in the Croatian Public Sector

Ivana Jakir-Bajo

1. INTRODUCTION

A good public sector is marked by a clearly-determined division of authority between central government and local government units. This division is also the first step to ascertaining the functions of the public sector and understanding the responsibilities of central and local governments in the provision of public goods and services. For this reason, it is important to analyze the current institutional organization in Croatia and to survey public functions and the sources of their financing. In short, the privatization of public and local corporations has enabled governments to direct the resources of the budget to the financing of the fundamental functions of the public sector.

In the public sector, there is an ever-increasing need to plan budgets according to programs and to measure performance. A questionnaire administered (see Appendix I) to a sample of 34 local units and seven ministries and other bodies of the national administration provides clues about the extent to which the Croatian public sector has adopted the principle of planning according to programs and performance measurement (PM).

Basically, performance measurement should help answer, in the end, to what extent the institutions of the public sector are effective in carrying out their basic functions. In Croatia, there is a sound database for working out performance indicators that should, in the near future, ensure that the aim of public sector management does not solely revolve around the execution of budgets, but is also result-oriented.

2. THE INSTITUTIONAL FRAMEWORK

In regard to performance measurement, efficient institutions with clear divisions of responsibility are key to effective management at both the local and central levels of government. This relates to the definition of clear aims, programs and individual activities leading towards the accomplishment of goals.

The Croatian public sector has changed dramatically since 1990, when the first independent institutions of government carrying out explicit governmental functions were created.

In the Constitution (1990, revised 2001) the government of the Republic of Croatia (RC) was organized upon the tripartite division of government, into legislative, executive and judicial branches. This principle of division involves forms of mutual collaboration and checks of those in authority as defined by certain laws. The Croatian Parliament (Sabor) is the legislature, and executive functions are carried out by the government in line with the Constitution and laws. The State Administration System Law1 defines the responsibilities of the State or national administration, which consist of the direct implementation of laws and making regulations for the implementation of them, carrying out administrative supervision, and other administrative and expert matters. The Organization and Sphere of Competence of Ministries and State Administrative Organizations Law (1999) defines the organization of ministries and administrative organizations and determines the sphere of competence of their work. Other decrees determine the internal organization and individual activities that certain organizational units are intended to carry out.

The Constitution guarantees the right to local and regional self-government. The Constitution of the RC does not expressly stipulate the nature of the activities of local units, nor does it say that local units have the right to determine their own functions. The Constitution limits the sphere of influence of the local units through laws (the principle of subsidiarity,
according to which local units are not allowed to determine the functions they are to carry out apart from those defined in the law). Pursuant to the provisions of the Constitution, Parliament passed three main laws regulating the functions of local units: the Local Government and Self-Government Law (1992), the Self-Governing Sphere of Competence of Units of Local Government and Self-Government (1993), and the Communal Economy Law (1995).

According to the Local and Regional Self Government Law, općine and gradovi (communes and cities) are responsible for the provision of the following services: pre-school education; kindergartens; water supply; waste treatment and removal; gas supply; heating; street cleaning; cemetery maintenance; street lighting; public transport; economic development; and zoning. Limited sources of financing present the main obstacle for needy local units; as such, poor local units can share their obligations to carry out these functions with županije (counties) or with other local units.

Županije carry out activities aimed at the even economic and social development of local units in their area. They coordinate the development and network of educational, cultural, healthcare, welfare, communal and other institutions, and of infrastructure facilities that are important for the area of the country as a whole. Županije also carry out jobs transferred from gradovi and općine, such as setting up public organizations and other legal entities for the purpose of accomplishing the common aims of communities, cities and the county.

Via public (communal) corporations, local units are responsible for the following services: drinking water supply; gas and thermal energy supply; public transit systems (transport of passengers on lines within zones that are determined by the units of local government); the maintenance of cleanliness; depositing communal/household waste; maintaining public areas, unclassified roads (which are used for transportation), retail markets, cemeteries and crematoria; carrying out funerary; chimney sweeping matters; and street lighting (managing and maintaining street lighting facilities and plant).

Nevertheless, from 1991 to 2002, a clear division of authorities for the undertaking of certain activities and the clear division of functions between central and lower levels of government did not fully manifest. Because of the existence of main institutional problems—namely, the constant overlapping of authorities and responsibilities—the problem of how to check and supervise the efficient provision of public services at all levels of government has remained.

3. FUNCTIONS AND THE PROVISION OF PUBLIC GOODS AND SERVICES

The fundamental problem for measuring performance in the accomplishment of certain goals is the lack of clearly divided functions and authorities for financing, which complicates the ascertainment and quantification of the performance of the program and the accomplishment of general objectives. For this reason, this section offers a review of public sector functions and the sources of financing.

The fundamental functions of the public sector. The majority of functions of the public sector is financed via the national budget and the extra-budgetary funds. In 2000, the expenditure of the public sector came to 49 percent of GDP. The biggest part of this (as much as 43 percent) relates to the central government, and six percent of functions are financed from the local unit level (Table 1). Fundamental functions are centralized by the level of the government, although since 1991, questions have been raised about the direct authorities for financing and about authorities for carrying out given functions. The fundamental functions of the public sector carried out by the central government are defense, public safety and order, education, health care, and the welfare and assistance systems.

Welfare functions. Until 2001, most welfare functions were centralized at the central government level; the central government provided the means for the financing of functions through the extra-budgetary funds. Since 1 July 2001, the following functions have been decentralized: primary and secondary education; welfare; and health care.

Additionally, until 2001, Croatia maintained five extra-budgetary funds for: pensions; health care; employment; child benefit; and the Croatian Water Public corporation. Extra-budgetary funds are legal entities that are financed from special purpose taxes’ contributions and non-taxation revenue as well as transfers from the national budget.

The operations of the funds are strictly purpose-related and non-profit-making, and are carried out...
according to a financial plan adopted by their competent body with the prior consent of Parliament. In drawing up their financial plans, the extra-budgetary funds apply the classification system of budgetary accounting, and the procedure and timetable of the making of the budget.

Since 1 July 2001, the Pension Fund has been incorporated into the budget, along with the Healthcare Fund (1 January 2001). According to IMF recommendations, all the extra-budgetary funds ought to be incorporated into the national budget and the programs of pension and healthcare funds carried out through the central state ministries. However, this concept for pulling the extra-budgetary funds into the national budget has been offset by the foundation of two new extra-budgetary funds—the Regional Development and the Development and Employment funds. In the past ten years, extra-budgetary funds have had only outline financial plans, which do not contain any development projects; in addition, the criteria according to which they evaluate projects are unknown (Klepo, 2002: 24).

The basic criticism here is that (within the framework of given functions) there are no mechanisms for evaluating, monitoring and reporting on the effects of government activities. Enormous resources are spent, without any knowledge of how or if the objectives and tasks for which they were used have been achieved, or whether they need to be changed. Certainly, the question is how, institutionally, to organize this monitoring.

Public functions shared among the levels of government. In Croatia, a large number of laws regulate functions; as such, it is impossible to define precisely those principally in charge of various functions. Determining functions requires regulations that overlap and are proposed and adopted by competent governmental bodies.

Public sector functions are centralized. This is the result, primarily, of regional and internal conflict and strife, which led to the increased centralization of functions; functions were financed via the central government, the State budget, and the State ministries.

<table>
<thead>
<tr>
<th>Table 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government Expenditure by Function in Croatia, 2000</td>
</tr>
<tr>
<td>Central Government</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>General government services</td>
</tr>
<tr>
<td>Defense</td>
</tr>
<tr>
<td>Public order and security</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Health care</td>
</tr>
<tr>
<td>Social security and social assistance</td>
</tr>
<tr>
<td>Housing and communal services</td>
</tr>
<tr>
<td>Recreation, culture and religious affairs</td>
</tr>
<tr>
<td>Agriculture, forestry, hunting, and fishing</td>
</tr>
<tr>
<td>Mining, industry, and construction</td>
</tr>
<tr>
<td>Transport and communication</td>
</tr>
<tr>
<td>Other economic affairs and services</td>
</tr>
<tr>
<td>Other expenditure</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

A more urgent need for the decentralization of functions has emerged since 1995, as debates about decentralizing the financing system began. Until 2001, the government primarily decentralized expenditures, without clearly defining the system of revenue or a proper and well-established system for transfers to local units. From 2001, there have been initiatives for fiscal decentralization, but these initiatives are still not adequately accompanied by well-informed proposals for the provision of financial resources, nor by any quality inter-budget transfer mechanism. Yet in spite of the numerous overlaps in functions and financial relations among individual levels of government, it is still possible to sketch the division of functions among the levels of government up to 2001 (Table 2).

<table>
<thead>
<tr>
<th>Function</th>
<th>Central Government</th>
<th>Općine (Communes)</th>
<th>Gradovi (Cities)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General public (administrative) services</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>2. Defence</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Public order and security</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Education</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>4.1 Pre-school</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.2 Primary</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>4.3 Secondary</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>4.4 Tertiary</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Health care</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>6. Social security and welfare</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>7. Housing and communal affairs and services</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>8. Recreation, culture and religion</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>9. Agriculture, forestry, hunting and fishing</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>10. Mining, industry and construction</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>11. Transport and communications</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>11.1 Roads</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>11.2 Railways</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.3 Air transport</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Other economic affairs and services</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: Ott and Bajo (2001)

In 2001, the process of fiscal decentralization finally began, and new responsibilities for financing were placed upon local units. This marks the first phase of decentralization in which authority over financing education, health care and welfare were transferred to local units (counties and major cities). Expenditure was also decentralized, particularly the authority to finance current and investment maintenance (Table 3).

Public corporations and the direct provision of public services. A general feature of the public sector in Croatia is the insistence on the constant privatization of public corporations, the activities of which are not directly linked to fundamental government functions. Thus, since 1998, privatization of a major system like telecommunications has already occurred; in 2001,
Table 3
Decentralising of expenditure in 2001

<table>
<thead>
<tr>
<th>Functions</th>
<th>Kinds of expenditure</th>
<th>Authority for financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>• Primary</td>
<td>cities and counties</td>
</tr>
<tr>
<td></td>
<td>• material costs for primary schools</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• investment maintenance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• procurement of equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• pupil transport</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• capital investment in school premises and equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Secondary</td>
<td>counties and the City of Zagreb</td>
</tr>
<tr>
<td></td>
<td>• material costs of secondary schools</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• employee transport</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• supports for co-financing of accommodation and food of pupils in hostels</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• investment maintenance of schools</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• procurement of school equipment</td>
<td></td>
</tr>
<tr>
<td>Welfare</td>
<td>• material expenditure (office and other materials)</td>
<td>counties</td>
</tr>
<tr>
<td></td>
<td>• energy and communal services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• current maintenance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• financial expenditure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• miscellaneous expenditure</td>
<td></td>
</tr>
<tr>
<td>Healthcare insurance</td>
<td>• investment maintenance of healthcare institutions</td>
<td>counties</td>
</tr>
</tbody>
</table>

Source: Amendments to the Financing Local Government Units Law (OG 59/01).

plans were made for the privatization of other major public corporations dealing with petroleum, electricity, the oil pipeline, shipyards and the remaining (minor) part of the financial sector (insurance companies and banks) still owned by the government.

Practice shows that such public corporations constitute a burden on the central government budget, which constantly must finance their losses. Most public corporations are not run according to the entrepreneurial principles of profit-making, and the government has proven to be a failure as a manager. For this reason, many public corporations are being handed over to private sector management and budgetary resources are being redirected to concrete projects related to the fundamental functions of the public sector.

Local public corporations. Until 1995, the financing of communal activities in the areas of local units was affected by the so-called ‘fund system’. Communal activities funds, as they were called, possessed their own assets and carried out communal activities on the basis of their own revenue (charges). In 1995, the fund system of financing was abandoned, and local units established public corporations—non-profit making institutions to perform certain communal matters. Many of these up public corporations were responsible for waste management, water supply, and other communal activities that were financed out of their own revenues (charges). However, as well as using their own resources for the financing of communal activities, these companies are also financed from the budgets of local units—through transfers, losses and the liabilities that firms cannot afford with their own resources. The position of communal companies becomes additionally complex; with company status, their non-profit-making activity changes into a profit-making activity. The problem is that there is no clearly-defined ownership of such companies, or clearly-defined financial rights and obligations vis-à-vis the budget of a local unit. The privatization
of local public companies continues, but remains in the shadow of the privatization of national public corporations. On the whole, there is insufficient information about the privatization of local communal companies, but it is fairly noticeable that, in numerous cases, companies that deal with passenger transport are being privatized.

**Box 1**
The Definition of General Government in Croatia

The general government consists of: a central government, extra-budgetary funds and local government units. According to the IMF (GFS, 2001), a new, broader definition of general government (including indirect budgetary users) is used. The current fiscal reporting arrangements enable the Ministry of Finance (MoF) to keep track of the utilization of funds originating from the central budget—except in the case of indirect budget users (IBUs), to which transfers of funds are still being made (as opposed to the settlement of their bills). The MoF tracks local governments’ budget utilization—with the exception of IBUs, whereby only the transfers to these entities is recorded, not the final use of funds. In most cases of IBUs, the revenues that these units are able to raise and retain for their own use (user fees, service fees and other types of cost recovery activities), as well as the use of these funds, are not included in the fiscal reporting systems currently in place. In Croatia, IBUs include hospitals, schools, universities, museums, galleries, theaters, kindergartens, social welfare centers and elder care homes. Their establisher is either the central government or a the local government, they have a separate legal entity status, and are generally supervised by a governing board.

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**Central Government**

- Ministries and constitutional bodies (principal budget users)
- Agencies and other DIRECT budget users of the Central Government budget
- Social security funds merged with the Central Government budget and subject to treasury control
- Other funds (budgetary and extra-budgetary) not subject to treasury control
- Independent agencies (such as FINA) with their own sources of revenue or earmarked taxes.

**Local Governments**

- DIRECT budget users of Local Governments
- Budgetary and extra-budgetary funds of local governments
- INDIRECT budget users of Local Governments (IBU3): Independent local government owned entities serving a public policy function funded mainly from Local Government budgets, with varying degrees of retained revenue raising capacities.

**INDIRECT budget users of Central and Local Governments (IBU2):** Independent central or local government owned entities serving a public policy function funded from both Central and Local Government budgets, with varying degrees of retained revenue raising capacities.

4. MEASUREMENT OF PERFORMANCE

In the relevant literature, performance measurement is defined as the constant monitoring of and reporting on the performance of programs aimed at the accomplishment of goals that have been set. Performance measurement shows whether a program has met its basic purpose or aim. From a wider point of view, performance measurement lets public sector institutions monitor progress achieved in the implementation of programs and provides managers in the public sector with information that is necessary in the decision-making process. This indirectly also measures public sector management performance.

Before starting to analyze the question how progress that has been achieved can be measured, it is necessary to seek answers to three questions:
1) Where are we now?
2) Where do we want to be?
3) How will we achieve this?

Answers to these questions can be found through strategic planning—the basic precondition for determining performance.

4.1 Strategic Planning

Strategic planning is a long-term (future-oriented) process of assessment, the establishment of goals and the construction of a strategy to link the current situation to a vision of the future (California State Office of Finance, 1998). Strategic planning relies on the careful consideration of organizational capacity and the environment, and leads to a better allocation of resources (according to priorities or some other decisions).

Strategic planning, logically, includes the process of drawing up a strategic plan. A strategic plan points to the main directions of activity and how funds are to be provided for its implementation. It is obvious that a strategic plan must be tied to a budget for its financing and implementation to be ensured. However, the allocation of resources without a settled strategic plan (which gives directions for allocation) shows the existence of short-sightedness and a lack of responsibility in regard to the future. A strategic plan, then, leads and directs the budgetary cycle and helps public management in the allocation of resources. It allows for the correction of wrongly made decisions in the allocation of budgetary resources pursuant to the use of performance measurements, which are an integral part of the long-term process of strategic planning. It is precisely this interactivity of strategic planning and budgeting that gives public sector management a chance to re-evaluate existing resource allocation.

The system of three-year budgetary planning in Croatia cannot be called strategic planning. Until 2000, there was no long-term planning at all, although the Budget Law (1994) laid down the obligation to make three-year plans. In 2000, the central government began to implement the concept of the three-year plan of the budget founded on macroeconomic policy indicators in a three-year period. However, along with the basic aim of macroeconomic policy, defined as the preservation of macroeconomic stability, the budget is also directed only to the realization of the planned amounts of revenue and expenditure and the established levels of government borrowing. The situation with respect to local government is similar.

There are relatively few institutions that draw up strategic plans for the medium-term period of three to five years, and there are no long-term plans at all. In many cases, strategic planning is influenced by foreign lending institutions that ask for clear medium-term programs; with such programs, money is immediately made available.

The basic components of the strategic plan are: the mission; the overall goal and the separate objectives; the activity plan; performance measures; the monitoring system; and the performance report.

The mission identifies the basic function or assignment of the local unit, ministry or other body of the national administration. Primarily, it is a written statement about the basic purpose of the founding of the budgetary institution with which all employees are (or should be) acquainted.

Until 2002, a defined mission could be found more often in local government units than in the State administration. During 2002, the situation owing largely to the Ministry of Finance (NoF) initiative to ‘force’ all ministries and agencies to define their missions. As far as either a local or central government institution is concerned, the mission mostly reflects the statutorily-prescribed sphere of competence of budgetary institutions.
Box 2
Mission Statements in the Republic of Croatia

According to the results of the questionnaire, 70 percent of budgetary institutions believe they have a defined mission. This result is higher than expected; most employees do not, in fact, know what a mission really means. The mission is most often confused with the legally-defined sphere of competence of work. That employees are not cognizant of the meaning of the mission is shown by the case of one local unit in which one questionnaire respondent wrote that the local unit did possess a defined missions statement, and another employee answered that it did not.

From the point of those employed in the public sector, a mission can be described as an ‘invisible hand’ that guides them in the independent performance of their work and points them collectively toward the accomplishment of the goals of the institution.

Box 3
Mission of the City Administration of the City of Rovinj

The city government of Rovinj has been authorized by citizens continuously, via their activities and services, to improve the quality of life and work by offering excellent services, facilitating participation in decision-making, responsibly managing public goods, and ensuring the free flow of information and, above all, the courteous, efficient and transparent work of the administration. Such activities will help Rovinj to become a pleasant and safe city. The city administration will endeavour always to be at the service of its citizens (Town Hall).

Goals lead to the accomplishment of desired results. Goals—set at the institutional level—should be accomplished via activities and/or projects unified into programs. Before the beginning of the measurement of each individual, it is necessary to work out from the strategic plan (set at the organization level) detailed plans for each program. The overall goal and the separate objectives are included into the detailed plan, as well as the resources needed and the indicators to be used in performance measurement, as a written analysis and statement of reasons for budgetary resources.

There are public sector institutions in Croatia which define programs, along with the general and specific goals' and plan resources needed for them. However, seldom are those goals are linked to performance measures. The same follows for local government units (see Appendix II: City Rovinj).

Goals create a hierarchy; each goal should be supported by other, ‘lower’ goals (Weihrich and Koontz, 1994: 143). More concretely, the goal at the level of the institution (contained in the strategic plan) is superior to the goals of separate programs. If goals are not linked as such, one section of an institution might benefit, but not the institution as a whole.

One need not strive to measure every goal that has been made. Priorities should be established, and the key goals measured—only those that are essential in the decision-making process and the fulfilment of the (hierarchically-determined) overall goal. There must be a similar approach to the gathering of information necessary as inputs for the definition of performance indicators.

Programs refer to a set of independent but closely related activities that contribute to the accomplishment of goals held in common (Allen and Tommasi, 2001: 126). A program in general contains several activities and/or projects. The concept of a program within the framework of the budgetary system can be used as a term for a group of specific activities or an element of the system of the classification of budgetary expenditure.

When a program is a category of the classification of the budget, then all expenditures are classified into programs; the budget is then described in terms of programs. Only in this case can real strategic planning of the budget and performance measurement be discussed, since all the activities of the institutions are covered, and it is possible to link plan and budget together. A budget in terms of programs focuses on the results of each program. Results must be documented, which clearly enables the establishment of responsibility for the implementation of programs.

In the Republic of Croatia, programs appear as specific activities (Appendix II), while in the very near future (by 2005) the government intends to shift to the construction of the budget according to programs. The basic precondition for this shift is the education of personnel, which the MoF began to carry out at the end of 2001—though only at the level of ministries and bodies of the national administration (and not at that of local units). According to the results of the questionnaire, programs from the areas of the economy, communal infrastructure, welfare,
recreation and education are planned, mostly for a period of one to three years. One interesting answer should be noted: an individual within the State administration commented: “Programs are planned at request: for three years, though realistically, for one year.” In other words, it is only on paper that the three-year approach to planning has been adopted.

Each program must have a comprehensive overall goal and separate objectives.

The overall goal indicates the general results to be achieved. A program generally has one general or overall goal. For long-term programs, the general goal must be constant, which means that it should not be changed every year. The general goal does not state the methodology for the accomplishment of the goals—this is laid down in the descriptive part of the program and in the titles of activities.

Each program must contain one or more objectives. Objectives are short-term goals that recognize an advance towards the overall goal. Each objective should be measurable and achievable, meaning that it is attainable within the given time period and with the resources allotted to it.

After the definition of the mission and the desired result follows the designing of the measurement of performance. Performance measurement shows whether the program has fulfilled its basic purpose or goal. In order to achieve this understanding, numerous indicators are employed.

4.2 Performance Indicators

Indicators are means that help in the evaluation of performance as against the previously set goals. Performance indicators assist in the attainment of a clear picture of the implementation of a program. It is rare that only one indicator of the performance of a program is used. A series of key indicators is developed, and they facilitate an estimation of the performance. The basic indicators are used for the purposes of this research include:

- **Inputs** have an important role in the calculation of costs. The basic question that arises in the analysis of these indicators is whether the resources allotted are intended for the accomplishment of the goal of the program. Such indicators are easy to identify. However, on the basis of these indicators alone it is not possible to conclude whether the program has fulfilled its goals.

- **Outputs** indicate the quantity of goods or services produced by a program, such as the number of grants given to commune, or the number of inspections performed.

- **Efficiency measures** indicate the cost per unit of services or goods provided, or the productivity of an input. They are used in evaluating different methods of service delivery or producing goods. They are expressed as ‘unit cost per output’, ‘unit cost per input’ and ‘cost per outcome’ (for example, the cost per inspection of the water supply system, or the cost of additional capacity per capita).

- **Outcomes or results** show the degree of effectiveness of a program in the solution of a problem or the accomplishment of some desired result. They are used as indicators of whether a program is effective, properly set up, well-managed and whether the resources allotted to it are adequate (for example, the percentage of the population that is literate, or the incidence of illnesses caused by contaminated water per 10,000 inhabitants).
According to the results of the questionnaire, the most frequently used indicators are output indicators and efficiency measurements. Outcome or result indicators can be found very infrequently in practice and are the hardest to obtain. As well, the data used to calculate them are very complex and rely on the effective networking of an entire system. They are possessed only by systems that have already been developed, with stable output and efficiency measurement indicators. Importantly, while measuring performance of activities, complex performance indicators can generate costs that exceed benefits.

In Croatia, outcome or result indicators are found only sporadically; the development and use of them depends on the initiative of given individual institutions. For example, Ministry of Maritime, Transport and Communication started to work on a project to develop and implement a quality system according to ISO 9001:2000 and ISO 9004:2000 standards. Development of performance indicators comprises one of the phases in setting up this system. The drawing up of this project inside the Ministry of Maritime, Transport and Communication required vision and managerial support necessary to recognize benefits, and involved initially high costs.

The lack of financial resources should not be a limitation for the development and implementation of performance measurement. The performance of a single activity—or even only a part of an activity—can be measured. Initially, it is not necessary to simultaneously monitor the performance of all activities of a single organization. The Ministry of Maritime, Transport and Communication, for example, developed a range of performance indicators, from the most simple to the outcome or results oriented indicators, for three activities (including issuing of sailors licences and certificates for ships and boats) in order to comply with international and ISO 9001:2000 certificate requirements.

### Box 6
Developing Indicators and in the Republic of Croatia

According to questionnaire results, 58 percent of budgetary institutions use some performance indicators to measure progress made in the implementation of programs; a more realistic figure is around one-third. The most commonly used indicators are: number of cases; number of newly-employed persons through programs to stimulate SMEs; number of meals served in soup kitchens; percentage increase in the number of the population with sewage connections or water supply, per capita cost of taking care of trash; percentage by which indebtedness is reduced; and the area of space handed over to end user for use.

Budgetary beneficiaries that do not use performance indicators give as their arguments:
- a different manner of monitoring programs implementation (64 percent of respondents); and
- monitoring program implementation is of little importance or relevance (27 percent).

Such results were to be expected, as some respondents were previously unaware of the concept of performance indicator, and the programs that they do monitor are actually met with rapid and visible feedback (the construction of a water supply network, for example).

#### 4.2.1 Possible Sources of Information for the Creation of Performance Indicators

A good information system is the basic premise for developing performance indicators. In Croatia, there are many sources of information that could be used as a sound base for the calculation of performance indicators. For the purpose of the reduction of costs, the existing sources of information should be used as much as possible. These are

- information from the financial and accounting system;
- financial reports;
- regulation auxiliary records (records of government guarantees);
- statistical reports of the National Statistics Office;
- the guidelines of the MoF used by local units in the preparation and drawing up of the budget; and
- reports of the FINA (Financial Agency).
However, these sources of information are still not used to a sufficient extent in Croatia. There are many reasons for this. Even if the lack of a budgeting in terms of programs is ignored, there are still programs that constitute specific activities from particular functional areas such as environmental protection, housing and communal affairs, health care, recreation and culture, education, and social security. Until 2002 (and the reform of the whole accounting system), these programs could not be monitored simply in terms of accounting costs.

Many projects and programs are run in institutions that are not included or recorded in the budget, such as the Croatian Bank for Reconstruction and Development. Additionally, ministries are not able to monitor the execution of individual programs and projects they finance, and they lack a developed system of indicators to ensure the monitoring of individual projects in terms of execution phases. Moreover, there are no systematic programs (programs for public investment, for example), and no survey of financing has been made (by source, completion period, execution phases, and so on). All of this is accompanied by inadequate collaboration among State institutions and a generally poor exchange of information. Interestingly, facts and figures are seldom exchanged even among sections of the same government institutions.

Thus, the following indicators reflect poorly on the management of the public sector:

- no objective evaluation of the performance of individual programs;
- limited establishment of responsibility for performance;
- limited development of an appropriate basis for the improvement of the goods and services provided; and
- minimal identification of improvements in performance or motivation among those employed in the public sector.

As a result of this, performance indicators cannot be used as a means for comparing the performance of particular phases of a program. Hence, there is no comparison among the goals established, the standards, the performance of previous years, similar programs of other institutions in the public sector (ministries, agencies), and with the private sector.

### 4.3 Performance Report

Legislative and executive bodies of the national government must have information about how budgetary institutions (via the national budget) and local units (through the local units’ budgets) use available resources. Practice shows that the existing information that they obtain is not suitable for monitoring performance of the main goals, programs, activities and projects. Thus, the information that is provided by the Budget Execution Report (whether the sums allotted were used for the purpose laid down in the plan) and the report of the State Auditing Office (showing divergences and irregularities in the use of the budgetary resources) are not adequate to obtain a true picture of the performance of public sector functions.

The central government, through the legal provisions, now seeks to have the quantity, purpose and course of resources spent monitored. Nevertheless, there is still not enough information about performance in terms of the efficiency, effectiveness and quality of public goods and services provided (how many public goods and services have been produced, the price and the costs, or the raising or lowering of quality). Unfortunately, information about performance is currently not published in a special report, and there is still no law or regulation stipulating that any performance report be drawn up. In such a report, the budgetary institutions should give the results and analyze their performance as against their goals. If the goals have not been met (or if it was impossible to meet them), the institutions should be able to explain the reasons for the discrepancy.

### 5. CONCLUSION

The development of a performance monitoring system is based upon the identification of overall goals and separate subordinate objectives; on the choice of performance indicators that are used for each individual program; on the sources of data necessary for the calculation of the indicators; and on the system for
reporting about program performance as compared with the defined objectives.

Is there a system for monitoring performance in the institutions of the Croatian public sector, and if so, to what extent?

In Croatia, the principle of monitoring public sector functions in terms of measurement criteria and the quality of the goods and services has not yet been completely adopted. The basic reasons for this can be found in the overlapping of authorities for financing, in the various sources from which public functions are financed, the small number of programs that possess clearly-defined objectives and, ultimately, the lack of understanding of the needs for and importance of introducing a system of performance measurement. The development of performance indicators in such conditions is rather difficult and the indicators are only sporadically applied to some of the budgetary institutions and local units.

In 2001, through the decentralization of some of the functions to local units, the State wished to ensure a higher quality provision of services in education, health care and welfare. The results of a survey carried out show that it is not at all possible to say whether the quality of services in these functions has actually increased or not, because performance indicators for programs in the school, healthcare and welfare systems have not been developed to any extent. Performance indicators are used partially, and only in housing and communal affairs, sport and recreation, culture and economic affairs.

With respect to the Croatian public sector, the question still remains of how to apply a performance measurement model if strategic planning is not used, if there are no strategic plans and when the transition to a budget according to programs is only in the preparatory phase.

It is certainly necessary to begin from the local unit and local budget level, because of the greater flexibility than in the institutions of the central government. Local units should develop a system of performance measurement for the existing programs (sets of specific activities). This would cover all activities, from the definition of the objectives of programs, to the definition of what will be measured, and which performance indicators will be used.

At the beginning of each budgetary year, it is necessary to set up objectives for each indicator. The indicators would enable a comparison of the way programs of the same nature are performed in different local units, and also a comparison with the results from previous periods. If a system of performance measurement were introduced at the local level, the quality of the delivery of goods and services would be improved, and the confidence of citizens in local government would be enhanced.

At the level of the central government, the preconditions for budgets to be drawn up according to programs should be created, and the public should be shown what a given budgetary agency plans to do and how well it is putting the planned programs into practice. Such a budget should provide for a better understanding of the consequences of decisions to spend budgetary resources.

There are various sources of information that can be used to measure performance in Croatia. Still, institutionally, there is still no adequate inducement for information to be exchanged and used in the practice of measurement. All this is more than enough reason for public sector reform to remove these shortcomings, which will create the foundation for the monitoring of the performance of individual public sector programs.

The MoF has sought to define a clear legislative framework to enable, and to make mandatory, performance measurement. Since 2002, a new system of classification has been in use (economic, functional and institutional). In the coming period, it is necessary to introduce a fourth classification—that of programs. Program classification and program budgeting will ensure a solid base for the development and use of performance measurement indicators. Only then will it be possible to obtain answers about the results of the use of budgetary resources.

The need to measure performance in the public sector in Croatia is uncontroversial. Yet, understanding of the importance of its application must emerge from the top-management of the public sector. However, in the process of public sector reform, it is very difficult to change the way public sector management grasps the need for the acceptance of responsibility.
ENDNOTES

1 Amendments published in OG 75/93, 48/99, 15/00, 127/00 and 59/01.
2 By amendments in 2001 (OG 33/2001) renamed the Law on Local and Regional Self-Government
3 Amendments to the Communal Economy Law OG 70/97, 128/99, 57/00, 129/00 and 59/00.
4 Communal Economic Law (OG 36/95)
5 For example, the mission of the courts is the interpretation of the law and the enforcement of them, the mission of a university is teaching and research.
6 For local units, the sphere of competence is prescribed by the Local and Regional Self Government Law, charters, decisions made by the local councils. The sphere of competence of the work of ministries and other bodies of the state administration is laid down in the National Administration System Law and decrees about the internal organization of ministries, and government agencies and offices.
7 cf. http://www.rovinj.hr

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Constitution of the Republic Croatia (OG 56/90 and 41/01).
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The Self-Governing Sphere of Competence of Units of Local Government and Self-Government (OG 75/93).
The State Administration System Law (OG 75/93, 48/99, 15/00, 127/00 and 59/01).
Financing of Local Self Government and Administration Units Law (OG 117/93 and 33/00).
APPENDIX I

Questionnaire

Measuring the performance of programs in ministries and other bodies of the state administration and in units of local and regional self-government.

This questionnaire is meant for civil servants and managers in finance and budget administrations of ministries and other bodies of the national administration and for heads of finance sections in units of local and regional self-government. The questionnaire has two main objectives:

1) To ascertain the degree to which planning terms of programs is applied; and
2) To analyse the manner and frequency with which program performance is measured.

Please answer the questions asked objectively and accurately. Information derived from the questionnaire will be used only for the purposes of analysis.

1) Do you plan special programs (please circle the answer)?
   Yes     No

1a) If the answer is Yes, in the framework of which functions are these programs carried out (please circle one or more answers)?:
   a) economic affairs
   b) environmental protection
   c) housing and communal affairs
   d) health care
   e) recreation, culture and religion
   f) education
   g) social security
   h) miscellaneous

2) For how many years ahead do you plan programs?:
   a) for a year
   b) three years
   c) five years
   d) for the whole length of the program
   e) anything else

3) What are some of your major programs?
4) Does the organizational entity (ministry or other body of the national administration or local unit) in which you work have a defined mission, i.e., a written statement about the basic purpose for which it has been set up (please circle)?

Yes     No

5) Every program should have a general goal and one or more objectives. For example:

Program: improvement of the waste and bulky waste collection system.

Goal: to provide containers for sorted waste by 2005.

Objectives: to provide on average one container for organic waste per 250 inhabitants by 2003; to complete the positioning of 30 containers for glass and paper for an additional 2,000 inhabitants by 2003; and to reduce the number of unregulated dumps (current situation: 30 dumps) by 50 percent by 2003.

You define goals (please circle one answer or several answers):

a) in the way given or a similar way
b) you only set up a general goal, not separate objectives
c) you do not define them in terms of measurable units
d) you do not define them in terms of time
e) you do not define the goals of the program at all
f) anything else

6) Every program consists of a number of activities. While defining the program, did you ascertain the individual activities required in the implementation of the program (please circle the answer)?

Yes     No

7) Indicators are means that help in an evaluation of the performance of a program as compared with the previously defined goals.

Some examples of indicators: number of inspections carried out, number of patients examined, number of cases handled, percentage of local population with mains water, cost of collecting waste from unregulated dumps.

The most frequently used indicators are: cost per unit of product or service provided.

Do you use any of these indicators to measure progress in the implementation of a project (please circle)?

Yes     No

7a) If the answer is yes, please give some examples:
7b) If the answer is No, say why:
   a) there have been no official requirements
   b) we monitor the implementation of programs in a different way
   c) we do not think this important for the monitoring of the implementation of a program
   d) anything else

8) What is the manner in which you monitor and evaluate performance of a program?

9) Do you make a program performance report (please circle the answer)?
   Yes    No

9a) If the answer is Yes, state to whom you supply it.

General information:

10) Position of the person who has filled in the questionnaire

11) For which ministry or other body of the national administration has the questionnaire been filled in?

12) Local or regional self-government unit for which the questionnaire has been filled in (please circle):
   a) county
   b) city
   c) commune

13) Size of local or regional self-government unit (population size, budget size):
   population
   size of the budget for 2001
APPENDIX II

The Communal Infrastructure Maintenance Program for 2002

I

This program defines the maintenance of the communal infrastructure in 2002 in the area of the City of Rovinj:

- drainage of atmospheric water;
- cleansing in the part that relates to the cleansing of public areas;
- maintenance of public areas;
- maintenance of cemeteries;
- maintenance of unclassified roads; and
- street lighting.

The program as defined in Paragraph 1 of this article is determined by:

- a description and the scope of the work of maintenance with an estimate of individual costs, in terms of industries and activities; and
- a statement of the financial resources for the implementation of the program, with an indication of sources of financing.

II

In 2002 the maintenance of communal infrastructure as defined in Chapter 1 of this program in the city of Rovinj includes:

1) Drainage and disposition of waste water:
   - regular maintenance and cleaning of the sewers twice a year; and
   - cleaning the fountains—in the winter—once a week, in spring and autumn twice a week, and in summer every other day or according to order.

The funds for carrying out the works stated in Item 1 are estimated in the amount of 150,000 kuna and will be financed from the communal charge or from the budget of the city of Rovinj.

2) Maintenance of cleanliness in the part that relates to the cleansing of public areas:
   - regular cleansing of public areas (squares, pedestrian zones, public thoroughfares, public roads that go through a settlement)
     a) City centre (to Trg na Lokvi):
        - cleaning nine months in the winter—6 times a week; and
        - cleaning in the summer months—every day;
     b) Rest of the city:
        - cleaning with a mechanical sweeper in winter once a week; and
        - cleaning with a mechanical sweeper in summer twice a week.

Resources for the execution of the work as defined in Item 2 are estimated in the amount of 2,100,000 kuna, and will be financed from the communal charge or from the budget of the city of Rovinj.

3) Maintenance of the public green areas, keeping up the parks and maintenance of beaches:
   a) regular maintenance of public green areas:
      - mowing grass, removing withered bushes, branches, pruning; and
      - renovation of greenery;
   b) keeping up the parks:
      - planting annuals and decorative greenery;
      - regular watering; and
      - arranging benches and litter baskets;
   c) maintenance of beaches (summer):
      - putting baskets on the beaches;
      - regular emptying of 110 baskets; and
      - cleaning of beaches in summer (May–October), to wit: Veštar, Borik, Cisterna, Kuvi and Zlatni rt/Punta Corrente.

Resources for the execution of these works are estimated in the amount of 3,500,000 kuna and will be financed from the communal charge or from the budget of the city of Rovinj.
4) *Maintenance of the common parts of cemeteries:*  
   a) building maintenance,  
   b) tidying abandoned graves at least once a year.  
   Resources for the execution of these works are estimated in the amount of 183,000 kuna and will be financed from the communal charge or the budget of the city of Rovinj.

5) *Removal and disposal of waste:*  
   a) increased costs of waste removal from the Old Town; and  
   b) emptying litter baskets.  
   Resources for the execution of these works are estimated in the amount of 380,000 kuna and will be financed from the communal charge or from the budget of the city of Rovinj.

6) *Maintenance of thoroughfares:*  
   a) maintenance of thoroughfares in the winter; and  
   b) cleansing thoroughfares in the case of interventions.  
   Resources for the execution of these works are estimated in the amount of 150,000 kuna and will be financed from the communal charge or the budget of the city of Rovinj.

7) *Maintenance of stone paving, dry stone walls:*  
   a) works on the paving of the streets of Old Town;  
   b) repair of dry stone walls; and  
   c) reconstruction of the parterre areas in the Old Town.  
   Resources for the execution of these works are estimated in the amount of 900,000 kuna and will be financed from the communal charge or the budget of the city of Rovinj.

8) *Maintenance of communal order:*  
   a) washing the streets;  
   b) mowing grass on the verges;  
   c) removal of old cars from public areas; and  
   d) resources for implementation of the decision about communal order and the use of public areas.  
   Resources for the execution of these works are estimated in the amount of 150,000 kuna and will be financed from the communal charge or the budget of the city of Rovinj.

9) *Street lighting:*  
   a) regular replacement of light fixtures;  
   b) replacement of bulbs and other consumables; and  
   c) street lighting–consumption.  
   Resources for the execution of works under a) and b) are estimated in the amount of 350,000 kuna, and under c) in the amount of 1,200,000 kuna, and will be financed from the communal charge and the budget of the city of Rovinj.

10) *Water consumption:*  
   a) water consumption at public hydrants; and  
   b) transport of water according to the list of drinking water users.  
   Resources for the execution of works are estimated in the amount of 220,000 kuna and will be financed from the communal charge or from the budget of the city of Rovinj.

III  
Activities defined in this Program will be carried out by the city corporation ‘Communal service D.O.O.’ of Rovinj, and payment will be effected according to invoices rendered. The activity stated in Item 9, relating to the maintenance of street lighting will be carried out by a firm chosen after the invitation of tenders, and the street lighting consumption item will be paid after the rendering of monthly invoices from the Electricity Supply Company. The work stated in Item 10 relating to water consumption will be paid after the monthly rendering of invoices by the Istrian Water Company.
GAUGING SUCCESS

Ana Pavlovska-Daneva

Macedonian Public Sector Performance Measurement
Macedonian Public Sector Performance Measurement

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1. INTRODUCTION

Regarding the competencies of local self-government bodies, legislation in Macedonia is undergoing a process of important changes, the effects of which cannot yet be analyzed, as the new Law on Local Self-government was only recently adopted, and the harmonization with related legislation is expected to be completed by December 2003. Meanwhile, there is lack of legislation on public services at the national level—such as the Law on Bodies of State Administration, Law on Government, and Law on Civil Servants. Services are not well-regulated; again, there is limited relevant legislation—the Law on General Administrative Procedure, the Law on Administrative Disputes, as well as the Law on Concessions are deemed important in the field. These laws are expected to be subject to significant changes in terms of strengthening the legal protection of citizens in their relations with administrative bodies, as well as introducing market instruments to public administration, with the goal of improving its efficiency. Until now, nothing has been done in this respect.

This paper proposes necessary instruments for improving public sector performance, through the introduction of new mechanisms in the legal system in Macedonia. Such mechanisms include Public Private Partnerships, administrative contracts and the increased control of the work of public enterprises established by municipalities. The paper also addresses performance measurement processes of public service provision in the Republic of Macedonia at three levels: national and local levels and services provided by NGOs.

As Macedonia is a small country, a random selection method seemed inefficient for meaningful analysis. Therefore, analysis here concerns service provision in three selected organizations: the Ministry of Health (representing national administrative bodies); the City of Skopje (representing units of local self-government); and the Drivers’ Association of Macedonia (representing NGOs). This selection is based on author’s personal views, and the accessibility the subjects’ mission statements and strategic management goals and objectives.

2. INSTITUTIONAL FRAMEWORK

2.1 Materia Constitutionis in the Republic of Macedonia

In European countries today, local self-government is seen as the political institution closest to the citizens, an institution that grants citizens direct and real participation in the exercise of power. It is considered as an element of every democratic political system. Thus, using the European Covenant on the Local Self-government of 1985 as a starting point, the Republic of Macedonia has made local self-government a materia constitutionis. According to the Constitution, the balance between central and local government is a condition sine qua of democracy.

2.2 A Historical Perspective

The 1991 Constitution of the Republic of Macedonia lists the right to local self-government among the basic values of the constitutional order of the Republic, thus granting it the status of a Constitutional institution. However, to exist as a democratic institution, a simple constitutional declaration is not quite enough. This in mind, Chapter 5 of the Constitution is dedicated, in its entirety, to local self-government (Articles 114 to 117), thereby guaranteeing local self-government as a political right of citizens.
The articles of the Constitution provide for single-tier self-government, with municipalities representing the units of local self-government. The Constitution also defines the City of Skopje as a special (but not ‘higher’) local self-government unit which is organized in accordance with a special law. Another constitutional provision provides citizens with the right to establish different forms of local self-government. In the spirit of the European Convention, the Constitution guarantees units of local self-government the right to independent sources of income, as well as additional funds from the State. The operationalization of the constitutional concept of local self-government must be conducted through a law, which needs to be adopted by a two-thirds majority in Parliament.

2.3 Constitutional Amendments in 2001 and the Local Self-government Concept

In November 2001, Parliament adopted several long-disputed amendments to the 1991 Constitution. The legal basis for their adoption was the Framework Document for Constitutional and Legal Changes in the Republic of Macedonia, (proposed in July 2001); the actual basis was, in fact, to achieve political goals without the use of violence. Two of the amendments concern the concept of local self-government.

Article 114, Paragraph 5 of the Law on Local Self Government (which also refers to the City of Skopje) now states:

“Local self-government is regulated by a law adopted by a two-thirds majority vote of the total number of Representatives, within which there must be a majority of the votes of the total number of Representatives claiming to belong to the communities not in the majority in the population of Macedonia” (Law on Local Self Government. Official Gazette, No. 5/2002).

Under the new amendments, laws on local finances, local elections, boundaries of municipalities, and the City of Skopje must be adopted by a majority vote of representatives attending. Within this majority, a majority of the votes of the representatives attending should belong to minority communities.

The reformulated text of Article 115, Paragraph 1 now only refers to the jurisdiction of units of the local self-government. This jurisdiction has been modified to read:

“In units of local self-government, citizens directly and through representatives participate in decision-making on issues of local relevance particularly in the field of public services, urban and rural planning, environmental protection, local economic development, local finances, communal activities, culture, sport, social security and child care, education, primary health care and other fields determined by law” (ibid).

In practice, these changes to existing laws mean that, for example, pre-school and elementary education has been replaced by the term education. Thus, in the future, citizens will gain the right to make decisions regarding education at all levels. In addition, the jurisdiction of units of local self-government now includes: rural planning; environmental protection; local economic development; and local finances. Interestingly, these new competencies correspond with the former (pre-1991) communal system, which emphasized ‘a state within the state’.

Finally, the adopted amendments take into account elements of a multi-ethnic state: the right to veto on ethnic grounds; and the constitution of the institutions of the system at all levels (from local to central) on ethnic grounds.

2.4 Legislation and Local Service Provision

As noted, under the Constitution of the Republic of Macedonia, the organization and the competencies of local self-government are to be defined in a law, which must be enacted by a two-third vote in the Parliament. According to politicians and experts, the goal of such a law should be to promote the complete and ultimate abandonment of the former communal system, and to establish a new system of local self-government. Expectations for such legislation are mainly directed toward discovering a form of organization that will: provide possibilities for citizens to satisfy their needs and interests more independently, involving fewer public bodies and institutions; and consist of more concrete economic, social, cultural, ecological and,
primarily, communal contents. The legislation should contribute to the establishment of a system consistent with the functioning of a market economy and European standards for democracy. Furthermore, it is expected that the municipality, as a unit of local self-government, will become a spatial and urban community, responsible for providing the conditions for wider and deeper harmonization and expression of the common needs and interests of citizens.

2.4.1 Critical Review: The Law on Local Self-government of 1995

The adoption of the first Law on the Local Self-government in independent Macedonia (1995) served to promote progress toward European democratic standards. However, analysis of the general situation of local self-government at the time indicates numerous deficiencies, irregularities and contradictions in the new legislation and the negative aspects of its implementation, regarding, in particular, competencies in the fields of urban planning and development, public financing, and general relations within units of local self-government. More specifically, critical remarks on the Law have concerned:

- restrictions of the former competencies of units of local self-government, expressed in the newly-added phrase, “in accordance with the Law”. Rather, urban planning and decision-making should be defined as an exclusive competence of the local self government;
- the lack of real financial independence of local self-governments, such that the chronic dependence on the State budget renders municipalities inferior to the central government;
- the existence of inappropriate financial equalization of local self-government units. The equalizing of grants must be transparent;
- the lack of competence of local self-government units to set and define the rates and the administration of local taxes and tariffs autonomously, within the minimum and the maximum frame determined by relevant tax and tariff laws;
- the inappropriate status granted to the property of public enterprises established by the municipality. In this regard, it is necessary to create conditions to make municipalities the owners of as great a part of the property and means of public enterprises as possible. This decentralizing process would serve to avoid State monopolies over public enterprises in the field of service provision. There is, certainly, the possibility to privatize a part of such property in the future. In this context, it is necessary to ensure conditions for market economy mechanisms, and to transfer authority (in terms of public service provision) from bodies of local self-government to private legal and personal entities.

2.4.2 The Law on Local Self-government of 2002

In accordance to the Strategy to Reform the System of Local Self-government (adopted by the Government in 1999), as well as the Constitutional amendments of November 2001, the Parliament adopted a new Law on Local Self-government in February 2002. The new Law was long-anticipated, involved numerous discussions, disputes and disagreements among relevant factors in the Republic, and was heavily influenced by international facilitators from the US and EU. Moreover, leaders of the four dominant political parties (two Macedonian and two Albanian) reached a political compromise on the adoption of the Law. The political (though not exactly legal) basis for this Law is the Framework Agreement of these four parties, concluded in Ohrid in mid-2001, with the goal to provide a lasting peace in the country.

The new Law refers to all units of local self-government as ‘municipalities’. Article 2, Paragraph 1, allows for “contracting for the completion of works of public interest and local importance”, defined as “a contract with which the municipality authorizes certain physical or legal entity to complete, on the behalf and in the interest of the municipality, works of public interest and local importance.” As such, the new Law refers to the introduction of market mechanisms, thus allowing for greater efficiency in the provision of services to citizens at the local level. The same Article defines public administration as “non-profit organizations for the provision of public services (public enterprises and public institutions) that complete works of public interest and local importance,” and public
services “as works of public interest and local importance for the users.”

Article 24 allows municipalities to contract legal and private entities, or to establish public services in order to fulfill certain functions of public interest. In such cases, the municipality appears as a subsidiary responsible party. In fact, the new Law on Local Self-government introduces the institution of administrative contract into the Macedonian legal system, using a ‘reversed procedure’.

One novelty of the 2002 Law on Local Self-government is the expansion of the list of original competencies of the municipality, including the establishment, financing and administration of primary and secondary education (in cooperation with the central government). It is not very clear if this solution means that every municipality should be able to establish and administer primary and secondary education institutions, or to provide funding in cooperation with the central government (the Law on Financing of the Local Self-government, not yet adopted, should clarify this issue). For the time being, the former method of financing is applied: self-sustainability, if possible. The new financing law is expected to introduce the principle of fiscal decentralization. Importantly, without fiscal decentralization, functional decentralization (the transfer of authority from central to local bodies or private firms) will be reduced to mere—and paralyzing—‘deconcentration’.

2.5 Conclusions

Ultimately, the process of decentralization, the introduction of ‘urban order’, and the greater participation of citizens in realizing of local government began with the adoption of the 1991 Constitution. However, translating concepts into practice has not been easy. Macedonia is still, to a very large degree, a rather centralized state. The process of reforming the economy (in keeping with market principles), the enforcement of the law, civil society and, finally, local self-government, has been started, but not completed.

3. DELIVERY MODES

3.1 The Role of the Government in the Management of Core Functions

Among the most influential contemporary studies of the role of the State in improving the functioning of the public sector is the 1997 World Bank report, *The State in a Changing World*. The study calls for a renewed review of the basic issues regarding the role of governments, and how they fulfill this role in the best possible way. As the report contends, “There is no such thing as a one-size-fits-all recipe for an effective State” (World Bank, 1997: 3).

In order to make the State a more ‘efficient’ partner of citizens—specifically with respect to satisfying citizens’ needs—the report argues that the role of the government as an active economic agent must be reduced. This means more attention must be placed on the activities of the State in the areas where the market has proven to be an inefficient mechanism (for instance, defense, the security of the citizens, social welfare, and taxes). At the same time, this leaves room for enhancing the market for the benefit of several public activities—an approach the Macedonian government has not addressed in the fields of health care, education, as well as other activities within the competencies of local self-government. Currently, the process of privatizing these activities remains to be regulated. It is the State that possess the central role of simultaneously promoting change (according to democratic transition) and removing itself from many spheres and functions. As one scholar offers, “Finally, the role of the government and its redefinition is not an answer to the question what the government should or shouldn’t do, but how to do it” (Uzunov, 2001:334).

In accordance with the World Bank study, the domains in which the government maintains an indisputable key role include:

1) the establishment of legislation and the rule of law;

2) the maintenance of an undiscriminating macro-economic environment;

3) investments in basic social services and infrastructure;
4) protection for the vulnerable (people, not businesses); and
5) environmental protection.

This leads to the conclusion that the State should cease its role as the sole provider of a part of those services which are also in a domain in which it imperatively has its own function. The private sector, that is, can take over some of those functions, as the market and the government are not necessarily opposed. They can also complement each other.

There is, additionally, a second important aspect to redefining the role of the State in the improvement of public sector efficiency: increasing the capacity of the State through revitalization of public institutions. This aspect is specific in itself. Namely, in its most general sense, it deals with providing initiatives for public servants (ministers) toward better performance, at the same time keeping their arbitrary activities in check (World Bank, 1997: 4). Many states—Macedonia, in particular—are faced with political determination, the “political affiliations and the personal and the group interests of the public servants, which reduces the pool of available reserve personnel” and limits attempts to create a more effective public sector (Uzunov, 2001: 337). As such, there are specific issues in the domain of public administration management that have to be addressed in order to achieve greater effects:

1) Establishing effective rules and restrictions in the work of the public organizations. The basic element is the division of powers into legislative, executive and judicial, as well as into central and local. However, the simple division of competencies of power can lead to complication of the implementation of the solutions. Meanwhile, an important element in this context is the reduction (not the elimination, which, under the circumstances, is de facto impossible) of the corruption of public servants;
2) Introducing competitive pressure inside the State structure and bodies, which involves strengthening competition inside the public sector itself (for example, competition in the process of securing funds from the budget), as well as competition in the provision of services or public interest with the inclusion of the private sector (in practical terms, commercialization);
3) Listening to the voice of the citizens more closely (getting the State closer to citizens) and introducing Public Private Partnership. This concerns functional decentralization of the public sector, such as lowering of decision-making level from the central to the local, as well as creating the possibility to transfer some of the public competencies to private entities or NGOs.

Uzunov offers a poignant conclusion: “good government is not a luxury. On the contrary, it becomes an unavoidable need. Yet, good government cannot be attained through simple iterations (changes). It should be permanently created” Uzunov, 2001: 342).

3.2 Providing Public Services to the Citizens within the Framework of Local Self-government

In order to implement new Law on Local Self-government in the Republic of Macedonia fully, a number of other rules and regulations will have to be adopted (as soon as possible). Those laws will regulate numerous issues which are important for local self-government. Importantly, the reform of local self-government in the Republic of Macedonia has been complicated by the lack of coordination with changes that are being implemented simultaneously, such as the reforms to education, healthcare, social welfare and financial systems, as well as by other reform activities which have not been implemented at all.

3.2.1 Objective and Effective Relations between the Central and Local Government and Decentralization

Above all, the efficient implementation of the new competencies that the Law introduces to municipalities requires the development of result-oriented management as a type of administrative philosophy. This phenomenon is a natural consequence of the increased emphasis on the decentralization of an organization of government where greater attention is given to achieved results. Instead of the traditional procedural approach, new strategies of performance management are increasingly focused on the quality
of results and the consequences realized with the public sector measures. The goal is to achieve transition from the ex ante resource control operational model, with excessive regulations designed to prevent the abuses, and ex post control, in order to provide for the respect of the legal provisions, towards a model that will secure continuous monitoring of the quality of the work and management and reporting on the results (efficiency, cost-efficiency, effectiveness, service quality, financial operations). Traditional values such as neutrality, integrity and equality have to be combined with the demands of the present: value for money and service quality criteria.

The following requirements must be taken into account when defining the role of each layer of government:

1) the closeness of the services to the users;
2) the ability of the government institutions to adapt to needs and circumstances (flexibility);
3) quality, efficiency, effectiveness and cost-efficiency of the services; and
4) compatibility of the work of the public administration (Action Plan for the Local Self-govern-ment Reform Implementation, 2001: 5).

The competencies have to be clearly distributed (which has yet to be done in Macedonia), and the responsibilities of each echelon have to be properly defined, understood and accepted by all parties. The State has a primary responsibility to provide all citizens with access to quality services; as well, they must have some competence in the fields of general planning, coordination and supervision. Local authorities, whenever applicable and consistent with national policies, should play an important role—direct or in partnership with other agencies—in the provision of appropriate services. Within the scope of their responsibilities, local authorities should maintain a greater level of discretion in the provision of their services. When competencies are transferred to local authorities, it is important to provide them with financial or other resources necessary for the completion of delegated tasks.

3.2.2 Real Fiscal Relationships between Central and Local Governments

Fiscal decentralization is crucial to the process of transferring competencies. The question that arises is whether, and to what extent, it is possible to accelerate the transfer of competencies to local governments through the transfer of adequate financial resources. To answer this, the fact that the transfer of competencies is conducted simultaneously with sectoral restructuring, including privatization, should be taken into account. Also, there must be a balance between local competencies and the financial resources, in order to avoid dependence on financial assistance from the State. In any case, as means of improvement of the effectiveness, transparency and political responsibilities of local government, there must be effective budget management, financial supervision and control.

3.2.3 Availability and Exchange of Information

Because they are relatively close to citizens, small business associations, education institutions and lobby organizations, municipalities should increasingly serve as information and contact point. This in mind, it is necessary to establish the legal framework (which is lacking in Macedonia) on the concept of access to information, as a fundamental aspect of guaranteed human rights, rule of law and the transparency of the government. The implementation of a comprehensive communication policy can be achieved by informing citizens of the possible forms or formats of their participation in local public life. These include: informing citizens directly or through their associations; promoting dialogue between citizens and their elected representatives; well designed web-sites; including citizens in management; establishing a system of feedback information; and establishing information offices that will serve as documentation centers of the public database and will provide the appropriate information on the work of the municipal bodies and institutions.

3.2.4 Dialogue with the Social Partners and the Citizens

Considering the fact that the local community is a community partnership involving the direct par-


ticpitation of citizens in decision making processes, the necessity for a dialogue between the NGO (as the ‘third’ sector), and the representatives of the government (state or local) is essential. The development of strong partnership relations with local NGOs and civic groups should be made a top priority of a local government, in terms of greater communication and understanding between local institutions and their voters. It is also necessary to promote an awareness or ‘sense’ of belonging to the community and to encourage citizens to accept their responsibilities to participate actively in community life. It is equally important to underscore the responsibility of leaders toward the needs expressed by citizens. In this context, it is necessary to identify mechanisms for strengthening civic society and participatory rule on both the local and the national levels, and to set a strategy for continuing political dialogue and establishment of the capacities on the local level.

3.2.5 Modes of Indirect Service Delivery: The PPP Concept

Public Private Partnerships (PPP) are arrangements between government and private sector entities for the purpose of providing public infrastructure, community facilities and related services. Such partnerships are characterized by the sharing of investment, risk, responsibility and reward between the partners (Partnership Between Public and Private Sector in the Realization of Projects and Services, 2001: 7). The reasons for establishing such partnerships vary, but they generally involve financing, design, construction, operation and maintenance of public infrastructure and services.

The underlying logic for establishing partnerships is that both the public and the private sector have unique characteristics that provide them with advantages in specific aspects of service or project delivery. The most successful partnership arrangements draw on the strengths of both the public and private sectors to establish complementary relationships. The roles and responsibilities of the partners may vary from project to project. For example, in some projects, the private sector partner will have significant involvement in all aspects of service delivery, while in others, only a minor role.

While the roles and responsibilities of the private and public sector partners may differ on individual servicing initiatives, the overall role and responsibilities of government do not change. Public Private Partnership is one of a number of ways of delivering public infrastructure and related services. It is not a substitute for strong and effective governance and decision making by a government. In all cases, the government remains responsible and accountable for delivering services and projects in a manner that protects and furthers the public interest.

4. PUBLIC SECTOR PERFORMANCE MEASUREMENT

4.1 Performance Creation Trajectory: Vision–Strategy–Action

The standard trajectory for creating or enhancing the competitive performance of a certain organization (at the central or local level) begins with developing a vision, followed by the formulation of a strategy, and finally the establishment and definition of concrete measures, programs, and activities to be undertaken by the relevant organization (Uzunov, 2001/b). Basically, a vision should reflect the aims and objectives that the contemporary public sector organization (state body, local self-government body, institution, public enterprise, NGOs providing public services) should aspire to achieve. Because the term ‘vision’, however, can sound overly pretentious (particularly in the Macedonian public), it can be substituted with the term target postulates. In Macedonian, ‘vision’ is often laically used to describe the presentation of some fictively imagined aspirations and wishes for the future—hardly the basis for a sound reform-minded policy.

In this case, the initial target postulates of the future public sector profile include the following:

- Restructuring to induce a market dimension. Given the fact that a large number of segments comprising the Macedonian public sector are inevitably monopolized (precisely for the reason of providing public services), State regulation is a better choice than pure market. Yet the point is to create ‘unabusable’ State regulation, which will truly
help (rather than impede) the introduction of new market mechanisms in the functioning of the public sector, or the introduction of so-called New Public Management (NPM).

- Respect for the principles of rule of law, and full and exclusive determination of the public sector through legislation. Regardless of how familiar this may sound, this postulate must be constantly repeated and emphasized, not to mention practiced. More than a few countries (including Macedonia) have adequate legislation for individual segments of public sector regulation, yet implementation is far from satisfactory;

- Greater transparency in decision-making procedures in terms of the manner of providing public services. This concerns transparency in the overall work and conduct of public administration and government. The need for public regulation of the public sector, coupled with the solid participation of market mechanisms, have already been discussed; transparency, therefore, is conceptualized as the starting point in the latter's regulatory structuring. In this sense, the explanation that the public is informed of the activities of the administration/government through the publication of all acts through an official medium, the opening of public tenders, and so forth, sounds rather silly. Thus, the question of transparent decision-making in the case of public tenders, transparency of governance, the transparent preparation (debates in the expert and scientific public, consultations with experts, and so forth) of decisions that are subsequently published in official print media, as well as ruling out the possibility that the adopted regulation may lead to a conflict of interest, and so forth, remains open.

The choice of strategy is of exceptional importance in the formulation and, naturally, even more so, in the implementation of concrete measures and actions that a certain organization needs to undertake to improve its efficiency. In regard to the efficiency of the Macedonian public sector, there are few strategic activities available: allowing administrative bodies at central and local level to offer direct services to citizens/consumers by establishing public enterprises; or introducing market mechanisms in the manner of providing public service (issuing concessions, work permits, licenses, and so forth) wherein the public body will act as equal partner to the private-legal subject. It appears as though the latter alternative is more appropriate for boosting the efficiency of the public sector in Macedonia.

After defining the vision/target postulates and the choice of strategy, the definition of the specific measures and actions that the public organizations need to undertake come into the focus. In this regard, the following can be suggested:

1) improving service quality (not quantity);
2) defining the service price and the organization's budget;
3) boosting citizen/consumer confidence in the public organization; and
4) improving the motive and interest of the employees of the public organization in their work.

4.2 Use of Indicators for Measuring Performance

Measuring the performance public services is a type of management tool, with which movement toward achieving an ultimate goal—greater efficiency—is made visible. The creation of appropriate indicators for measuring the performance of public bodies is based on two principles: first, concentration of program outcomes, or existing results, rather than the quantity of services offered by the organization; and second, upon defining the anticipated result, the performance measurement is focused on citizens/consumers (Mark and Nayyar-Stone, 2002).

In regard to present Macedonia (haunted by a military conflict and anticipating parliamentary elections), little attention is given to the need for improving the public services offered by the public sector or to the possibilities offered in this regard by the creation of indicators for measuring the performance. None of the measures taken by public-private subjects can be said to be service-oriented; even the proposed reforms that are partially implemented seem to represent a marketing ploy in light of the coming elections. The main preoccupation of the direct participants in providing services (public servants) is holding on to their jobs (or positions), wherein they admit that, despite their possible willingness to introduce the use of indicators for measuring the results of their work,
they are faced with funding shortages. Inexperience and the lack of experts to aid in their training present an additional problem. Politics significantly influences the steps taken to an improvement in services.

4.2.1 Case Study 1: Central State Body Efforts to Create Competitive Performance

This can be presented using the example of a projected (but not yet conducted) reform of the Ministry of Health of the Republic of Macedonia. The program of this administrative body foresees the ‘privatization’ of primary health coverage. It is perhaps absurd that, of the total number of state employees working at the Ministry, only 10 to 15 percent (senior state officials and state functionaries) are aware of the strategy and the concrete measures that are vital to conducting the aforementioned reform. Meanwhile, the very same Ministry initiated the Law on Primary Health Coverage, yet the majority of employees are not informed of its contents. Further confusion is created by the ‘interpretation’ of the proposed legislation by the wider public, primarily in the Health Workers’ Trade Union (which disagrees with the foreseen amendments) and the service consumers. Practically all Macedonian citizens, that is, who, without having an opportunity to analyze the proposed legal text themselves, are governed by the ‘narrations’ and diametrically opposed statistical data presented by the Ministry on one side, and the Trade Union on the other. The formulation of the vision of this State body clearly lacks one of the basic, above-mentioned target postulates: transparency. Box 1 presents the overall trajectory for creating competitive performances (which was theoretically explained in the preceding section) by the Ministry of Health.

It is difficult to predict the extent to which primary health coverage will indeed be reformed—unless, of course, the government serves as the initiator of a certain legal project, which holds the majority in Parliament. In such cases, the project will automatically be voted on and approved. It is even more difficult to foresee how and to what extent an adopted legal text will be implemented and what positive effects it will produce. This remains to be done in some future measurements (once the implementation of the projected reforms begins).

Table 1 reveals the views of a limited number of service clients, according to the current organization of primary health care.

### Table 1
Do You Agree with the Proposed Reform of the Primary Health Care?

<p>| | |</p>
<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Yes</td>
<td>16%</td>
</tr>
<tr>
<td>No</td>
<td>16%</td>
</tr>
<tr>
<td>I am in favor of having private individuals participate in the primary health care but not in the proposed manner</td>
<td>56%</td>
</tr>
<tr>
<td>I have no knowledge of this</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Box 1**

Ministry of Health, 2002

Vision/target postulates: to maintain the quality of services in the primary health coverage, which has thus far been at an enviable level; to improve quality (or at least not reducing) while reducing the service price; and to acquire greater output for the same input.

Strategy: reorganizing the health organizations in primary health care; transforming their financing through redistribution (indirectly) into direct funding (on the part of consumers) while partially maintaining the principle of solidarity; identifying the vulnerable groups: children, senior citizens, disabled persons, poor.

Action plan: Leasing-out with every health worker who is permanently employed at each organizational unit.

Conclusion: The measurement of the performance of the primary health care for the period leading to the reforms shows a low development level, but a high level of service quality, which cannot be maintained under the existing funding arrangements.
4.2.2 Case Study 2: Performance Improvement in the City of Skopje

In 1996, the former Assembly of the City of Skopje organized a working group comprised of eight local-level public officials and clerks, which embarked on a project entitled ‘The City as a Separate Unit of Local Self-government’. The aim of the project involved gathering new ideas and views on the kind of city administration that the city needed, and gauging the European trends and experiences in the organization and development of capital cities. Upon drafting the project, the working group applied the following methods: analysis of critical factors (CSF: Critical Success Factors); analysis of key results (KRA: Key Results Analysis); and analysis of the surroundings (SWOT Analysis). The following findings about the priority tasks and the present problems were reached on the basis of the applied methodology (Assembly of the City of Skopje, 1996):

**Priority tasks:**
- specifying the system of local self-government;
- delimiting precise spheres of competence between the city and the municipalities;
- defining the modes of influence of the city on the utilities sphere;
- developing a program for the city’s urban development;
- distributing (real) funds between the city and municipalities;
- defining instruments for collecting funds for the city;
- reexamining and defining the city property;
- modernizing the work of the city bodies; and
- setting up a computer network in the service of internal information and paper reduction, along with Internet connections.

**Problems and weaknesses present:**

1) Lack of vision for the city.
2) Problems in the functioning of the city self-government:
   - omissions made in the urbanization and utilities sphere, the consequences of which continue;
   - incompetence—incidental reaction to problems beyond the region;
   - unapproved detailed urban plans—central city area; and
   - lack of strategy in defusing utilities problems.

3) Problems in the organization and functioning of the city self-government:
   - failure to implement adopted regulations;
   - lack of motivation of the city administration employees to work;
   - low level of interpersonal communication and information;
   - lack of expertise and knowledge of regulations pertaining to the region;
   - inappropriately qualified personnel;
   - employee tardiness, inertia, and passiveness;
   - frivolous work of the city administration employees; and
   - unrelenting traditional relations and work methodology and organizational solutions.

4) Problems of a technological nature:
   - inexistence of a unique data bank covering all areas of city interest;
   - inexistence of an instrument for the sharing of information and data;
   - the loss of sources and data of importance for the city;
   - insufficient communication between city bodies and leadership;
   - selective approach to data and information; and
   - lack of technical equipment.

5) Problems of a financial nature:
   - lack of financial independence; and
   - inexistence of instruments for monitoring and collecting funds.

The next step of the working group consisted of formulating a vision, defining missions for implementing the vision, and preparing an action plan. This is presented in Box 2.

One of the anticipated changes from the implementation of the defined vision is turning Skopje into
an ecologically unpolluted city. Winter 2002 covered Skopje under a thick blanket of snow. The snow totally paralyzed the city, and citizens were deprived of a large number of services. The city’s snow-clearing service malfunctioned as well: the city resembled an enormous dumpster owing to the purported impeded accessibility of the large snow-clearing trucks to containers. Yet, with the projected goal in mind—greater efficiency and effectiveness in providing services to the citizens—the mayor of Karpos Municipality (one of the seven municipalities of the City of Skopje), decided not to rely on the services of the public enterprise for road maintenance (the founder of which is the City of Skopje) and signed a contract with a private firm to which he entrusted this task. Namely, a classic administrative-legal contract was signed as part of the implementation of the above-mentioned PPP concept.

An inquiry has been performed to evaluate the quality of the service (snow-clearing) in the different municipalities in Skopje. The results are presented in Tables 1 and 2.

The (dis)satisfaction of citizens/consumers with the results of the work of the public enterprise on one hand, and the work of the private-legal entity on the other, is evident.

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Opinion of the Citizens of Karpos Municipality in the City of Skopje on the Efficiency of the Snow-clearing Service in Conditions of Snow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>4%</td>
</tr>
<tr>
<td>Good</td>
<td>62%</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>23%</td>
</tr>
<tr>
<td>Very bad</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 3</th>
<th>Opinion of the Citizens from other Municipalities in the City of Skopje on the Efficiency of the Snow-clearing Service in Conditions of Snow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>0%</td>
</tr>
<tr>
<td>Good</td>
<td>8%</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>24%</td>
</tr>
<tr>
<td>Very bad</td>
<td>68%</td>
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4.2.3 Case Study 3: Creating Indicators to Measure NGO Performance

The last public authority organization covered in this research constitutes the non-governmental sector and

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**Box 2**

Assembly of the City of Skopje—1996

**Vision:** “Our city is part of the world—the world is part of our city!” This implies that the City of Skopje is to acquire all the attributes of a metropolis: an ecological and highly urban unit with well-developed infrastructure, well-organized traffic (on local and international levels), and high ecological awareness, but also with preserved traditional city traits. This requires status regulation and defining the city’s authority, accomplishing its modern organization and efficient functioning, and completing servicing citizens’ problems (ensured efficiency and effectiveness in exercising their rights, obligations, and responsibilities).

**Missions:** ‘Humanization’ of the urban surroundings; organizing a community that will function in the citizens’ interest; building a modern infrastructure; establishing efficient bodies and inspections; developing personal monitoring, implementation, and control of the established policy; addressing the need for expertise, training, and honesty of the personnel; ensuring legal and financial independence and autonomy.

**Action plan:** Verification and affirmation of the results of the conducted project by the high-level leaders; acceptance of the defined vision by citizens; presentation of the results before the relevant ministry and insisting on certain coordination in the process of preparing a Law on the City of Skopje; and continuing the analysis of functions, resources, and the existing organizational structure.

**Conclusion:** Accomplishment of the projected vision is still far from completion, but the process has been initiated. All planned actions are undertaken by the employees. Some of the missions are fully implemented and are showing results in certain parts of the City of Skopje. The general impression is that interest in cooperation has decreased among the higher (central) authorized bodies. A new Law on the City of Skopje has not yet been adopted, and without a legal framework, it is impossible to accomplish the set goals.
repre

GAUGING SUCCESS: PERFORMANCE MEASUREMENT IN SOUTH EASTERN EUROPE

represents an association of citizens—the Macedonian Association of Drivers. The choice of this NGO is based on the following:

- the management of this organization has prepared a Quality Assessment Manual, which, among other things, contains the organization’s defined mission, vision, and strategy;
- the organization’s transparent work;
- employee contentment and motivation;
- a constant and visible concern for improving the quality of customer services provided; and
- the rare commitment to independently measure part of their performances on the basis of pre-determined indicators, which serve as the foundation for defining the ensuing measures and actions and eliminating observed flaws.

On the basis of annual reviews of the passenger transport safety situation in the Republic of Macedonia, prepared by the Interior Ministry and statistical data from its members (city drivers’ associations), as well as statistics from other organizations in the same field (technical checkups and vehicle registration), the Macedonian Drivers’ Association conducts annual measurements of the total number of motor vehicles in the Republic of Macedonia, and the total number and percentage of vehicles registered the MDA. It then compares this data with the number of traffic accidents caused by the vehicles’ technical defects with the intention to take appropriate measures in response (Transport Safety Annual Reports, 1998–2000).

Analyses show that, up to the year 2000, unregistered vehicles constituted approximately eight percent of the total number of motor vehicles. In terms of technical checkups and vehicle registration, of a total of three organizations were licensed to provide this services; fifty-one percent were carried out at the city drivers’ associations within the MDA. Along with the increase in the number of registered and technically inspected vehicles by this association, there was a noted decrease in the number of traffic accidents caused by vehicle technical defects. This information presents a solid indicator of the organization’s work efficiency.

Finally, respondents’ (drivers from cities in which there are local MDA technical checkup stations) views on the quality of services provided by the Macedonian Drivers’ Association are presented in Table 4.

<p>| Table 4 |</p>
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<thead>
<tr>
<th>Customers’ Opinion on the Quality of MDA Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
</tr>
<tr>
<td>Good</td>
</tr>
<tr>
<td>Unsatisfactory</td>
</tr>
<tr>
<td>Bad</td>
</tr>
</tbody>
</table>

Box 3

Macedonian Association of Drivers—2002

Main activity: The Macedonian Association of Drivers (MDA) is an association of drivers-citizens, formed on the basis of: merging drivers’ associations from a variety Macedonian cities with a view to realize their interests; performing activities that are aimed at enhancing traffic-technical education, traffic culture, and traffic safety; and improving the work and living conditions of drivers and citizens.

Mission: Upgrading road security and solidarity, upgrading preventive and traffic technical culture, informing the members and wider public of the novelties in the car and auxiliary industries.

Vision: Institutional strengthening of the MDA in terms of performing its coordinating role to accomplish the goals defined in its mission through contemporary scientific and technological achievements (depending on the field of activity).

Strategy: Raising permanent initiatives and monitoring the situation in areas that stem from the MDA’s mission and proposing, defining, and implementing appropriate measures and activities aimed at the latter’s direct or indirect implementation with a view to achieve the goals of the MDA.

Conclusion: Important achievements: a high degree of organizational development that ensures the organization’s functional presence across the entire country; a consolidated system of preventive-educational activity.
5. FINDINGS AND CONCLUSIONS

5.1 Findings

The creation of indicators (and their use) in measuring performances in the public sector of RM is at an initial stage. Non-governmental organizations receive greater success in this respect. Since they are not financed by proceeds from the State budget, in order to provide the means for their own funding, they need to apply all market mechanisms, the essence of which consists, in principle, of free market rivalry and competition. Yet the awareness of these essential characteristics of market work is absent from so-called classical State bodies—including the local administration, the fundamental activity of which is to provide services for citizens. Even more disheartening is the fact that, in an enormous number of companies—organizations founded by the State or units of local self-government (which actually means that they are not administrative bodies)—there is a ‘need’ for protective behavior, which is sought from the government in a large range of domains. Meanwhile, in order to strengthen their position and control, the Macedonian government supports this ‘need’.

Furthermore, every attempt to introduce innovation into the work of the public sector, such as performance measurement, has been met with a lack of cooperation on behalf of institutions. Such attempts are faced with rejection or with a declared willingness to cooperate but a failure to transform ideas into reality. Even where there is a will to improve performances by way of introducing measurement indicators, an additional problem is the inexistence of an information database; some information is deliberately concealed to provide easier information filtration upon submission of work reports.

Regarding the three organizations studied in this research, only the Ministry of Health, as a central administrative body, lacked any kind of written act that offered a vision, strategy, or action plan. Senior state employees are acquainted with the last of these three, while the remaining employees simply carry out their assigned tasks without being given any additional information as to the final aim of their work. The effectiveness and efficiency of their activity is neither full nor well-defined; thus, the idea of measuring the latter is not currently under consideration.

The first steps aimed at defining the anticipated goals and their implementation have long begun at the Council of the City of Skopje, but the basic problem faced by units of local self-government is the absence of appropriate legislation. Namely, the adoption of a new Law on the City of Skopje, which would correspond with new 2002 Law on Local Self-government, is still anticipated, as is the final adoption of a law on the financing of municipalities, which would ensure fiscal decentralization. Until then, all legal solutions for functional decentralization and municipalities’ efforts to ensure their consistent respect will remain nothing more than mere words on paper.

The non-governmental sector, to which public powers have been transferred, has proven most successful in improving its own customer service efficiency. All city drivers’ associations invest a portion of the funds obtained from charging services into a joint fund as part of their Drivers’ Association, which, on the basis of the principle of solidarity, are distributed to associations that have a need for funding to improve their performance, including less developed associations, and those marred by armed conflict. The funding is also used for regular education and training for controllers (in charge of direct customer service) from all cities. Clearly, financial independence leads to excellent results in terms of providing customer service.

5.2 Future Prospects

- The development of the creation and use of performance measurement indicators in the public sector of the Republic of Macedonia must coincide with the upgrading of the entire social system in the country. This includes: changing the existing traditional values system; raising the citizens’ expectations for the price that they are paying; strengthening the responsibility of the elected bodies; and enhancing citizens’ participation in the decision-making process—especially in matters of local importance.
- Examples from other areas could be useful in this regard, as indicated by the perception of citizens/
customers expressed in the tables in Section 4. Every ongoing reform, on the basis of a previously defined vision, chosen strategy, and a formulated plan of action, results in satisfaction or support on the part of direct customers. And vice versa: work which is not transparent, with incorrectly or incompletely defined goals, creates dissatisfaction and resistance among interested citizens.

- In the long term, it is worth making an extra effort to research this field in the Republic of Macedonia in more detail and from a variety of aspects. First, the legal aspect should include a legal foundation—that is, the need to supplement the existing legislation as a basis for improving the performance of the local administration in offering services to citizens. Further, an economic approach is needed to outline the domains of the public sector, where the free market would enable better performance than classic State regulation. Finally, a sociological approach might indicate the reasons (or lack thereof) for the existence of what is still an unbridgeable gap between the citizens and the administrative bodies at local and national level.

ENDNOTES

1 Article 8, Paragraph 1, Line 9 of the Constitution.
5 In this context, ‘reversed procedure’ means that, instead of the administrative contract being introduced by a law on public institutions (which would precisely define the basic characteristics and the procedure of the conclusion of administrative contracts), this law provides a mechanism for transfer of the provision of public services from the municipal bodies to private firms. There is no legal framework to regulate: (1) the ways in which the administrative contracts are concluded; (2) the necessary conditions that have to be completed; (3) the ways in which the administrative contracts can be implemented; and (4) who will have the jurisdiction over eventual disputes. Until such a law is enacted, the mentioned provisions of the Law on Local Self-government will remain “words on paper”.
6 The analysis was conducted on the basis of interviews with a large number of Health Ministry employees.
7 The sample comprised of 100 respondents, who do not belong to the group of ‘vulnerable’ service consumers of the primary health coverage: young people aged 18–24.
8 These relate to the personal views of the authors of this work, acquired on the basis of interviews with the management and other employees at the Drivers’ Association, observation of their work, as well as on the basis of customer opinions obtained on the basis of a questionnaire provided by the author.

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Djordjije Blažić

Performance Measurement in Public Services Provision in Montenegro
Performance Measurement in Public Services Provision in Montenegro

Djordjić Blažić

1. INTRODUCTION

With the objective of promoting 'best values', reforms in Montenegro increasingly focus on new and challenging demands for local governments and public organizations—specifically in terms of developing innovative approaches to performance measurement, management and the evaluation of offered public services. Central governments, local self-government agencies and public organizations increasingly must face the fact that, in order to translate 'basic values' into practical strategic actions, they need to analyze comprehensively the present quality of services and service provision.

The importance of well-developed performance measurement for public services provision will significantly affect Montenegrin public administration and economic development for years to come; performance measurement is crucial to any and all reforms, particularly when translating 'values' into polices. As such, this paper seeks to address and understand the efficiency and effectiveness of public service provision in Montenegro. Descriptive, analytical and comparative methods are used to explore this topic, as well as: a review of the existing legal framework and legal concepts; models of public services provision; measuring public services; and recommendations for present and future activities in public sector reform.

2. INSTITUTIONAL FRAMEWORK

2.1 Montenegro: A Brief Overview

Since the disintegration of the Socialist Federal Republic of Yugoslavia (SFRY) and the establishment of the modern Federal Republic of Yugoslavia in 1991, Montenegro has struggled with dynamic change in virtually every sector and sphere, in public and in private life. The drafting of the new Constitution of the Federal Republic of Yugoslavia (1992), as well as the separate Constitutions of the Republic of Serbia (1990) and of Montenegro (1992), mark a new era of governance in the region—one characterized by the slow dissolution of the former Socialist legal system and the evolution of an infant political and legal system.

The main features of the new political and legal system in Yugoslavia—and, accordingly, Montenegro—include:

1) a federal government;
2) the organization of government on the principal of the division of powers;
3) a multi-party parliamentary democracy;
4) equal status of all forms of ownership;
5) a market economy;
6) the development of citizens' rights; and
7) the introduction of the system of local self-government.

Montenegro is divided into 21 extremely diverse local units; accounting for social, geographical and political differences among units has proven extremely difficult. Moreover, conflict in the region, as well as political and economic sanctions imposed by the international community, have significantly influenced the pace and shape of on-going reforms. As such, despite the adoption of nominally democratic, reform-minded principles of governance, power remains centralized. Tumult in recent years has fostered the presumption that all administration activities would be best carried out by ministries and other central
authorities. Local self-government agencies in turn perform these activities only in exceptional cases, such as when they are specifically transferred or delegated to them by the State.

2.2 The Constitution: The Basis of the Legal System

The new Constitution defines Montenegro as a democratic state with a republican form of government, and calls for the separation of judicial, executive and legislative functions; at the central level, these functions are divided, respectively, among the Parliament of the Republic, the Government and the Courts. The Constitution has also introduced a system of local self-government, which delineates between the State (central) and self-government (local) spheres. In the self-government domain, local communities should pass regulations and perform other activities within their own jurisdictions autonomously, along with the active participation of citizens.

The reversal of centralization is now underway. New legislative proposals have divested the performance of public activities from central to local authorities in three ways: transferring or delegating activities to local self-governments; delegating the execution of State activities to agencies; and involving the private sector in performing public services.

2.3 New Laws in a Changing Legal System

Several new pieces of legislation serve as groundwork for decentralization. The new Draft Law on Public Administration for the first time states that the provision of services that are of public interest may be realized not only through public enterprises and institutions, but also through private entrepreneurs, concessions, capital investments, and other means of efficient and rational delivery.3

The Draft Law on Local Self-government similarly allows public affairs in the sphere of education, primary health, social, and childcare, employment, and other fields to be carried out by local self-governments.4 Certain public activities may be carried out by various local public agencies.5 Additionally, local self-governments are also granted the right to establish public services for the purpose of performing activities that are ‘indispensable’ for citizens; this is conditional upon whether or not those needs of the citizens may be met in a quality and rational way through the private sector, or by other means of provision or organization.

The new Law on Public Procurement provides for modernization of the system of public procurement in the public sector by enhancing transparency and objectivity. The Law also authorizes the ‘contracting out’ of activities to the private sector to promote efficient, equitable service provision, as well as to fight corruption to the greatest possible extent.6

New relationships between public and private agencies with respect to service provision require codification, in order to ensure, among other things, regulation. The Draft Law on the Involvement of the Private Sector in Public Service Provision exactly aims at regulating the relationships and the related issues in a unified and complete manner and, taking into account a need for efficient, rational management, serves to increase the level of involvement of the private sector in public services provision.7

New legislative solutions in the sphere of education also allow the private sector to establish institutions of education, and to perform certain public activities in this field. In addition, new laws on Theatres8 and on Employment provide for the establishment of private agencies that may perform certain activities in public spheres.9

2.4 Sub-legal Regulations

The preparing of sub-legal regulations is a very broad activity of governmental bodies, and is directed primarily towards activities of the Government of the Republic of Montenegro (RMN), ministries, and other administrative bodies.

The Government holds responsibility for three types of decrees: decrees based on the law passed for their implementation; decrees with the power of laws; decrees on the basis of direct constitutional authority.10

Regarding the first category, the Government can pass decrees which regulate details for the application of laws. The Government can also adopt decrees with legislative power in exceptional situations—such
as under the threat of war. The performance of this ‘legislative’ function is restricted by two conditions: if the Parliament is not able to meet under the circumstances, and the Government must submit decrees to the Parliament as soon as possible. The Government can arrange its own organization and method of work, but it can also entrust the local self-government to conduct under the authority of certain ministries.

Certain works of ministries and administrative bodies—operational procedures and instructions—comprise another group of supportive legal activities. Operational procedures elaborate upon certain regulations in laws for the purpose of implementing those laws. Instructions prescribe a way of functioning and the performance of activities of management bodies, institutions, and legal entities as well as citizens in the implementation of certain regulations or laws. Ordinances of ministries and administration bodies cannot dictate the rights and duties of citizens, institutions, and legal entities.

2.6 Political Order: The Influence of Politics over Institutions

Constitutional changes in 1992 paved the way for the development of political pluralism; political life is now characterized by approximately 60 political parties representing different a range of goals and orientations. Many clashes among these parties have emerged. Some particularly harsh conflicts of interest—even within Parliamentary parties—have resulted in legislative compromises, especially in electoral legislation and laws relating to the environment and high school education. These compromises are often incongruent with certain basic constitutional legal solutions.

To a large degree, there still exists an over-emphasis on politics—and particularly personal politics—instead of on the institutions of government. Moreover, the lack of control and understanding of the role of political parties, or of their influence over institutions, has severely detracted from the overall functioning of government in Montenegro. Citizens, in turn, express harsh criticism of the Parliament and the courts, as well as of the ruling and opposition political parties.

In a recent survey, 27.6 percent of all citizens expressed very little confidence in the Parliament of the Republic of Montenegro, and 20.3 percent had little confidence. In respect to the judicial system, one-third had very little confidence; 6.2 percent were extremely confident. Similarly, 34 percent of citizens had very little confidence in political parties, and only 9.8 percent had great confidence. In regard to opposition parties specifically, 32.3 percent of citizens had very little confidence, and 4.2 percent had great confidence.
3. MODELS OF PUBLIC SERVICES PROVISION

Changes to the political system in 1992 led to a centralization of powers, reflected in the performance of all significant activities by ministries and other governmental bodies. The process of political and economic reforms, especially with respect to local self-government and public administration, began only in 1998 with the specific objective of decentralizing power.

Public and social functions can be classified into three groups:

- Activities under the exclusive authority of the State, which are provided exclusively by the State either directly through ministries or other administrative bodies, or indirectly through the funds, agencies or public enterprises, and institutions;
- Activities of ‘shared’ responsibility, which are provided by both the State (ministries or other administrative bodies), and local administrations (directly or indirectly, as above). These activities include civil engineering, urban planning, ecology, protection of monuments of cultural value, tourism, entrepreneurship, trade, hotel/restaurant management, sport, public information, culture, and public revenue;
- Activities which are provided by a local self-government directly through the local government bodies or indirectly through the local public enterprises, and institutions.

A local self-government provides services:

1) in its own competence, including communal areas, waste disposal, waste and atmospheric waters, city traffic, housing, water supply, chimney cleaning, dog pound, public toilet, and civil engineering;
2) of transferred authority; and
3) of delegated authority.

3.1 Social Functions, Service, and Activities

The reform of political and economic systems is still under way. As such, a certain degree of decentralization in the performance of public activities—including the provision of services—has yet to be achieved. Judiciary and prosecution functions, foreign affairs, public and state security, traffic safety, citizens affairs (personal IDs, place of residence and driving permits, passport, citizenship), arms, the cadastre of real-estate, foreign trade, inspections, customs, taxes, monetary, and banking activities remain centralized.

Social functions—or public services—refer to activities both of shared responsibility of the local self-government which are performed through public funds, agencies, institutes, institutions and enterprises, and other means of organizing public affairs.

Functions Provided by the State

A number of social activities remain in the domain of the State, and are exercised through: funds (in the sphere of pensions and handicapped insurance, health insurance, fund for development); agencies (such as the Agency for Economic Reconstruction, or the Agency for the Development of Small and Medium Enterprises); and institutes (in such spheres as employment, protection of the cultural monuments, weather forecasting, health care, environmental protection).

Other services are provided through public institutions or enterprises, such as: preschool education; primary, high school, and higher education; special education; social and child care’ health care; tourism; public information services. These services are provided through State-owned, managed, or regulated institutions, for example preschools, central hospitals, primary health care centers, universities and dormitories, and some media outlets or enterprises (Radio Television of Montenegro and ‘Pobjeda’). New legislation delegates some of these activities local governments.21

The State continues to provide services to citizens in those areas, or public enterprises, in which it possesses a majority of funds: electric power; oil and its derivatives; maritime activities; port, railway, postal, telephone, and public information services (electronic and written media); tourism; the maintenance of regional and national roads; and air traffic. These services, to a large degree, serve as the economic basis of the State.
Social Functions Provided by the Local Self-government

Article 16 of the Law on Local Self-Government delegates numerous activities to local governments. Activities can be provided by governmental bodies or through public enterprises. These activities range from urban planning, to budgeting, to granting permits for business. Local governments are also responsible for: voter registration lists; maintenance of public areas; and establishing institutions and organizations in the fields of tourism, education, culture, technical culture, social and child protection and public media. Local governments must also manage ‘internal’ organizations, and define personal policies. Most importantly, local authorities are responsible for locating and addressing issues of immediate, local importance.

In terms of the competencies of local self-government, it is necessary to emphasize that they are not limited to the system laws on local self-government. A great number of material laws also regulate their in the spheres of water resources, governmental revenues and expenditures, ecology, decision-making by citizens, education, culture and sport, health care and so on.

Social Functions Provided by the Local Self-government through the Private Sector

Local self-governments provide a very small number of public functions through private initiatives. Such initiatives include public transportation, certain funeral services, and the cleaning of some condominiums.

The privatization of public services provided by local self-governments is still in its formative stages. Preparations to delegate many public services to the private sectors are now underway. It appears that legislators do, in fact, understand the necessity and importance this processes, and that steps are being taken to prepare a system and sub-system of laws that will further stimulate this process. Meanwhile, apart from developing the general legal framework, it is necessary to define and regulate: the scope of public activities that can be privatized; models of involvement of the private sector in public activities; procedures and standards for the performance of services; and control mechanisms for protecting public interests with respect to the quality, quantity, and efficiency of public services provision.

The private sector can be involved in public services provision through: the privatization of public institutions and enterprises; and the direct performance of these activities. In this context, different methods of privatization of public enterprises, and institutions might include: the selling of shares or assets to private owners or enterprises; distributing shares to employees; exchanging shares with privatization vouchers; registering shares through capitalization; joint ventures; or a combination of the above. Concerning a direct take-over of public activities by private owners, services can be performed through: leasing contracts; management contracts; concessions; or a ‘Building-and-Operate Transfer’ (BOT) arrangement.

4. PRESENT SITUATION IN MEASURING SERVICE QUALITY

The overall challenge of public administration reform is to establish its mission and strategy for the purpose of expanding local public services for the benefit of citizens. Therefore, this section presents the mission and strategy aims of local self-government reform in Montenegro, focusing on the present situation of public service provision by local self-government agencies and public offices. Survey data is analyzed to reveal citizens’ perceptions and opinions of the efficiency of local government and public offices in providing public services and the quality of communal infrastructure.

The official mission of the reform of local self-government aims at permanently raising the quality of public services’ to satisfy citizens’ needs. For this purpose, the following strategic general aims have been defined:

• to create market- and service-oriented models of local self government;
• to develop local self-government in light of the democratization of social relationships, property transformation, political pluralism, a constitutional concept of local self-government, and the recognition of the role of the local population in the functioning of public services; and
• to change the direction; and function local self-governments in order to create modern, indepen-
dent, highly-professional, effective and efficient local self-government agencies.  

Accordingly, Montenegro is at the beginning of establishing a new system of local self-government, and former practices and mentalities of centralization persist. In particular, there is no tradition of defining a clear mission or of strategic management. In turn, service provision has been rarely—if ever—analyzed for the purpose of improvement. Analyses have been typically conducted for the purpose of economic management, based on financial indexes and estimations. Such reports did not contribute to evaluating the efficiency or effectiveness agencies in performing public services. The Report of Public Communal Organization from Podgorica (2001), for example, presents a general finance report and does not include any information on the effectiveness of services.  

4.1 Survey: Public Service Provision in Montenegro  

Thus, the quality of public services is very low; currently, only independent non-governmental organizations conduct public opinion research analyses. A survey conducted by Damar, a local NGO, offers useful insight into citizens’ views of service provision. Dama surveyed a total of 700 citizens (of different age, background, and gender) in seven municipalities (Podgorica, Bijelo Polje, Bar, Berane, Nikšić, Cetinje and Herceg Novi) in order to assess:  
- the efficiency of a local government in performing its functions for citizens;  
- citizens’ satisfaction with local governments’ activities;  
- citizens’ satisfaction with existing communal infrastructure;  

<table>
<thead>
<tr>
<th>Table 1</th>
<th>The Efficiency of a Local Government in Performing Its Functions for Citizens</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very efficient (%)</td>
</tr>
<tr>
<td>Respondents</td>
<td>3.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Citizens’ Satisfaction with Local Governments’ Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communal activity</td>
<td>Satisfied (%)</td>
</tr>
<tr>
<td>1. Building and reconstruction of streets and local roads</td>
<td>23.38</td>
</tr>
<tr>
<td>2. Solving of water supply system problems</td>
<td>20.06</td>
</tr>
<tr>
<td>3. Solving of drainage system problems</td>
<td>20.78</td>
</tr>
<tr>
<td>4. Organization of city and suburban transportation</td>
<td>26.89</td>
</tr>
<tr>
<td>5. Waste collection and disposal</td>
<td>21.95</td>
</tr>
<tr>
<td>6. Maintenance of public areas</td>
<td>14.24</td>
</tr>
<tr>
<td>7. Organization of parking areas</td>
<td>12.65</td>
</tr>
<tr>
<td>8. Traffic and street lights</td>
<td>47.38</td>
</tr>
<tr>
<td>9. Building and maintenance of city parks</td>
<td>16.42</td>
</tr>
<tr>
<td>10. Building and maintenance of cultural and sports’ constructions</td>
<td>24.27</td>
</tr>
<tr>
<td>11. Environment arrangement</td>
<td>13.37</td>
</tr>
<tr>
<td>Average</td>
<td>21.85</td>
</tr>
</tbody>
</table>
• the quality of services provided by public-communal enterprises;
• citizens’ satisfaction with the public services provided by the local self-government organs; and
• citizens’ participation in performing services.

The Efficiency of a Local Government in Performing Its Functions for Citizens
Table 1 shows that the majority of citizens (60 percent) believe that their local government does not carry out their function for the benefit of citizens’ interests. Thus, local governments represent agencies of authority, distant from the needs of their respective local communities.

Citizens’ Satisfaction with Local Governments’ Activities
Table 2 reveals citizens’ satisfaction/dissatisfaction with the activities of local self-governments in eleven communal areas.

According to the Law on Self-government, a municipality is obliged to supply budget tools to public enterprises for the provision of the above services or activities. From this, the following conclusions can be drawn:

1) These municipalities lack (or mismanage) the budget tools for adequate service provision; and
2) Public enterprises do not possess the personnel or functional or organizational capacity to perform these activities.

The unfavorable economic environment in Montenegro likely affect these responses—citizens cannot afford to pay for services, and the government lacks the resources to provide them. Additionally, the Republic depends heavily on financial support from the international community. Meanwhile, public enterprises struggle to retain competent personnel and coordinate activities with other levels of government and administration.

Citizens’ Satisfaction with Existing Communal Infrastructure
Concerning the above-mentioned eleven key areas of communal infrastructure, citizens are overwhelmingly dissatisfied.26 Table 3 shows the average score of citizens’ satisfaction with the quality of communal infrastructure by communal areas, and the average rating on the quality of communal infrastructure by municipality.

Quality of Services Provided by Public-communal Enterprises
Table 4 reveals the level of citizens’ dissatisfaction with communal services provided by public enterprises in greater detail. The data reveals that around 51 percent of citizens are dissatisfied with public services, while only 35 percent are satisfied.

Rates vary widely from municipality to municipality, but across the board, most citizens are generally partially satisfied or completely dissatisfied. Three conclusions can be extrapolated:

1) public communal enterprises, established by the local self-government, do not offer adequate communal services to citizens;
2) for the purpose of ensuring service quality, preconditions for the privatization are in place; and
3) the level of citizen dissatisfaction is higher in underdeveloped than in developed municipalities.

The second conclusion is formulated based on the assumption that the municipality lacks the necessary budgetary capabilities for adequate service provision. The Decision of the Committee of Privatization by the Government to form the Commission for Privatization of Public Communal Enterprises serves to expedite privatization, starting in 2002. In order to carry out the privatization process in accordance to the principles of a market economy, the Government delivered to the Montenegrin Parliament a proposal for a special Law on the Participation of the Private Sector in the execution of public services.

Table 4 also indicates that citizen satisfaction relates to the level of development of a municipality: the higher the underdevelopment level, the lower the rate of citizen satisfaction. This is true for Berane, Pljevlja and Cetinje. A number of new regulations, institutes and funds (such as the Law on Financing Self-government, now in Parliamentary adoption process), serve to equalize the development of municipalities and to improve their fiscal capacities. The adoption of new legal solutions will influence revenue increases in underdeveloped municipalities, thus effecting their public services provision.
### Table 3
Citizens’ Satisfaction with Existing Communal Infrastructure

<table>
<thead>
<tr>
<th></th>
<th>Nikšić</th>
<th>Berane</th>
<th>Pljevlja</th>
<th>Cetinje</th>
<th>Tivat</th>
<th>Kotor</th>
<th>Ulcinj</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Building and reconstruction of streets and local roads</td>
<td>2.69</td>
<td>1.94</td>
<td>1.67</td>
<td>1.70</td>
<td>2.55</td>
<td>2.12</td>
<td>2.17</td>
<td>2.11</td>
</tr>
<tr>
<td>2. Solving of water supply system problems</td>
<td>2.40</td>
<td>2.19</td>
<td>1.67</td>
<td>1.76</td>
<td>1.38</td>
<td>1.55</td>
<td>2.42</td>
<td>1.91</td>
</tr>
<tr>
<td>3. Solving of drainage system problems</td>
<td>2.80</td>
<td>1.83</td>
<td>1.71</td>
<td>1.81</td>
<td>1.29</td>
<td>1.57</td>
<td>2.22</td>
<td>1.89</td>
</tr>
<tr>
<td>4. Organization of city and suburban transportation</td>
<td>3.16</td>
<td>2.35</td>
<td>1.86</td>
<td>1.42</td>
<td>2.71</td>
<td>3.05</td>
<td>2.25</td>
<td>2.38</td>
</tr>
<tr>
<td>5. Waste collection and disposal</td>
<td>2.31</td>
<td>1.53</td>
<td>1.50</td>
<td>1.55</td>
<td>2.94</td>
<td>2.23</td>
<td>1.41</td>
<td>1.92</td>
</tr>
<tr>
<td>6. Maintenance of public areas</td>
<td>2.16</td>
<td>1.70</td>
<td>1.69</td>
<td>1.61</td>
<td>2.68</td>
<td>1.92</td>
<td>1.41</td>
<td>1.88</td>
</tr>
<tr>
<td>7. Organization of parking areas</td>
<td>1.90</td>
<td>2.27</td>
<td>1.55</td>
<td>1.62</td>
<td>2.22</td>
<td>1.80</td>
<td>1.53</td>
<td>1.84</td>
</tr>
<tr>
<td>8. Traffic and street lights</td>
<td>2.98</td>
<td>2.60</td>
<td>2.11</td>
<td>2.42</td>
<td>3.51</td>
<td>2.93</td>
<td>3.48</td>
<td>2.85</td>
</tr>
<tr>
<td>9. Building and maintenance of city parks</td>
<td>2.32</td>
<td>1.79</td>
<td>2.01</td>
<td>1.55</td>
<td>2.28</td>
<td>2.15</td>
<td>1.71</td>
<td>1.97</td>
</tr>
<tr>
<td>10. Building and maintenance of cultural and sports facilities</td>
<td>2.72</td>
<td>2.02</td>
<td>2.72</td>
<td>1.64</td>
<td>2.42</td>
<td>1.89</td>
<td>1.55</td>
<td>2.15</td>
</tr>
<tr>
<td>11. Environment arrangement</td>
<td>2.43</td>
<td>1.80</td>
<td>1.56</td>
<td>1.46</td>
<td>2.62</td>
<td>2.08</td>
<td>1.67</td>
<td>1.94</td>
</tr>
<tr>
<td>Average</td>
<td>2.53</td>
<td>2.00</td>
<td>1.82</td>
<td>1.69</td>
<td>2.42</td>
<td>2.12</td>
<td>1.98</td>
<td>2.08</td>
</tr>
</tbody>
</table>

### Table 4
Quality of Services Provided by Communal Organizations

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Very Satisfied</th>
<th>Partially Satisfied</th>
<th>Unclear</th>
<th>Very Dissatisfied</th>
<th>Dissatisfied</th>
<th>Do Not Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikšić</td>
<td>8.00</td>
<td>40.00</td>
<td>6.00</td>
<td>12.00</td>
<td>29.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Berane</td>
<td>4.00</td>
<td>20.00</td>
<td>6.00</td>
<td>21.00</td>
<td>39.00</td>
<td>10.00</td>
</tr>
<tr>
<td>Pljevlja</td>
<td>2.00</td>
<td>28.00</td>
<td>8.00</td>
<td>17.00</td>
<td>41.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Cetinje</td>
<td>1.98</td>
<td>17.82</td>
<td>8.91</td>
<td>24.75</td>
<td>39.60</td>
<td>6.93</td>
</tr>
<tr>
<td>Tivat</td>
<td>4.21</td>
<td>49.47</td>
<td>11.58</td>
<td>11.58</td>
<td>17.89</td>
<td>5.26</td>
</tr>
<tr>
<td>Kotor</td>
<td>3.00</td>
<td>37.00</td>
<td>8.00</td>
<td>15.00</td>
<td>28.00</td>
<td>9.00</td>
</tr>
<tr>
<td>Ulcinj</td>
<td>2.17</td>
<td>22.83</td>
<td>3.26</td>
<td>31.52</td>
<td>34.78</td>
<td>5.43</td>
</tr>
<tr>
<td>Total</td>
<td>3.63</td>
<td>30.67</td>
<td>7.41</td>
<td>18.90</td>
<td>32.85</td>
<td>6.54</td>
</tr>
</tbody>
</table>
Citizens’ Satisfaction with the Public Services Provided by the Local Self-government Organs

Table 5
Citizens’ Satisfaction with the Public Services Provided by the Local Self-government Organs

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Very Satisfied</th>
<th>Partially Satisfied</th>
<th>Indefinite</th>
<th>Very Dissatisfied</th>
<th>Dissatisfied</th>
<th>Do Not Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikšić</td>
<td>12.00</td>
<td>37.00</td>
<td>7.00</td>
<td>12.00</td>
<td>21.00</td>
<td>11.00</td>
</tr>
<tr>
<td>Berane</td>
<td>9.00</td>
<td>33.00</td>
<td>10.00</td>
<td>13.00</td>
<td>20.00</td>
<td>15.00</td>
</tr>
<tr>
<td>Pljevlja</td>
<td>8.00</td>
<td>38.00</td>
<td>7.00</td>
<td>10.00</td>
<td>19.00</td>
<td>18.00</td>
</tr>
<tr>
<td>Cetinje</td>
<td>3.96</td>
<td>25.74</td>
<td>13.86</td>
<td>12.87</td>
<td>26.73</td>
<td>16.83</td>
</tr>
<tr>
<td>Tivat</td>
<td>5.26</td>
<td>48.42</td>
<td>5.26</td>
<td>12.63</td>
<td>14.74</td>
<td>13.68</td>
</tr>
<tr>
<td>Kotor</td>
<td>5.00</td>
<td>44.00</td>
<td>4.00</td>
<td>6.00</td>
<td>21.00</td>
<td>20.00</td>
</tr>
<tr>
<td>Ulcinj</td>
<td>6.52</td>
<td>30.43</td>
<td>6.52</td>
<td>19.57</td>
<td>21.74</td>
<td>15.22</td>
</tr>
<tr>
<td>Total</td>
<td>7.12</td>
<td>36.63</td>
<td>7.70</td>
<td>12.21</td>
<td>20.64</td>
<td>15.70</td>
</tr>
</tbody>
</table>

Citizens can participate in communal services through: direct performance; and participation through financial assistance.

Citizens’ Participation in Performing Services

As discussed, the effectiveness and responsiveness of any municipal government lies in its ability to deliver basic services. The confidence of the public in the democratic process can only be enhanced if local governments have adequate authority and fiscal resources. The new Law on Local Self-government will create accessible and meaningful opportunities for citizens to influence the policies and operations of the government that serves them. Furthermore, this Law predicts an open municipal budget process, as the most proven mechanism for allocating public resources to best satisfy the preferences of the citizens, who are the consumers of municipal goods and services. It will also strive to balance the scope, level, and quality of municipal services with citizens’ willingness to pay the true costs of these services through taxes and fees. These conditions will foster a conducive atmosphere for involving citizens in performance of communal services—as was the case from 1974 to 1990.

Table 6
Willingness of Citizens to Actively Participate in Communal Services

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Yes</th>
<th>No</th>
<th>Do Not Know</th>
<th>Indefinite</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikšić</td>
<td>58.00</td>
<td>23.00</td>
<td>18.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Berane</td>
<td>59.00</td>
<td>20.00</td>
<td>17.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Pljevlja</td>
<td>46.00</td>
<td>32.00</td>
<td>22.00</td>
<td>—</td>
</tr>
<tr>
<td>Cetinje</td>
<td>61.39</td>
<td>19.80</td>
<td>18.81</td>
<td>—</td>
</tr>
<tr>
<td>Tivat</td>
<td>47.37</td>
<td>35.79</td>
<td>13.68</td>
<td>3.16</td>
</tr>
<tr>
<td>Kotor</td>
<td>55.00</td>
<td>25.00</td>
<td>19.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Ulcinj</td>
<td>66.30</td>
<td>17.39</td>
<td>13.04</td>
<td>3.26</td>
</tr>
<tr>
<td>Total</td>
<td>56.10</td>
<td>24.71</td>
<td>17.44</td>
<td>1.74</td>
</tr>
</tbody>
</table>
Data reveals that more than half of all citizens are ready to help in improving communal conditions in their municipalities. A quarter, however, do not wish to be involved. Generally, citizens from municipalities with the highest level dissatisfaction in communal services are most willing to participate.

Considering the dire economic conditions across Montenegro, it striking that a large number of citizens are willing to contribute financially or to invest their money in constructing and repairing communal infrastructure.

### 4.2 Indicators for Measuring Performance

This data indicates that Montenegro must develop a system for analyzing public service provision. The process of creating such a system involves several phases:

1. assess the readiness and timeless;
2. define the purpose;
3. prepare a policy statement;
4. develop a work plan;
5. initiate orientations and trainings;
6. select service areas to be measured;
7. formulate a mission statement, goals and objectives;
8. identify measures or indicators;
9. establish a data collection, analysis and reporting system; and
10. monitor and evaluate.

Several types of indicators are used in performance measurement systems:

- Input indicators—to report the of amount of resources, financial, personnel or other, used by a specific service or program;
- Output indicators—to report on the produced amount or services provided by a program;
- Outcome/ Effectiveness—referring the degree to which services are responsive to needs, including quantity and quality;
- Efficiency—referring to the ratio of the quantity of the service provided to the cost required to produce the service;
- Productivity—combines the efficiency and effectiveness in one indicator.

In Montenegro, public services can be provided by a local self-government (and its bodies) or public (municipal) residential enterprise, including communal and residential services. Local governments are expected:

- to set community goals and formulate policies. As decision-makers, the basis of evaluation is the congruence between policy requirements (e.g. budgeting) and actual policy-making (e.g. budget promptness);
- to effectively implement their decisions. As administrative units, the basis of comparison is the consistency between what local governments decide (policy objectives) and what they can carry out (outputs).

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Yes</th>
<th>No</th>
<th>Do not know</th>
<th>Indefinite</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikšić</td>
<td>53.00</td>
<td>20.00</td>
<td>24.00</td>
<td>3.00</td>
</tr>
<tr>
<td>Berane</td>
<td>58.00</td>
<td>23.00</td>
<td>15.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Pljevlja</td>
<td>39.00</td>
<td>37.00</td>
<td>24.00</td>
<td>—</td>
</tr>
<tr>
<td>Cetinje</td>
<td>44.55</td>
<td>30.69</td>
<td>24.75</td>
<td>—</td>
</tr>
<tr>
<td>Tivat</td>
<td>27.37</td>
<td>47.37</td>
<td>21.05</td>
<td>4.21</td>
</tr>
<tr>
<td>Kotor</td>
<td>40.00</td>
<td>40.00</td>
<td>18.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Ulcinj</td>
<td>44.57</td>
<td>31.52</td>
<td>18.48</td>
<td>5.43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>43.90</td>
<td>32.70</td>
<td>20.78</td>
<td>0.62</td>
</tr>
</tbody>
</table>
• to work for their communities. As responsive organizations, their policy-making is compared to articulated societal demands.
• to be democratic. As democratic organizations, their activities are assessed on the basis of the realization of certain basic values.

Public residential enterprises provide the following services for citizens:
• capital maintenance of mutual parts of residential buildings and apartments; and
• urgent interventions on residential buildings (sewage works, plumbing works, electrical-installation works, maintaining of electrical-installation, chimney works, maintaining of water pump, maintaining elevators, repair and replacement of roof construction, hydro-isolation of building, façade).

Currently, there are no standards or indicators for measuring the quality of services provided by public enterprises. For example, the Report on the Work and Business of Public Residential Enterprises and Public Communal Enterprises in Podgorica (2002) reviewed communal and residential services for more than 160,000 citizens, or one-third of the entire Montenegrin population. The report dealt with the internal organization of a given enterprise; the business-financial results achieved by this enterprise; and comparisons of planned and achieved services in certain sectors of the enterprise.

Table 8 reveals how services were reviewed in the Report; Table 9 shows the financial aspect.

Several conclusions drawn from this Report.
1) Due to the lack of standards and indicators for performance measurement of service provision, the attention of services providers is concentrated on the index of planned and realized activities and on the financial aspects of certain activities.

Table 8
Report on the Work and Business of Public Enterprises

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>Planned No. of Interventions</th>
<th>Realized No. of Interventions</th>
<th>Planned No. of Working Hours</th>
<th>Realized No. of Working Hours</th>
<th>Index 3 : 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sewage works</td>
<td>1,662</td>
<td>1,966</td>
<td>—</td>
<td>—</td>
<td>118</td>
</tr>
<tr>
<td>Plumbing works</td>
<td>1,972</td>
<td>997</td>
<td>—</td>
<td>—</td>
<td>51</td>
</tr>
<tr>
<td>Electrical-installation works</td>
<td>744</td>
<td>797</td>
<td>—</td>
<td>—</td>
<td>107</td>
</tr>
<tr>
<td>Chimney works</td>
<td>231</td>
<td>125</td>
<td>—</td>
<td>—</td>
<td>54</td>
</tr>
<tr>
<td>Maintaining elevators</td>
<td>715</td>
<td>451</td>
<td>—</td>
<td>—</td>
<td>63</td>
</tr>
<tr>
<td>Maintaining water pump</td>
<td>724</td>
<td>262</td>
<td>—</td>
<td>—</td>
<td>36</td>
</tr>
<tr>
<td>Maintaining electrical installation</td>
<td>940</td>
<td>204</td>
<td>—</td>
<td>—</td>
<td>22</td>
</tr>
</tbody>
</table>

Table 9

<table>
<thead>
<tr>
<th>Services of capital maintenance</th>
<th>Invoiced in Euro</th>
<th>Paid in Euro</th>
<th>Not Paid in Euro</th>
<th>% of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urgent interventions on maintenance of private apartments</td>
<td>1,265,047</td>
<td>147,001</td>
<td>1,118,146</td>
<td>11.62</td>
</tr>
<tr>
<td>Urgent interventions on maintenance of business facilities</td>
<td>85,945</td>
<td>19,771</td>
<td>66,147</td>
<td>23</td>
</tr>
<tr>
<td>Renting of business facilities</td>
<td>31,457</td>
<td>23,597</td>
<td>7,859</td>
<td>75</td>
</tr>
</tbody>
</table>

111
### Table 10
Indicators for Performance Measurement in Provision of Residential Services and Urgent Interventions (Repair of Damages)

<table>
<thead>
<tr>
<th>Input</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned interventions</td>
<td>Number of conducted planned interventions</td>
</tr>
<tr>
<td>Reported interventions</td>
<td>Number of conducted reported interventions</td>
</tr>
<tr>
<td>Spent time</td>
<td>Payment of interventions</td>
</tr>
<tr>
<td>Number of engaged people</td>
<td></td>
</tr>
<tr>
<td>Spent financial assets</td>
<td></td>
</tr>
<tr>
<td>Technical equipment</td>
<td></td>
</tr>
</tbody>
</table>

**Efficiency/Effectiveness/Productivity Indicators**
- Number of provided service interventions:
  - relation among reported and planned needs and conducted services
  - helps assessing the total efficiency of service
- Speed of intervention:
  - relation between the time when the need for intervention was reported and actual execution of the intervention.
- Time required for repair of the damage:
  - organizational, cadre and technical qualification of the service.
- Quality of offered service:
  - professionalism of executed intervention and adequacy of problem solution.
- Level of payment:
  - monetary relation between provided services and paid, actually unpaid services.

### Table 11
Indicators for Performance Measurement in Provision of Communal Services (Waste Disposal)

<table>
<thead>
<tr>
<th>Input</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spent time</td>
<td>Quantity of collected waste</td>
</tr>
<tr>
<td>Number of people</td>
<td>Realization of plan for waste disposal</td>
</tr>
<tr>
<td>Spent financial assets</td>
<td></td>
</tr>
<tr>
<td>Technical equipment (vehicles)</td>
<td></td>
</tr>
<tr>
<td>Waste site</td>
<td></td>
</tr>
<tr>
<td>Plan for waste disposal</td>
<td></td>
</tr>
</tbody>
</table>

**Efficiency/Effectiveness/Productivity Indicators**
- Level of the plan realization for waste disposal
- Level of payment:
  - relation between monetary values between provided services and paid, actually unpaid services.
- Satisfaction of service users
- Time spent for waste disposal
2) It is not possible to assess the level of quality and efficiency of services.

3) The level of service payment is low.

4) Users of services feel no obligation to service providers.

All levels of government and administration should strive to develop standards for service provision. This involves creating indicators for measuring or assessing service provision, as well as the methodology for designing reports on service provision. The above should be clear and concrete, and be used for implementing more qualitative local community policies.

Tables 10–13 provide additional information on indicators for services offered in the residential certain communal branches.
5. RECOMMENDATIONS FOR QUALITY PERFORMANCE MEASUREMENT

The existing quality of public services in Montenegro is not satisfactory. To improve this situation, several preconditions must be fulfilled: a solid legislative system; order among new and existing public organizations; a high level of qualified staff; and, openness and transparency among local self-government agencies and public offices.

A solid legislative system requires responsible legislative bodies, on the state and local government level, to undertake substantial measures for the adoption of new laws. These laws must account for decentralization and privatization in the area of extending public services. Thus, it is important that new laws precisely define: the types and scope of public fields which could be privatized; models of private sector participation in the performing of public services; standards of performance for public services; the level of public interest under the State or local government’s protection; mechanisms for protecting the citizen’s interests; and mechanisms for controlling the quality, quantity and efficiency in public service provision.

Achieving order among existing and new public offices requires, to some degree, refocusing the entire administrative system. New public offices should be oriented toward efficiency and effectiveness in performing public services and focused on the needs of the beneficiaries (citizens) of public services. For this purpose, every public office should have a precisely defined: mission and strategic aim; standards for performing services; indicators of public services quality; and mechanisms for controlling the performance of public services. As a result, the existing situation (in which public offices operate primarily to satisfy their own economical interests), will be changed, and public offices will serve to fulfill of citizens’ interests and needs.

A high level of qualified staff requires training public officials and local self-government employees on new methods and concepts in public management. Such training courses will help employees to better understand new public management trends in other countries. As a result, they will be armed with the tools and strategies to counteract existing problems and will be motivated to achieve the mission and strategic aims of their enterprises.

6. CONCLUSION

Montenegro has entered a new period politically, socially, and economically—a period characterized by war, isolation, and the slow decline of the Socialist legal system. Conflict in the region has influenced the centralization of political power and introduced the assumption that administration activities are better carried out by newly-formed State ministries.

In 1998, the Government of the Republic of Montenegro began to reform the social, economic and political system of the country. Special attention has been given to the privatization of the economy, the establishment of a monetary system, and the reform of public administration and local self-government. Under the new legislative proposals, the performance of public activities by State bodies has been decentralized in three ways:

1) transferring or delegating functions to the local governments;
2) delegating the execution of state activities to agencies; and
3) involving the private sector in performing public services.

This process of political and economic reform influenced the understanding that the public sector requires significant changes in its provision of services. New challenges (so-called ‘best values’) have been made to develop innovative approaches to performance measurement, management and evaluation of...
public services. Meanwhile, the central government, local self-government agencies and public organizations must face the fact that, in order to translate ‘best values’ into practical strategic actions, they need to thoroughly analyze the present situation by measuring the quality of services and service provision.

Accordingly, the reform process in Montenegro has only just begun; this is the main reason why local communities still apply the previous experiences of a communal system when providing public services. As a result, local self-government agencies, as well as public organizations, still lack precisely-defined missions and strategic plans for the performing of public services, and an understanding of what directly influences service quality. Additionally, the existing legislative system does not emphasize the techniques of performance measurement in public service provision. As a result, analysis of services and services provision is carried out almost solely performed by specialized NGOs.

And, indeed, analysis of the public opinion reveals that citizens of Montenegro are not particularly satisfied with the organization and quality of public services offered by local self-government agencies and public organizations.

To change this present situation, several preconditions should be fulfilled: a solid legislative system; order (and focus) among new and existing public offices. These preconditions are: good legislative system; good organization of existing and new public offices; a high level of qualified staff; and, openness and transparency of local self-government agencies and public offices. Emphasis should be placed on the establishment of good techniques for evaluating and improving efficiency and effectiveness in the performance of the public sector, which in its turn will enhance the quality of public services.

ENDNOTES

1 Official Gazette of the FRY 1/92.
2 Constitution of the Republic of Serbia (Official Gazette of the RS 1/90) and the Constitution of the Republic of Montenegro (Official Gazette of the RMN 48/92).
3 Article 22, Draft Law on Public Administration.
4 Article 39, Draft Law on Local Self-government.
5 Article 77, Draft Law on Local Self-government.
6 Article 1, Law on Public Procurement (Official Gazette of the RMN 40/01).
7 Draft Law on the Involvement of Private Sector in Public Services Provision has been submitted to the Parliament of Montenegro for adoption.
8 Article 3 and Article 7, Law on Theatres (Official Gazette of the RMN 60/01).
9 Article 7, paragraph 2, Law on Employment (Official Gazette of the RMN 5/02).
10 Article 94, paragraph 1, point 3 and article 99, paragraph 2, Constitution of the RMN (Official Gazette of the RMN 48/92).
11 Ibid., paragraph 1, point 8.
13 Article 38, paragraph 1, Law on the Principals of the Organization of State Administration (Official Gazette 56/93).
14 Ibid, paragraph 3.
15 Ibid.
16 Decree customs work (Official Gazette 33/01).
17 Decree on foreign-trade work (Official Gazette 33/01).
18 Decree on administrative tax (Official Gazette 44/01).
Decree on administrative and torts procedure in the areas of customs and foreign-trade work (Official Gazette 50/01)

Answer scale: very little confidence, little confidence, confidence (average), great confidence, or do not know. Centre for Development Non-Governmental Organizations, Bilten NGO (2002) ‘Managing the State’—Opinions and attitudes of the citizens of Montenegro, Papers No.16, Podgorica p. 11.

Article 39, Draft Law of Local-self government, March 2002

This is indicated by the fact that the Government of the RMN, and the Council for privatization have already prepared a Program of Privatization of Communal Affairs, and a special expert team has been established for the privatization of communal affairs.


Ibid, 77.


Ibid.

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Law on Employment (Official Gazette RMN 5/02).
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Decree on Administrative Tax (Official Gazette RMN 44/01).
Decree on Administrative and Torts Procedure in the Areas of Customs and Foreign-trade Work (Official Gazette RMN 50/01).
Slobodan Milutinovic

Introducing Performance Measurement to Local Administration in Serbia: Options and Possibilities
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*Slobodan Milutinovic*

1. INTRODUCTION

“When excellent intentions agreed by all are to be put into practice, old habits take over. How do we move from a project approach to a more programmatic approach? How do we approach the crucial but difficult question of power?”

Bernard Ryelandt, Former Head of DGVIII at the European Commission

The Republic of Serbia of today resembles a spectacle of political experimentation. The constant struggle among sub-national, national and international forces, the relationship between Serbia and Montenegro, economic problems, corruption, and difficulties with the decentralization processes counteract many contemporary efforts toward reform.

The first step toward decentralization process followed the adoption of the Law on Local Self-government by the Serbian Parliament in February 2002. However, the new law failed to solve many problems connected with local communities and administrations. One problem concerned how, exactly, to report the progress (or lack therefore) made by local self-governments, and how to measure accomplishments of local officials and civil servants. Serbia has never enjoyed a system of performance measurement, or a sufficient level of public awareness or political culture necessary for introducing this kind of mechanism.

Through research, surveys, and personal communications with local officials in seven Serbian cities and municipalities (Nis, Kraljevo, Cacak, Novi Pazar, Kursumlija, Uzice and Pozega), this paper aims to discuss the possibilities of introducing performance measurement to local self-government in Serbia by addressing:

- if the existing institutional framework, legal system and legal order allow for the introduction of performance measurement;
- possible obstacles or traps;
- how to design possibilities for performance measurement in local self-government; and
- possible indicators.

Beyond theoretical considerations, this paper focuses on empirical evidence about the current situation of local self-government in Serbia. Analysis concentrates on changes in law and by-laws concerning local self-government and the legal order in Serbia, as well as developments in the contemporary political culture and the emergence of a performance measurement system as a (mostly political) tool in local democracy.
2. INSTITUTIONAL FRAMEWORK

2.1 Political Context

Misrule, economic decline, and isolation have shaped governance in FRY, especially in Serbia. Many laws do not conform with the Federal and Republican Constitution; the legal vacuum has been used for political and opportunistic economic ends. Particularly after Socialist Party victories in the 1996 local elections, oppressive central policies generated crises in all levels of government and jeopardized local autonomy.

This regime resorted to an excessive use of legalistic terminology and a heavy police presence, described by some as the ‘legitimization of the illegitimate’. Corruption and ‘clientelistic’ relations came to be accepted as normal; the resulting low level of public trust in the rule of law prevails (UNDP, 2000).

After elections in late 2000, and the subsequent confirmation by the Serbian Parliament of to uphold a democratic principles, a new comprehensive, government reform agenda began to take shape. This agenda consists of four main tasks:

- Institutional and administrative reform, including:
- judicial reform and the rule of law;
- economic development; and
- social equality.

2.2 Constitutional Settings

By law, the Republic of Serbia and the Republic of Montenegro hold complete sovereignty over matters which are not directly regulated by the Federal Constitution. Recent political changes have redefined the relationship between these units; an agreement signed (and awaiting parliamentary confirmation) by both Republic’s presidents unites the states as equal sovereigns under Union of Serbia and Montenegro.

The autonomy of local governments is shaped by the Federal Constitution and central authorities; the process of decentralization has thus proven difficult to negotiate. With the relationship between the two Republics yet unsolved, stakeholders have, however, managed to influence Montenegro to give considerable jurisdiction to the local self-government. Serbia, meanwhile, has needed much more time to start this processes.

In keeping with provisions in the Federal Constitution, the Constitution of the Republic of Serbia defines the character, jurisdiction and way of organizing the local self-government. Local self-government is, above all, a form of territorial organizing of the public (state) government (Simic, 2000: 35). Accordingly, local self-government in Serbia is one-level, consisting of several municipalities.

The responsibilities of municipalities are defined by the Constitution of the Republic of Serbia and are mainly related to communal affairs. The Constitution also establishes a municipality’s competencies in fields such as culture, health and social protection, children care, physical education, public announcing, handicrafts, tourism and hosting, and the protection and improvement of the environment. The list should not be viewed as a limit; rather, “everything that is not forbidden by the Constitution and Law is allowed in the Republic of Serbia.”

Currently, confusion and controversies rage over the question of the ownership of assets, particularly those business facilities and building areas which are handled by the municipality. The Constitution defines State ownership over assets, while granting municipalities usage rights.

Thus, the existing legal framework does not underlie the significant degree of centralization in

<table>
<thead>
<tr>
<th>Federal Units</th>
<th>Population (1998) [Millions]</th>
<th>Sub-divisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>10.6</td>
<td>2 Autonomous regions: Vojvodina and Kosovo (within Serbia proper)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>29 districts (okrug), or detached offices of central government</td>
</tr>
<tr>
<td>Montenegro</td>
<td>0.68</td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Administrative Overview of FRY
Serbia. Rather, social and political processes, corruption and the lack of rule of law have inhibited effective decentralization from taking place.

2.3 Statutory Settings

Historically, the Serbian State in its various forms has employed centralization as an avenue of modernization, assuming an ever greater role in communal affairs. Under the Milosevic regime, legal and fiscal arrangements were specifically designed to weaken local government. In early 2002, the Serbian Parliament began to rethink decentralization, passing a new Law on Local Self-government. The legal framework prior to February 2002, however, contributes to the extremely limited responsibilities and powers to municipalities. Former practices remain; the endurance of these practices require investigation.

The 29 districts (okrug) of Serbia function as extensions of the central government. While major changes have recently taken place at the federal, republican and local level, there has been very little political or structural change at the district level. Presently, each district contains several municipalities (opština)—189 in Serbia. The 2002 Law on Local Self-Government has divested a municipality of its definition a territorial unit. Municipalities, rather, can organize ‘local communities’ (mesne zajednice), and exist as corporate entities encompassing towns, villages and rural areas. While a municipal government is normally situated in the largest town, it is responsible for the entire district.

Because the new Law on Local Self-government was adopted during the research period, and problems reflecting the previous regulations remain, both laws are analyzed here.

2.3.1 From New to Old: Laws on Local Self-government

According the former law, prerogatives of local self-government include:

- urban planning and building;
- communal activities and services;
- primary education;
- culture (on the local level);
- maintaining local roads and streets;

Figure 1

Percentage of Number of Municipalities According to Number of citizens in Serbian Municipalities

primary health care;
• social care and care for children and youth;
• sports;
• tourism, hotel and restaurant management, handicrafts and trade;
• protection of the environment and natural resources;
• public information;
• natural disaster contingency planning and management; and
• legal aid.

Under this law, the principal source of municipal revenue consisted of remitted central government taxes which were collected locally—mainly property and sales taxes. Municipalities lacked influence over the amount of revenue received through budgeting or revenue improvement efforts; these were subject to personal political preferences within the central government. In addition to remittances, municipalities were able to raise limited revenues through local taxes and fees on services rendered. Fee rates, however, were determined by the central government.

The new law signifies innovations in sub-national governance, with reified aims including functionality, professionalism, efficacy and personal responsibility in administrative execution. The actors of local government have also transformed: formerly appointed by a Municipal Assembly, mayors are now to be directly elected by citizens.4

The new law has introduced a considerable degree of financial decentralization, granting municipalities the right and responsibility to manage original, transferred and supplementary revenues.

• Original sources include: local and communal taxes and compensations; voluntary tax; concessions and donations; public obligations; and incomes earned by the government in the market. Additionally, a municipality now defines rates itself, as well as deductions and exemptions.
• Transfer revenues were the basis of the financial control of the central government, and have been decreased and strictly limited to transferred activities or services.
• Supplementary revenues are anticipated only for the small and economically undeveloped municipalities, and serve as a means of economic balancing.

The new law, importantly, has not solved the problem of ownership. Municipalities possess the right to manage ownership, the right to possess land, business facilities and assets possessed by the Republic.

Finally, accountability and reporting were neither explicitly mentioned in this law, nor are they addressed in the 2002 revision. The reporting system has historically been hierarchical—information flows from the bottom to the top—and generally concerns annual reports, and little more.

2.4 Legal System versus Legal Order

Along with the multitude of other challenges, Serbia’s transformation to a modern, democratic nation-state is, to a large degree, complicated by high expectations and the framing of change in terms of a tight ‘window of opportunity’. Moreover, like many transiting countries, corruption in Serbia is, to put it gently, prevalent—if not omnipresent. In this light, policy instruments for promoting local government transformation processes are not yet in place, or cannot yet be measured comprehensively. There are many reasons for this, particularly concerning: infrastructure services; social conditions; planning and municipality management; and information exchange and public participation.

2.4.1 Infrastructure Services Sphere

—Conditions and Obstacles

Currently, there exists no framework which defines how infrastructure systems are to be funded; unrealistic attitudes toward services costs and prices persist. Across the board, fee collection rates are very low (under 50 percent for all community services), while rising service prices in recent years has only furthered consumer dissatisfaction. Unemployment rates in Serbia are high—estimates range between 30 to 40 percent of the economically active population—while ubiquitously low household earnings inhibit communal services payments.

Some infrastructure systems are still controlled by the central government, such as electricity and gas supplies, or exist as state-owned public enterprises of the central government. In turn, the management of these systems suffer from inadequate legal autho-
rity. Meanwhile, the technical facilities of many infrastructure and communal systems are dilapidated. Although these systems were designed and built for high levels of service, a decade of poor maintenance and the lack of investment have resulted in physical decline and serious deterioration in the quality and reliability of services.

In brief, municipal services were established according the principles of a socialist system which is no longer functional, although the legal and institutional framework of the system (and the associated attitudes) are still in place. Within this framework, there is insufficient authority or incentive to manage infrastructure service delivery effectively. Furthermore, the public is accustomed to universal service at a nominal cost. Because the cost of services—heating, for example—does not vary with the amount consumed, customers have little incentive to use services economically. Solving these problems requires introducing market mechanisms.

Indeed, the majority of communal services are still socially-owned. Although the possibility of private participation in communal services statutory existed in previous decades, there were only a few (and generally insignificant) attempts to build public-private partnership enterprises. Even now, revenues for municipally-owned communal services derive mainly from locally-collected taxes remitted by the central government. Lacking both the authority and the resources required for adequate service provision, municipalities generally does not see local government in terms of 'service for citizens'.

The performance of the communal activities in Serbia is an exclusive competence of public utility companies. Confusingly, founders (de facto owners) of these companies are departments of local governments (municipalities and towns), but the Republic possesses the capital and even part of their ownership.5 Formally speaking, the owner of the company do not have the right to manage a company.

Public utility companies are, as well, de facto bounded to the territory or municipality (or town) which founded them. There is no possibility to perform activities outside the municipality, and thus there is no possibility of competition in the performance of communal services. Thus, there is no stimulus for improving the economic efficacy or the quality of such services.

Finally, departments of the local governments now often create firms that have all formal shapes of independent economic subjects—that is, companies. Until recently, utilities existed as part of local administration due to both inheritances from the former system and because of their enormous structure. This generated economic inefficiency and losses in income, as well as technically untenable situations.

2.4.2 Social Conditions

High levels for human development indicators have been achieved by devoting a very high proportion of the GDP to the social sector; about 15 percent of the GNP is spent on health and education, and another 15 percent on pensions. In absolute terms, however, current social sector expenditures are very modest, amounting to EURO 60 per capita for health (UNDP, 2000). Moreover, as a result of conflict and economic decline, the pension system is the principle source of income for about 20 percent of the population; 40 percent of these disability pensioners. However, payments, which average only EURO 55 per month, are often delayed. Due to budget shortages and administrative barriers, social service provision does not meet need.

Serbia’s social sector is still highly centralized. The provision of health, education and services is entirely a function of the central government; municipal governments hold responsibility only for the provision and maintenance of requisite physical facilities. Over the past decade, facilities and equipment have deteriorated and the level of services has dropped drastically. Presently, the social sector is inadequate, ineffective and unaffordable Many schools, for example, have inadequate heating and lack necessary resources. Local authorities are generally dissatisfied with the quality of educational programs and the teaching staff provided by the central governments. While health care facilities and professional staff are considered to be adequate, there is a critical shortage of materials and a minimal operating budget. Other social facilities operated by local governments (such as community centers, kindergartens, cultural and sport facilities, and local radio and TV stations) have similarly suffered.
2.4.3 Planning and Municipality Management

As required by law, all municipalities have a long-term ‘general urban plan’, which is prepared by a specialized department (in larger in municipalities and cities) or by a central governmental institution, but paid for by the municipality. Most of the current general urban plans are ten or more years old. They are relatively expensive to develop, and not all local officials attach great value to them. Nonetheless, they do provide a necessary framework for shorter-term development planning. Master plans, often prepared by Belgrade-based institutions, for individual sectors (such as water supply) exist in many—but not all—areas. While some are considered adequate, the quality of others is questionable.

The obligatory ‘general urban plan’ is poorly integrated into the local management processes. It is seldom ‘owned’ by local authorities and provides an inadequate basis for cooperation among municipalities. There is a considerable gap between these long-term plans and the short-term ‘project documentation’ and annual investment programs prepared by the municipalities; the crucial intermediary phase of medium-term strategic planning is missing.

There is an absence of demand studies and economic analysis at the level of project documentation. In such circumstances, decision makers lack the capacity to compare investment options across different sectors. Also, the potential of community participation in planning and decision-making processes is not adequately realized.

Although no institutional assessments were made in this study, the degree of cooperation and consensus among various local government bodies and agencies appears to be less than satisfactory in some cases. To a certain degree, the previous, highly centralized system, the ‘external’ relationship between local central agencies perseveres, to the detriment of ‘internal’ cooperation and policy coherence at the municipal level.

Although many local officials are skilled professionals, transition, conflict and recent political struggles have brought many new and inexperienced individuals into local government offices. This, and the lack of training facilities for civil servants, has limited the human resources and skills available to local governments.

2.4.4 Information Exchange and Public Participation

Mechanisms which promote or encourage citizen and civil-society participation in municipal affairs are generally lacking. Other than local elections, the principle mechanism of participation in municipal affairs involves input into ‘bottom-up’ planning processes. Presently, communities at the level of mesna zajednica (territorial organization unit under municipality) prepare a list of priority service and infrastructure needs for consideration by municipal planning authorities within the annual investment programming process. Communities occasionally decide to contribute to the financing of desired improvements, thus increasing their chance being implemented. Generally, however, the level of investment has been very low and the practice of local participation fallen into disuse.

3. DELIVERY MODES

Accountability and public control of local governments and the services provided comprise key political goals of the Serbian government. Moving from proclamation to practice, however, proves difficult; Serbia is only at the very beginning of this process.

3.1 Infrastructure Service Delivery

All urban infrastructure services are delivered by municipally-owned communal enterprises. According the Law on Public Enterprises, municipalities can organize public enterprises individually, with other municipalities, with another government body (at a different level), or with a private company. Contracting and public-private partnerships are not forbidden by law, but there are only a few examples of such relationships—such as in the provision of services which are not, exactly, public goods (parking services, traffic lights, and so on). Political and economic reforms have initiated the forming of ‘strategic partnerships’; currently, many communal enterprises try to meet preconditions for establishing public-private partnership with (mainly foreign) companies.

The situation with water supply differs from municipality to municipality. Service coverage ranges
between 98 and 100 percent, mostly in large urban centers (Belgrade, Nis, Novi Sad) to about 75 percent in smaller municipalities. Network expansion has not kept up with rapid rate of urbanization. Main technical problems include inadequate water pressure; poor and inconsistent access; low quality due to old and poorly-maintained pipelines; inadequate treatment capacity (mainly in the summer); polluted sources; inefficient systems and high losses; dilapidated distribution networks; and insufficient storage capacity. The fees charged for water supply are extremely low (about EURO 0.035 per cubic meter), but only 40 to 60 percent of bills are actually paid. Revenues cover about one-half to two-thirds of operating costs, with no allowance for repairs or investment.

Infrastructure systems regarding sanitation and drainage are affected by similar problems, including: risks of groundwater pollution and drinking water contamination; illegal connection to surface drains; and the general absence of water treatment. Anywhere from 50 to 90 percent of urban inhabitants, for example, receive sewage treatment services. Wastewater services are generally financed through a surcharge on the water bill. The revenue, however, covers only a part of actual operating costs.

Facilities and equipment for solid waste collection and disposal suffer from a lack of environmentally satisfactory disposal conditions at landfills, shortage and dilapidated condition of containers and outdated trucks with high maintenance costs. The percentage of urban population served is satisfactory (about 90 percent).

There is central heating in all larger cities, but it serves only a portion (25 to 40 percent) of all cities. Electrical power production and distribution is the responsibility of the public enterprise, and towns are provided with full electric services.

Municipalities are generally responsible for planning, constructing and maintaining local and secondary roads within their territory. Regional roads are government responsibility. Public transport is organized varyingly: in some cases, a municipality (or town) owns the public transport enterprise (Belgrade); in other cases, there is an independent, socially-owned bus company which operates intercity and as well as local transport (Niš, Užice).

Generally, municipal services were established according the principles of socialist system which is no longer functional, although the legal and institutional framework of this system—and the associated attitudes—are still in place. Within this framework, managers of infrastructure systems lack the responsibility, authority and incentives to manage infrastructure delivery effectively. Furthermore, the public is accustomed to universal service at nominal cost. As such, there is little notion of demand orientation or cost recovery. Because of the cost of services—for example, heating—does not vary with the amount consumed, customers have little incentive to use services economically.

The market mechanisms have not been fully introduced into infrastructure systems. Markets alone, however, will not produce satisfactory, sustainable solutions. Infrastructure services are not simply ‘economic goods’, and their value must be determined, among other things, by social processes. First, certain municipal services—like wastewater treatment—have the character of ‘public goods’; the benefits of their use affect not only the immediate user, but also the public as a whole. Second, certain services—such as water supply—have the character of ‘merit goods’, because every member of the society is entitled to a certain level of service even if he or she cannot afford the economic price.

3.2 Social Service Delivery

Social services, particularly health and education, have been greatly weakened by a decade of inadequate maintenance and investment. Furthermore, dividing the responsibility for services between central and local governments has undermined effective management and accountability. The historically highly centralized system also limits the potential for mobilizing of local resources and the capacity for service development and management. Decentralization, meanwhile, will certainly increase the role and responsibilities of local government in this sector. Yet, two additional tasks are likely to present local government with additional roles which they are presently not prepared to handle: the integration refugees and internal displacement persons; and the provision of social safety-net functions to mitigate disruptions associated with privatization and economic reform.
3.3 Questionnaire Survey

In early 2002, a questionnaire survey was performed to assess the average opinion of high- and medium-level local officials about their satisfaction with administration and public service delivery and the possibility of introducing performance measurement to their municipalities. The results of this survey were compared to the outcomes of research conducted by the Centre for Free Elections and Democracy (CESiD) in December 2001 (CeSID, 2002), which sampled 1,144 citizens in five municipalities in central Serbia. This questionnaire survey revealed citizens’ opinion about the quality of local administration or government, under the hypothesis that dissatisfaction with service delivery among municipal decision-makers and those directly involved in preparing municipal actions (such as high- and medium-level officials), and their willingness to adopt performance measurement, might lead to a greater acceptance of PM in municipal management and reporting.

The survey included 108 individuals employed as high- or medium-level local civil servants in municipal administrations, public enterprises or municipality-managed agencies from seven municipalities in central Serbia (Nis, Novi Pazar, Cacak, Kraljevo, Uzice, Pozega and Kursumlija). These municipalities were chosen for the following reasons:

- all seven are located in central Serbia, and have attained similar levels of development;
- selected municipalities ‘draw’ a line from the North (Novi Pazar) to the South (Nis); and
- four municipalities were affected by significant democratic movements and opposition to local government. Novi Pazar is a multiethnic municipality with a minority local government and, for Serbian standards, a highly efficient private economy. Kursumlija, on the contrary, is underdeveloped and remain heavily influenced by Communism.

The those surveyed were:

- municipal managers (71 percent), such as decision-makers (elected officials, members of the executive boards, or department secretaries) or managers of public enterprises (directors or section heads); and
- employees (14 percent) in municipal or public enterprises’ administrations.

Overall, 57 percent were employed or engaged in municipal administrations, public enterprises or agencies managed by municipality for under five years, 21 percent from five to ten years, 7 percent from ten to fifteen years, and 11 percent for over 15 years. About a quarter were engaged in the NGO sector.

Participants were asked about their own values (as citizens) concerning their personal satisfaction with services delivered by local governments. The services were split into two categories: (1) those delivered by the local administration; and (2) services delivered by public enterprises. The results of the survey are depicted in Figures 2 and 3.

Comparison of this survey with that conducted by CeSID (CeSID, 2002) indicates that local officials are, interestingly, more critical of municipal administrations than are citizens (Figure 4). Unfortunately, due to differences in survey methodologies, comparisons can only be made of the speed of municipal staff in solving issues and their behavior toward clients.

The fact that municipal officials are critical of many aspects of service delivery, as well as of the performance of public enterprises, indicates at least some political willingness to begin organizational, management and behavioral changes in administration—even among senior officials. As such, performance measurement might play an important role in introducing and justifying serious reform.

4. PERFORMANCE MEASUREMENT IN SERBIAN PRACTICE

4.1 Measurements, Indicators, and Data

A carefully selected set of measures derived from policy objectives, governmental and departmental goals and critical success factors represents a tool for leaders to communicate strategies direction and offer motivation. This performance measurement tool is typically used to measure progress toward a preset target. It can also be used to compare performance between operating units. In addition, after the initial period of use,
comparisons may also be made with past performance. Research in both the public and private sectors indicates that good systems of performance measurement can facilitate dramatic increases in the quality of services provided and bring about enhanced job satisfaction among employees. For managers in the public sector, comparative performance information is essential for assessing if the best services are being provided or purchased at the lowest cost, and if those services are meeting the needs of the community—that is, if they achieve the desired outcomes.

Indicator selection itself is a critical process, one with significant consequences for the meaningfulness and effect of assessment. Indicator selection should be a participatory process, involving members of the general public and policy-makers.

Indicators should be (World Bank, 1997):

- developed within an accepted conceptual framework;
- clearly defined and easy to understand;
- subject to aggregation (from household to community, from community to nation);
- objective (independent of the data collector);
- accessible, based either on available data or data that can be collected at a low cost and within the ability of the country's statistical agencies;
- relevant to users;
- limited in number; and
- reflect causes, process or results.

To avoid haphazard selection, specific criteria are used to test whether an indicator should be kept or discarded.

- Benchmarks can be used to compare documented, best-case performance related to a certain variable with another entity or jurisdiction. The policy is evaluated based on its impact in a given jurisdict-

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**Figure 2**

Satisfaction with the Services Delivered by the Municipal Administration to the Citizens, According to Officials from Seven Serbian Municipality

<table>
<thead>
<tr>
<th>Scope of Services that Local Self-government Delivers to Citizens</th>
<th>Engagement of the Local Authorities in Service Delivery</th>
<th>Engagement of the Administration/Employees in Service Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsatisfied</td>
<td>Partly Satisfied</td>
<td>Satisfied</td>
</tr>
<tr>
<td>45%</td>
<td>4%</td>
<td>53%</td>
</tr>
<tr>
<td>36%</td>
<td>4%</td>
<td>60%</td>
</tr>
<tr>
<td>29%</td>
<td>7%</td>
<td>64%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organization of Municipal Departments in Service Delivery</th>
<th>Speed of Solving of Issues and Compliants</th>
<th>Behavior of Municipal Officials and Their Communication with Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsatisfied</td>
<td>Partly Satisfied</td>
<td>Satisfied</td>
</tr>
<tr>
<td>39%</td>
<td>0%</td>
<td>61%</td>
</tr>
<tr>
<td>57%</td>
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<td>39%</td>
<td>47%</td>
<td>14%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unsatifed</th>
<th>Partly Satisfied</th>
<th>Satisfied</th>
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</thead>
<tbody>
<tr>
<td>0%</td>
<td>4%</td>
<td>60%</td>
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<tr>
<td>4%</td>
<td>6%</td>
<td>36%</td>
</tr>
<tr>
<td>7%</td>
<td>14%</td>
<td>47%</td>
</tr>
</tbody>
</table>
**Figure 3**

Satisfaction with the Services Delivered by the Public Enterprises’ Administration and Employees to the Citizens, According to Officials from Seven Serbian Municipality

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**Figure 4**

Comparation between Our Survey and CeSID Survey (CeSID, 2002)
tion compared with conditions in the benchmark or reference jurisdiction. In Serbia, some benchmarking is sometimes used at the national level for statistical reporting.

• A threshold is the value of a key variable that will elicit a fundamental and irreversible change in the behavior of a system. In this case, a policy is evaluated based on its role in making a system move toward or away from the threshold in any given period.

• Nationally- or internationally-accepted standards are evaluated in terms of the level of ‘success’ in standardized values and procedures which have been achieved.

• The stating of principles and policy-specific targets can be used to evaluate policy orientation, by highlighting goals or objectives of significance.

Such criteria are useful, but do not guarantee that the indicators selected will be the most meaningful to any given audience. Therefore, quality control for each and every indicator must be built into discussions with stakeholders in each municipality, to make sure that they will continue to be of value in subsequent analyses and will help substantiate connections between pressures, states and responses.

Several points are important to consider when developing indicators (Meadows, 1998).

• Without good data based on monitoring, it is impossible to develop indicators.

• Indicators arise from values. They also create values.

• Performance measurement implies real targets and benchmarks (something to which actual performance can be compared).

• Different people living in different places have different values. Indicators, therefore, must be unique to people, places, cultures and institutions.

• Indicator sets evolve over time.

• No indicator set is complete.

• Measurement tends to reduce uncertainty, but never eliminates it.

• Indicators play a central role in how a system works. Changing indicators will likely change a system.

• The same indicator can be excellent or poor, depending on how it is used.

There are several types of performance indicators that are often used in performance measurement systems (Hatry et al., 1990). For the purpose of this study, performance indicators have been grouped as follows (based on the US Government Accounting Standards Board, GASB):

• Input Indicators report the amount of resources, either financial or other (especially personnel), that have been used for a specific service or program. Input indicators are ordinarily presented in budget submissions and or external management reports.

• Output/Workload Indicators report units produced or services provided by a program. Workload measures indicate the amount of work performed or the amount of services received.

• Outcome/Effectiveness Indicators report the results (including quality) of a service. According to Paul Epstein, “effectiveness measurement is a method for examining how well a government is meeting the public purpose it is intended to fulfill. In other words, effectiveness refers to the degree to which services are responsive to the needs and desires of a community. It encompasses both quantity and quality aspects of a service.” (Epstein, 1992: 161).

• Efficiency (and Cost-Effectiveness Indicators). Efficiency measurement is a method for examining how well a government performs, regardless of what it is performing. Specifically, efficiency refers to the ratio of the quantity of the service provided (e.g., tons of refuse collected) to the cost (in monetary unit or labor) required to produce the service (Epstein, 1988).

• Productivity Indicators are a combination of the dimensions of efficiency and effectiveness in a single indicator (Ammons, 1996). For instance, whereas “meters repaired per labor hour” reflects efficiency, and “percentage of meters repaired properly” (e.g., not returned for further repair within 6 months) reflects effectiveness, “unit costs (or labor-hours) per effective meter repair” reflect productivity.
In many cases, along with the above-mentioned indicators, some additional information is needed to make a sound judgment about service provision. GASB, for example, specifies certain types of explanatory information for its suggested list of indicators for service efforts and accomplishments. GASB defines a variety of information about the environment and other factors that may affect performance, such as weather conditions for road maintenance.\(^8\)

Appendix 2 offers proposed performance measurement indicators for some municipal functions. Three functions (sanitation, economic development and building permits approval) are used for three parts of municipal self-government. These parts are: public service delivered by a public enterprise (sanitation); economic development as a function of (mostly) an administrative municipal department, mayor and executive board; and building permits approval as a responsibility of more than one municipal department (Department on Urbanism and Housing, the municipally-driven Institute of Urbanism, and other institutions). This example illustrates a range of municipal responsibilities for services and functions in Serbia.

4.2 Willingness to Introduce Performance Measurement: Survey Results

According the above mentioned questionnaire responses, performance measurement could be effectively incorporated into Serbian local authority practice. Over 90 percent of local officials elected or engaged in local self-government in Serbia expressed willingness to introduce PM (Figure 6). While this willingness can be seen as highly declarative and politically motivated, it appears to be a good starting point for further actions.

Just over 70 percent (Figure 6) of Serbian local authorities or representatives (both elected and employed) believe that performance measurement should be introduced only for some departments. The survey did not serve to explore what kind of department, but the reason for this opinion might be the absence of a system of indicators or the relative ‘fuzziness’ about performance measurement as a tool.

Figure 7 indicates that local authority representatives and public servants in Serbian municipalities affirmed that performance measurement is needed for all municipal employees (60 percent), for elected representatives (one/half) and for administrative staff (one-third). All respondents answered that performance measurement can improve services and enhance the accountability of engaged officials at all levels. Some 64 percent of those surveyed suggested that the planning of work processes would be better with performance measurement; 60 percent pointed to better communication among sectors as a result of PM. One-half of local authority representatives recognized the formulation of a strategy of sectors/services as a primary benefit of performance measurement. Only one-third answered that PM would promote competition and comparisons among workers and among municipalities (Figure 8).

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**Figure 5**

Previous Performance Measurement Experiences of Serbian Local Authorities

- [ ] Has been evaluated descriptively
- [x] Has not been directly measured

**The Influence of Previous Performance Measurement Experience on Position and Promotion in Further Work**

- [ ] Has not been evaluated
- [x] Has sometimes been measured
- [ ] Has been constantly measured
Regardless of position, virtually all surveyed expressed interest in all measurement results; about 90 percent of municipal officers wish to be informed of results for elected persons/managers as well as for municipal service/public enterprises engaged persons (Figure 9). Very few respondents objected to the development of indicators for their own positions, but 30 percent wished to participate in the process.

Approximately half of all municipal and public service servants think that performance measurement can be introduced to Serbian practice within a year; only seven percent were skeptical. (Figure 10).

5. MAKING PERFORMANCE MEASUREMENT WORK IN SERBIA

5.1 Accompanying Mechanisms for Public Scrutiny and Access to Information

Due to public participation and access to information, laws and the overall political environment change constantly in Serbia. Challenges to improve policies and to enhance the capacities of administra-
It would not help

Better communication among sectors

Formulation of strategy of sector/services

Better planning of work process

Competition among employees

Comparison of municipalities

Easier promotion

Improvement of services and increase of responsibilities

Figure 8
The Role of Indicators

Figure 9
Municipal Officers’ Opinion about the Need of Information about Performance Measurement Results
tive offices and public servant additionally shapes the path of reform. Moreover, to keep up with the speed of change, Serbian municipalities struggle tirelessly to secure material, financial and human resources.

There is, thus, a need for the establishment of an independent body to monitor and oversee the progress of reform. This body cannot be a municipality council (opstinsko vece), but rather an autonomous group of experts and civil society members.

Possible obstacles include: a lack of awareness on behalf of citizens; a general, unquestioning belief or acceptance in government (as an unchangeable, superior entity); the culture of secrecy within public administration; the lack of resources; the absence of specific skills in the public sector; limited independent media and technology; and cultural barriers.

If local administrations in Serbia sincerely desire to make governments accountable and transparent, the full disclosure of information and public participation must be ensured. Replacing mere propaganda with real methodologies—or clearly-defined steps and tasks that refer to specific territorial units, sectors, and individuals—will certainly assist in the overall reform process. It would be additionally useful for local authorities to introduce appeals mechanisms or independent monitoring (or both) for any sector and to foster a proactive public service culture. In a broader sense, performance measurement could also benefit from the publicizing of success stories, strengthening the capacity of civil society organizations, building capacity and awareness in the public service and civil society, promoting listening and cooperation skills.

Even accountable local governments in Serbia struggle with conflicts of interest—a difficult task in an environment where basic anti-corruption and other laws do not yet not function, and where the whole policy-making system is unstable. In this regard, factors crucial to ensuring impartiality in carrying out public duties include: (1) a clear and realistic definition of what can lead to a conflict of interest, namely when the private interests of a public official conflict with public interests; and (2) developing unambiguous rules on what is expected of public employees in order to resolve a conflict. Local governments must put stated standards into practice by socialization (communication, training and counseling), and enforcement (developing disclosure systems and detecting and holding those who do not comply with the stated standards accountable).

Certainly, developing standard on paper represents the (relatively) easy part of performance measurement and reform. The implementation of the standards, however, is significantly more difficult—particularly in terms of achieving real change. The main tasks of local governments, therefore, include coordinate prevention and enforcement measures, integrating these into a coherent institutional framework, balancing contravening principles (such as protecting privacy while ensuring transparency), and assessing the impact of conflict of interest measures (by reviewing existing policies in order to identify at-risk areas).

5.2 Creating an Efficient and Transparent Budget Process

An efficient and transparent budget process is one of the main preconditions for accountability, and a strong mechanism for measuring the sustainability of local government efforts. Local budgets should follow the principles of good governance: transparency; accountability; coherence; future orientation; and integrity (or rule of law). To attain these principles, a
local budget must: (1) be comprehensive (reflecting all revenues and expenditures); (2) utilize an automated/integrated system; (3) be based on a solid legal framework; (4) reflect a multi-annual plan; (5) be open to civil society; and (6) engage the public service.

5.3 Improving the Preconditions for a Performance-oriented Local Government

As noted, transparency is key to reform. It is expected that performance-oriented reporting in Serbian municipalities will increase, in most cases as one of several, more general ‘in-depth’ evaluation tools. Preconditions for Serbian local governments to take full advantage of such PM tools include:

• a sufficient commitment from the top administrative and political levels to the reform process;
• a willingness to prioritize strategic goals as superior goals within the framework of the municipal master plan, and at the concrete level of action within an organization;
• a willingness to implement a systematic approach and document managing development issues;
• a willingness to learn; and
• information regarding costs to the government.

Local administrations in Serbia, with the help of the central government, must link inputs with transparent outputs which reflect societal goals; this process must be carried in all sectors of local government, as well as in all public enterprises. To these ends, every municipality must create stable, timely and measurable performance indicators.

5.4 Cost Recovery Pricing for Services

Cost recovery pricing for publicly provided services can be a sensitive political issue. While the building of basic wastewater collection infrastructure was heavily subsidized in many EU countries, this has been followed by a gradual movement toward full cost recovery pricing. Faced with a host of economic, political, and social dilemmas, Serbia must likewise develop a feasible, long term financing strategy for developing their municipal wastewater and waste management infrastructure.

Households’ willingness to pay for such services is generally described as low. This is certainly not true for all components of services in all areas. Decentralization offers many advantages, but it can also create efficiency problems, especially for small municipalities. Economies of scale cannot be exploited if each small municipality is required manage their own waste disposal site or wastewater treatment plant.

There are several models for public-private partnership for providing public services. The key element in any of these is a commitment to proper pricing. It is rather difficult to collect information on user charges; the little information gathered suggests that charges are likely to be established in some municipalities in Serbia (such as a heating system in Nis, and a solid waste system in Cacak). The level of charges, level, however, is not high enough to cover the full cost.

5.5 Building Institutional Capacity

Performance measurement in Serbia must be assured by (1) clearly assigning responsibility and providing ongoing support in the decision-making process; (2) providing institutional capacity for data collection, maintenance, and documentation; and (3) supporting the development of local assessment capacities.

5.6 Perspective of Performance Measurement

A performance measurement framework requires a controlling administrative body (or officer) to translate the mission statement on customer service into specific measures that reflect those factors that really matter to customers.

• The customer dimension illustrates the degree to which public services meet the needs and requirements of all customer groups, by measuring service levels, customer satisfaction and customer relationships.
• The objective dimension reflects how well a public service (or local administration department)
contributes to the top down objectives of local government. Objectives and targets become more explicit through the formation of policy objectives, key result areas and initiatives, together with targets and measures. In effect, executive bodies in local governments commission departments and public enterprises to deliver outputs to support higher level objectives, and these will need to be reflected in the department’s performance measures. This dimension also provides information on the financial performance of the department.

- Customer and objective-based measures must be translated into measures of what an administration or public enterprise must do to meet its targets. The process dimension highlights how a department performs, or how its performance impacts customer satisfaction and the accomplishment of its objectives.

- The organization and staff dimension illustrates the level to which a department is makes continuous improvements to its customer services and processes, and meets the needs and requirements of all its staff. This dimension includes measures of continuous improvement initiatives, staff training and development, staff motivation and levels of overall satisfaction.

5.7 Introducing the Indicators

Every municipality should establish procedures for monitoring the quality level of public services, as well as administrative services delivery. This involves three main steps:

1) Establishing the rules (or municipality by-laws) and procedures for PM;
2) Establishing the department for public service provision monitoring; and
3) Introducing performance measurement indicators:

- cost indicators (measuring the output of public service delivery vs. input values); and
- quality indicators (assessing expected vs. real outcomes, or values of consistency and customer satisfaction).

6. CONCLUSION

Although market mechanisms play a crucial role in the reform of infrastructure services, they must be embedded in an overall policy framework which attributes appropriate value to the social significance of services—particularly in regard to social equity. Meanwhile, of course, a reformed infrastructure policy must answer the crucial question of how service systems will be funded.

Decentralization requires new solutions and ideas with respect to accountability. As municipalities are granted increasing autonomy by central government, ‘upward’ accountability is replaced, at least in theory, by ‘downward’ accountability to citizens. In turn, citizens will increasingly hold municipal governments, rather than central authorities, responsible for public affairs. Greater local accountability thus calls for increased public involvement on behalf of citizens, communities and civil society organizations in local decision making and governance processes.

Finally, laws might form an important frame through which change can be pursued, decentralization is a political process governed by the interplay of various forces, or stakeholders, in society. The first step toward enhancing the autonomy, accountability and efficiency of a local government to build capacity. As such, capacity development must address problems of insufficient resources, ‘internal’ coherence, communication and cooperation among and within departments and agencies. To gain greater autonomy, municipalities must seek to achieve greater integration and effectiveness as functional units.
ENDNOTES

1 Ustav Republike Srbije [Constitution of the Republic of Serbia], Official Gazette of the Republic of Serbia, No. 1/90.
3 Zakon o lokalnoj samoupravi [The Law on Local Self-government], Official Gazette of the Republic of Serbia, No. 9/02.
4 Municipality Council was not scheduled originally in the draft prepared by PALGO centre and the Ministry of Justice and Local Self-government. It was introduced by parliamentary action (MPs proposals).
5 According to the Law on the Assets in Possession of the Republic (Official Gazette of the Republic of Serbia, 53/94, 3/96, 54/96 and 32/97) a lot of rights of the Local Self-government bodies, in the sphere of communal works and managing public utility companies, guaranteed by the Law on Communal activities are completely abolished. All the assets of these companies are managed by the state or nationalised, including financial and other ownership rights. Public utilities are no longer individual subjects over which the municipalities perform communal activities, carry out their policy and plan their development. The control of the Government of the Republic of Serbia over the business of the public utility companies is consolidated by the Law on Public Utilities and Performance of the Activities of General Importance (Official Gazette of the Republic of Serbia, 25/00). According to this law Serbian Government agrees to the statutes, giving guarantees, insurance, prices and tariff system, capital investment, status changes but does not agree with the contracts made between the Government and other firms in the domain of the performance of communal services. In this way it is practically impossible to make any cooperation between the public and private sector.
6 According personal communication with local authorities and public enterprises management united in COMDEL (Association of Communal Services Enterprises of Serbia), December 2001 - March 2002.
7 Ibid.
8 Following the definition used by the Government Accounting Standards Board (GASB), Performance Measurement is often referred to as Service Efforts and Accomplishments (SEA) Reporting.
9 Zakon o lokalnoj samoupravi [Law on Local Self-government], Official Gazette of the Republic of Serbia, No. 9/02, Re: article 43.

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Legislation


Zakon o lokalnoj samoupravi (Law on Local Self-government), Official Gazette of the Republic of Serbia, No. 9/02.

Zakon o komunalnim delatnostima (The Law on Communal Services), Official Gazette of Republic of Serbia, No. 16/97, 42/98

Zakon o javnim preduzeccima i obavljanju delatnosti od opsteg interesa (The Law on Public Enterprices and Practicing of Agency Form Public Interest), Official Gazette of Republic of Serbia, No. 25/00.

APPENDIX 1

Questionaire

1) Are you employed/engaged in the municipal administration, public enterprises or agencies owned by the municipality?
   □ Yes
   □ No

2) If yes, where?
   □ In the management structure of the municipality (elective functions, executive boards, secretaries of secretariats) or public enterprises (managers, head of departments and services)
   □ In the municipal administration or in the administration of public services
   □ Other

3) How many years have you been working/engaged in the municipal administration, public enterprises or agencies owned by the municipality?
   □ 0 to 5 years
   □ 5 to 10 years
   □ 10 to 15 years
   □ over 15 years
   □ I do not work in the municipal administration at all

4) If not, are you engaged in the non-governmental sector?
   □ Yes
   □ No

5) Are you satisfied with the services delivered by the municipal administration to the citizens?
   I am satisfied with the scope of services delivered by the administration
   □ Yes, completely
   □ Yes, partly
   □ I am not satisfied

   I am satisfied with the engagement of the local authorities in service delivery
   □ Yes, completely
   □ Yes, partly
   □ I am not satisfied

   I am satisfied with the engagement of the administration/employees in service delivery
   □ Yes, completely
   □ Yes, partly
   □ I am not satisfied
I am satisfied with the organization of municipal departments in service delivery
- Yes, completely
- Yes, partly
- I am not satisfied

I am satisfied with fast solving of issues and complaints
- Yes, completely
- Yes, partly
- I am not satisfied

I am satisfied with the behavior of municipal workers and their communication with clients
- Yes, completely
- Yes, partly
- I am not satisfied

6) Are you satisfied with the services delivered by public enterprises to citizens?

I am satisfied with the scope of services delivered by public enterprises.
- Yes, completely
- Yes, partly
- I am not satisfied

I am satisfied with the engagement of the local authorities in service delivery from the field of work of public enterprises.
- Yes, completely
- Yes, partly
- I am not satisfied

I am satisfied with the engagement of administration/employees within public enterprises in service delivery.
- Yes, completely
- Yes, partly
- I am not satisfied

I am satisfied with the organization of services in public enterprises in service delivery.
- Yes, completely
- Yes, partly
- I am not satisfied

I am satisfied with the behavior of workers in public enterprises and their communication with clients.
- Yes, completely
- Yes, partly
- I am not satisfied
7) Thus far, the success of your work...
   - Has not been directly measured by a quantitative indicator.
   - Has sometimes been measured.
   - Has been constantly measured.
   - Has been evaluated descriptively.

8) If any kind of evaluation of your work has been done so far...
   - It has not influenced my position and promotion.
   - It has been partly influential.
   - It has been completely influential.

9) Local self-government (municipal departments, public enterprises) should find indicators to measure success and efficiency of their work:
   - Yes
   - Only for certain departments
   - No

10) Indicators of success should be introduced (if applicable, tick more than one answer)...
    - For elected representatives of the authorities and managers
    - For administrative workers
    - For everyone
    - For no one

11) Introduction of indicators would help (if applicable, tick more than one answer)...
    - Improvement of services and increase of responsibilities
    - Easier promotion
    - Comparison of municipalities
    - Competition among employees
    - Better planning of work process
    - Formulation of strategy of sectors/services
    - Better communication among sectors
    - It would not help

12) If quantitative indicators of success were determined for your job...
    - I would not have anything to say against it
    - I would like to participate in their creation (no one could do it without me)
    - That would be a burden in my work
    - I would not agree
13) I would like to be informed, as a citizen, of the indicators of success for certain municipal services/public enterprises
   - Yes, for all of them
   - Yes, only for some of them
   - No

14) I would like to be informed, as a citizen, of the indicators of success for elected persons/managers in the local self-government
   - Yes, for all of them
   - Yes, only for some of them
   - No

15) Introduction of the indicators of success for the local self-government in Serbia is possible:
   - Immediately
   - In a year
   - In three years
   - It is not possible
## APPENDIX 2

### MUNICIPAL FUNCTION: Sanitation—Public Enterprise for Sanitation

| Input Measures | • The amount of labor-hours of the Sanitation Public Enterprise;  
|                | • The budget of the Sanitation Public Enterprise;  
|                | • Total number of vehicles;  
|                | • Number of vehicles for waste collection per capita;  
|                | • Number of street-cleaning vehicles per capita;  
|                | • Number of personnel;  
|                | • Solid waste generated (m³/per year per capita);  
|                | • Industrial waste generation (t/per capita);  
|                | • Toxic waste generation (t/per capita). |

| Output/Workload Measures | • Tons of refuse collected;  
|                          | • Regular solid-waste collection (percent of households);  
|                          | • Kilometers of roads cleaned;  
|                          | • Number of customers served;  
|                          | • Percentage of street-kilometers receiving a regular street sweeping;  
|                          | • Percentage of Streets rated Acceptably Clean;  
|                          | • Number of litter violations for street sweeping;  
|                          | • Number of valid citizen complaints regarding street cleanliness;  
|                          | • Percentage of Scheduled Cleanings not Completed on Schedule;  
|                          | • Average Customer Satisfaction Rating. |

| Efficiency/Effectiveness/Productivity Measures | • Employee-hours per ton of refuse collected;  
|                                                | • Amount spent for one kilometer of snow removal;  
|                                                | • Percentage of clean streets (e.g., measured by periodical visual inspection; citizen surveys);  
|                                                | • Cost per kilometer of a clean street (i.e., total cost of all road cleaning divided by the total kilometers of clean streets);  
|                                                | • Cost per ton of refuse collected;  
|                                                | • Percentage of paying for service. |

| Explanatory Information | • Composition of solid waste;  
|                        | • Climatic conditions;  
|                        | • Service costs (per household) to income ratio (per average household);  
|                        | • Public latrines per 10000 persons;  
|                        | • Disposal methods for solid waste (sanitary landfill/non-sanitary landfill/open dump);  
|                        | • Crew size of vehicles;  
|                        | • Type of vehicles;  
|                        | • Average oldness of the vehicles;  
|                        | • Percentage of vehicle-hours out of work;  
|                        | • Percentage of full cost-recovery price for services;  
|                        | • Number of lane kilometers of streets requiring street cleaning;  
|                        | • Frequency of cleanings per month;  
<p>|                        | • Use of sand/salt for snow removal. |</p>
<table>
<thead>
<tr>
<th>MUNICIPAL FUNCTION: Economic development—Municipal Department on Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Input Measures</strong></td>
</tr>
<tr>
<td>• Amount of money spent on the program’s activities</td>
</tr>
<tr>
<td>• Number of staff-hours expended by the program</td>
</tr>
<tr>
<td><strong>Output/Workload Measures</strong></td>
</tr>
<tr>
<td>• Number and percentage of business prospects identified that may be interested in locating;</td>
</tr>
<tr>
<td>• Number of businesses from target industries that are interested in locating;</td>
</tr>
<tr>
<td>• Number of contracts made with firms interested in locating;</td>
</tr>
<tr>
<td>• Number of firms that received assistance from the program (by type of assistance);</td>
</tr>
<tr>
<td>• Percentage of leverage (non-governmental) funds used to finance the project.</td>
</tr>
<tr>
<td><strong>Intermediate Outcomes</strong></td>
</tr>
<tr>
<td>• Number of visits by interested businesses that received assistance;</td>
</tr>
<tr>
<td>• Number and percentage of responses to advertising or direct mail solicitations.</td>
</tr>
<tr>
<td><strong>Longer-term Outcomes:</strong></td>
</tr>
<tr>
<td>• Number and percentage of firms that received ascetic and located elsewhere;</td>
</tr>
<tr>
<td>• Number and percentage of firms receiving assistance that located in jurisdiction and that felt that assistance contributed to their location decision;</td>
</tr>
<tr>
<td>• Number of actual jobs created by assistance 12 months/24 months after their initial contact with the program (and comparison with projected number of jobs created);</td>
</tr>
<tr>
<td>• Average wage of jobs created by locating firms that receive assistance;</td>
</tr>
<tr>
<td>• Capital investment made by locating firms receiving assistance 12 months/24 months after the announcement of their location decision;</td>
</tr>
<tr>
<td>• Amount of added tax revenue relating to assisted firms that located in the jurisdiction;</td>
</tr>
<tr>
<td>• Percentage of clients rating the timeliness of each service they received as excellent, good, fair, or poor;</td>
</tr>
<tr>
<td>• Percentage of clients rating the helpfulness of each service they received as excellent, good, fair, or poor;</td>
</tr>
<tr>
<td>• Percentage of clients locating elsewhere for reasons over which municipal agency had some influence;</td>
</tr>
<tr>
<td>• Estimated number of workers displaced by assisted firms that located.</td>
</tr>
<tr>
<td><strong>Efficiency/Effectiveness/Productivity Measures</strong></td>
</tr>
<tr>
<td>• Program expenditures per actual job created at 12 months/24 months after receiving assistance;</td>
</tr>
<tr>
<td>• Program expenditures per estimated tax generated by client firms.</td>
</tr>
<tr>
<td><strong>Explanatory Information</strong></td>
</tr>
<tr>
<td>• State indicators of economy, such as:</td>
</tr>
<tr>
<td>– GDP;</td>
</tr>
<tr>
<td>– Interest rates;</td>
</tr>
<tr>
<td>– New housing starts;</td>
</tr>
<tr>
<td>– Consumer price index, etc.</td>
</tr>
<tr>
<td>• Local economic conditions:</td>
</tr>
<tr>
<td>– Prevalence of certain types of industry;</td>
</tr>
<tr>
<td>– Availability of labor force;</td>
</tr>
<tr>
<td>– Unemployment rate;</td>
</tr>
<tr>
<td>– Special attractions in the jurisdiction, etc.</td>
</tr>
</tbody>
</table>
### MUNICIPAL FUNCTION: Building permits—Department on Urbanism and Housing

| **Input Measures** | • Administrative cost of program (budget);  
| • Total staff-hours used to operate program. |
| **Output/Workload Measures** | • Number of applications for building permits;  
| • Total number of building permits approved;  
| • Success ratio (number of applications divided by building permits approved);  
| • Percentage of applications processed within 45 days;  
| • Percentage of cases redetermined within 6 months;  
| • Degree of difficulty of the application process;  
| • Percentage of initial applicants completing the application process;  
| • Percentage of cases reopened within one year;  
| • Percentage of cases reopened within two years. |
| **Efficiency/Effectiveness/Productivity Measures** | • Number of accurate case actions processed per total number of buildings in the municipality;  
| • Administrative cost per case;  
| • Authorized housing and building occupancy (per cent of total);  
| • Squatter housing (percent of total housing). |
| **Explanatory Information** | • Changes in regulations;  
| • Staffing problems. |
Željko Šević

Performance Measurement in the (Western) Balkans: Regional Experience and International Perspective
Performance Measurement in the (Western) Balkans: Regional Experience and International Perspective

Željko Šević

1. INTRODUCTION

This chapter provides a comprehensive summary of the most important issues raised in this book and offers some policy considerations and recommendations. We look at the concepts that dominate performance measurement system design in an international perspective, and then focus on aspects of Balkan countries’ experience which contributors considered most important in the process of developing and implementing a performance measurement system in their respective country. First, we consider the very concept of performance measurement from a rather practical point of view.

A concept of Performance Measurement (or, more recently, Performance Management) in the public sector is relatively new to the theory and practice of public administration. Historically, the government (or Cabinet in Anglo–Saxon traditions) has been interested in issues of efficiency and effectiveness of the civil service in discharging its functions, but this was not put within the strategic context of modern social governance. Performance measurement as such requires certain strategic assumptions to be made, shifts in modes of behavior, and transformations in how civil service sees itself and how its relationship with politicians is defined. These are some of the many changes that need to be implemented in order to have a PM system that actually delivers.

Performance Measurement or Management is, largely, imported from business practices, under the influence of the New Public Management (NPM) doctrine as argued in the introductory chapter. New Public Management propagates the adoption of business-like practices in the public sector, in order to restore efficiency and retain effectiveness of services. To what extent this is possible depends on many factors. First of all, NPM emerged in countries with Anglo–Saxon (Anglo–American) legal and civil service systems, which, by their nature, have enabled more flexibility than countries that follow the Continental European legal tradition and the ‘European’ model of public administration. While the Anglo-American model has imbedded a significant level of flexibility (likely owing to the judiciary power to not only interpret, but also create law), the European public administration system relies on strict adherence to law through the concept of Legal State (‘Recht Staat’).

Second, the European theory and practice of public administration developed a strong concept of State, as opposed to government. State is an eternal category, to a large extent abstract, while government is perceived as a Cabinet of politicians that supervise the civil service on behalf of citizens for a limited period of time. In contrast, the Anglo–American tradition lacks the sense of State, and although terminologically there is a difference between the State and the government (of the day); in practice it is very difficult to distinguish. However, due to smooth government handover after every democratic election, this friction is not seen from the outside. However, as mid-level officials in the US Civil Service confessed in private conversation, there is usually a clear difference between going and in-coming management teams in each and every government department. Third, the European tradition (conditionally understood in this particular place) is characterized by fairly high levels of centralization, even if some form of federalism is proclaimed. The Anglo–Saxon model, even if presented as centralistic (for instance, in the case of the UK), in fact empowers sub-national governments to act relatively independently from the central government—within, of course, boundaries defined by law.

The endorsement of NPM certainly led to the promotion of PM practices in the new public sector. However, it has not helped to facilitate the application
of business-style performance measurement practices to the public sector. Many CEECs are rather concerned with NPM and its implementation in the process of public sector reform. Just browsing the web-sites of government agencies that are entrusted with the implementation on public sector reform will disclose this fact. In contrast, it appears as though performance measurement in the public sector is still in a nascent phase, even in countries that have been experimenting with it ever since it emerged in the 1980s. For instance, even in the UK, it is truly difficult to judge how a government department has performed, and to identify the incentives for those who perform well, as well as punishments for those who seriously underperform. Performance measurement requires re-definition of a model of organizational behavior. Namely, labor relationships have to be changed to accommodate new job flexibility requirements and the supposedly increased public expectations. Traditionally, a civil service post has been perceived to be for life, where salary is relatively low but regularly paid. In the modern era, full of uncertainties, the existence of ‘tenure’ certainly has had an appeal. However, the introduction of performance measurement requires employees to accept wider responsibilities and bear the consequences of below-expectation performance. Finally, the introduction of performance measurement requires changes in the perceptions of the public as well. The general public must accept that they are entitled to demand certain, at least minimum, levels of service, and their reasonable expectations are to be respected by the civil service or the public sector in general. Therefore, the introduction of a Citizen Charter-like document must be a strategic plan with an aim to appeal to the general public and open public policy processes in the country. This can be followed by a more detailed and comprehensive document that will clearly disclose what citizens can expect from the public sector, and what they are entitled to, if dissatisfied with the quality and level of services rendered.

Here, we review the main problems that a public organization can face in designing and implementing a PM system. The concept of ‘best value for money’ will be analyzed in order to define certain value/cost thresholds that a public organization must endorse. We are fully aware that public organizations, like business organizations, have a number of organizational tensions to be managed, and that different levers of control are to be implemented (Simons, 1995). We also endorse the redesign of the public sector through a distinction between the ‘core’ and ‘other public services’. Ultimately, only some parts of civil service are perceived to comprise the core of public administration, while the organizations which deliver services that can be delivered equally by a private entity are perceived to be non-core public administration functions. We additionally provide a comparative analysis of performance measurement system-building in the (Western) Balkans, based on a number of case studies conducted throughout 2001 and 2002, revised and updated in 2003 and finally presented in this book. Finally, we offer a check-list of what should be done in the process of building a performance measurement (management) system in the public sector.

2. DETECTING ORGANIZATIONAL TENSIONS AND THEIR MODES OF MANAGEMENT

In a business organization, the management faces the problem of how to promote a culture of permanent innovation, as this is the only way a firm can survive in competitive market conditions. Business itself becomes more complex, and recruiting (and retaining) good, well-qualified staff more difficult. In such conditions, managers rely on performance measurement and control systems to provide necessary direction and to support strategic decision-making, thereby ensuring that a company’s goals, aims and objectives are achieved. Designing and implementing a good PM system requires consideration of a series of issues: how managers deal with ‘innovation potential’ in their own environment; how to drive growth that sustains profitability (rather than affecting it negatively); how to communicate business strategy, goals, aims and objectives to all relevant stakeholders (inside and outside the company); how to allocate resources and what to prioritize in resource allocation; how to distinguish performance measurement of strategically important issues rather than clogging the system with monitoring of performance in low priority areas; how to deal with the potential risk faced in the conduct of business; or how to improve communication between employees and those who are outside the firm. A wide variety of questions must be asked and answered in
a satisfactory manner before a performance measurement system is effectively in place.

To a large extent, these questions are primarily posed for business organizations, but it by no means follows that other organizations cannot endorse this checklist. Every goal-oriented (or goal-driven) organization in which the management is interested in improving and maximizing performance, can apply it. Consequently, as long as the organization applies a strategic approach to its mode of operating, developing a performance measurement system may be feasible. It should be clear that the PM system: 1) conveys information relevant for decision-making within an entity; 2) represents formal routines and procedures; 3) must be used by managers in discharging their duties; and 4) is used to maintain or alter patterns in organizational activities (Simons, 1995).

In theory, business strategy refers to how a company creates value for customers and differentiates itself from competitors in the marketplace. Business goals are measurable aspirations that managers set for a business. A performance measurement system is a system within a company which enables managers to see how strategy is delivered through regular comparison between planned and actual performance. As the system has to fit in the company for which it is prepared, there is a range of different design features. The most important point of departure is a company’s business strategy and vision endorsed by the senior management team. What information will be collected, by what means and how frequently comprise the technical questions that should be asked only after (business) strategy has been made clear. A business entity faces many obstacles in balancing profit, growth and control, as underlined in the business strategy. It must balance short-term results and long-term potential and growth. Certainly, this is a difficult task. A PM system also must provide necessary information to managers to balance the performance expectations of different stakeholders, as well as to balance opportunities and attention. It must also provide additional input in monitoring the employee relationship. A properly designed and implemented PM system should ensure that there is enough motivation for employees to perform duties and to enjoy high job satisfaction in doing so. The human resource (HR) aspect of PM systems requires managers to take a holistic view and to understand the nature of their staff. It is believed that people who want to contribute (actively) and willingly generally choose do to ‘right things’ (particularyl in terms of innovation) and actively strive to perform competently (Simons, 2000).

A successful performance measurement system requires that the underlying business strategy block is solidly founded, and that further organizational design builds on the assumptions put forward by the business strategy. In a modern organization, decentralization is thought of as a good feature. Consequently, this must be reflected in the communication schedule. In the process of building an effective PM system, it is necessary to look at the business plan (especially its financial component), evaluate the strategic profit performance, design asset allocation systems, and link performance to markets. In a highly competitive environment, a slow or non-response to market forces can totally destroy any past success that has been achieved. In the process of implementing the agreed-upon performance measurement system, the firm must align performance goals and incentives, identify properly strategic risk and manage it effectively, along with defining levers of control (Simons, 1995; 2000).

Performance measurement can ease potential and existing tension within the firm. It is a very useful management tool, but only if appropriately applied and if those associated with its implementation are fully aware of all shortcomings of the model itself. Of course, a strategy-led organization (Kaplan and Norton, 2001) may opt to look at designing and implementing a Balanced Scorecard (BSC) performance measurement model (Kaplan and Norton, 1996). Certainly, BSC may look appealing to a public sector organization as it does not overemphasize the relative influence of financial variables (Niven, 2003). A Balanced Scorecard comprises of four main perspectives in translating vision and strategy: 1) financial perspective; 2) internal business perspective; 3) innovation and learning perspective; and 4) customer perspective (Kaplan and Norton, 1996).

A Balanced Scorecard communicates the multiple-linked objectives that companies must achieve to retain or improve their market position based on their intangible capabilities and innovation (Simons, 2000). In principle, the financial perspective is exhausted mainly though the application of different indicators, such as operating profit, return on capital...
employed (ROCE), Economic Value Added (EVA), and residual income (RI). This, however, does not mean that some other measures cannot be concurrently employed. In fact, a strategy-led organization will know best what measures conform to its long-term strategy. The customer perspective identifies the measures in the markets and segments where management would like to compete. We start from customer satisfaction, but it is associated also with customer acquisition, customer retention (customer loyalty), customer profitability, company’s market share, etc. A Balanced Scorecard is to be used as a tool for organizational learning and growth. This is the reason why regular feedback is not only recommended, but required. Internal business perspective forces a firm to look at itself and assess its market position, by, for example, (re)focusing on its processes.

Although the public sector can adopt a BSC, it is still difficult to see how business-like practices are to be implemented in the public sector, something that NPM advocates, along with the establishment of a performance measurement system. Financial indicators in the public sector cannot play a major role, as the allocated budget can be seen as a constraint placed upon a public organization together with the target for service delivery. Therefore, the concept of ‘Value for Money’ is to promote the best result given the constraint on financial resources allocated to a particular public sector organization/institution.

3. CITIZENS CHARTER, (BEST) VALUE FOR MONEY—PROBLEMS WITH FINANCIAL INDICATORS?

NPM has been described as a kind of shopping basket for those who wish to modernize the public sectors of Western industrial societies (Pollitt, 1995: 133). NPM has traditionally been seen as a mixture of:

- cost-cutting, capping budgets and asking for greater transparency in resource allocation in the public sector;
- dis-aggregating traditional bureaucratic organizations into separate agencies;
- decentralizing management authority within public agencies;
- clearly separating purchaser and providers roles;
- introducing market and quasi-market mechanisms;
- introducing targets, performance indicators and output objectives;
- increasing the flexibility of pay and conditions, the break-up of national pay scales and conditions and the growth of so-called performance related pay, linked to the outcomes demonstrated; and
- emphasizing quality of service and setting standards for quality and responding to customer’s priorities (Hood, 1991; Pollitt, 1993; 1995; Dunleavy and Hood, 1994).

Within NPM, there is a strong emphasis on citizens, as the final consumers of public services. In the past, citizens were given a fairly passive role. They have been expected to accept any level of public service offered, simply because there was no or very little room for consultation and feedback. It was also assumed that the State (or the government, in Anglo-American political terminology) aims to provide the best quality of service possible. In Citizens Charter, an administration promises a certain level and quality of service and should abide by that promise. There is a published set of desired targets and the civil service is expected to deliver those targets in the best possible manner.

Periodic reviews of government activities, and comparisons between planned and achieved levels of service give the governments an opportunity to reallocate resources, change priorities, or simply abandon some projects that turned out to be non-viable (not only in economic terms). The introduction of a Citizens Charter-like document can serve as a driver of change, assuming public sector managers are prone to facilitate and initiate innovation and to see that workers are proactive, rather than passively discharging their primary duties (Gore, 1996). Former US Vice-President Gore contends that, in the US federal government, “many bosses are changing the way they do their job—encouraging innovation and customer service instead of just making workers toe the line” (Gore, 1996: 16). However, it seems that Citizens Charter-like documents are more focused on delivering efficient government, neglecting support of more effective modes of governance. In all truth, it is far more difficult to demonstrate that government ac-
activities have been undertaken in an effective manner, rather than in the provision of ‘visible’ public sector services.

As mentioned, another important concept that has been developed in developing a more business-like public sector is the concept of ‘best value’ (value for money). The concept, although associated with the public sector, irresistibly resembles some dominant modern business management terms, such as ‘value planning’, ‘value engineering’, ‘value analysis’, ‘customer value’, and ‘value management’ (Arnold, 2003). The British sense of ‘best value’ is very closely linked to the overall concept of performance measurement (management, and often put within the context of the ‘management by objectives model’ (some would say mistakenly). The use of the ‘best value’ concept is very closely linked to the overall concept of performance measurement (management, and often put within the context of the ‘management by objectives model’ (some would say mistakenly). The use of the ‘best value’ concept in the public sector seems to date back to 1989 when it was applied to US Navy procurement, and intended to induce purchasers to take more account of non-cost-based criteria (Alderman, 1993). The concept has also been applied internationally. ‘Best value’ is used in the appraisal of procurement and capital investment schemes in a number of public services in Australia (Boviard and Halachmi, 1998), and in regional governments in New Zealand (McKinlay, 1998). In the UK, best value has been seriously considered only after the 1997 elections and the appointment of the Labor government headed by Tony Blair; indeed, best value goes well beyond previous attempts to strengthen the role of service users. As a result, councils (local governments in the UK) have a legal duty to consult not just with user, but also with local taxpayers and any other groups who have an interest in a particular area of their activity (Martin, 2000). Competition is seen as ‘an essential management tool’ (Cm 4104, para 7.27), which has a similar underlying theory to that of Compulsory Competitive Tendering (CCT), a practice put forward in the mid-1990s (Doyle, 1996). Under the best value principle, services cannot be delivered directly by authorities ‘if more efficient and effective means’ are available (DETR, 1998: 20) elsewhere.

However, despite the fact that ‘best value’ somehow is linked to financial performance, it focuses on non-cost aspects of service as well. In other words, the cheapest does not necessarily mean the best deal. Price may be quality sensitive, but we consider claiming the opposite. Better quality may require additional investment, and in search for excellence, the public sector is to develop a comprehensive set of indicators to depict reality in the best manner. Financial indicators are not the most user-friendly indicators when it comes to the public sector. Traditionally, financial indicators dominated the perception of performance in the business sector, but they could not depict the complexity of business performance. In the public sector, financial indicators may even be misleading. It is, of course, possible to calculate return on capital or residual income for almost every public sector project. However, the question is whether it will make a lot of sense. Financial variables are better treated as an input, rather than performance output in public sector performance models. When a certain amount of money is allocated, then through the process of benchmarking (and ‘best value’) it is possible to compare different government bodies’ relative success in the provision of public services. This is where there is room for efficiency to be considered alongside oft-forgotten government effectiveness (due to the overemphasis on the importance of efficiency). However, this may result in a vicious circle, where organizations simply chase leaders and underperform constantly.

Authors in this volume have detected these and many other problems in their respective country studies. Despite organizational and cultural differences, there are more similarities than differences between all the studied countries. Contributors have focused on organizational aspects of implementation and the ways in which performance measurement can be introduced into the public sector in the region.

4. A PERFORMANCE MEASUREMENT SYSTEM BUILT FROM THE SCRATCH: THE (WESTERN) BALKAN EXPERIENCE

In general, it can be said that attempts to introduce performance measurement into the public sector in Balkan countries have been initiated by international factors. USAID, for example, has played an important role in promoting performance measurement and facilitating training and program-development in many countries. Certainly, two comprehensive, fairly well-defined programs have been organized: one in Albania (see this volume), and another in the Southern Serbian province of Kosovo that is currently
under the UN administration (USAID/OTI, 2002). Elsewhere, internal forces have tried to introduce performance measurement and to take into account the experiences of developed countries. However, all authors concluded that a performance measurement system does not exist in any of the examined Balkan countries, but is, essentially, emerging.

It has been pointed out that a more efficient and comprehensive legal framework is desperately needed; new legislation in the public sector can prove beneficial for the implementation of a PM system. However, it seems to us that the de jure situation is not so problematic. In all case studies, civil service laws are not badly written—rather, the main problem of a transitional legal system is enforcement and the existence of widespread corruption. Many legal acts that are very modern on paper fail to deliver in practice, as there is strong resentment from the civil service, either because civil servants do not share the vision within the government of the day, or simply because they are a corrupt and excessively self-maximising group. However, in some cases, the failure to implement a law is not a result of these two factors, but rather of individual and group incompetence. Often civil servants are put into positions to implement a particular legal act, but their professional knowledge and expertise is not good enough to ensure the required and expected results.

It was also pointed out that there is a need to ‘educate’ those employed in the public sector as to why it is important to measure performance. The program should embrace political appointees as they have to understand that building a performance measurement system gives them more power over administration and, if operational and in shape, can ensure that they will be re-elected. Unfortunately, empirical research has shown that only in Serbia, local politicians are less satisfied with the services offered than the citizens themselves (see Milutinović, this volume). In Croatia, it has been reported that over 60 percent of interviewed civil servants failed to comprehend the need for and the usefulness of a performance measurement system (see Jakir-Bajo, this volume). Similar results have been obtained for Macedonia, while in Albania the sample was too small (three municipalities) for a credible conclusion to be drawn. In Montenegro, it seems that there is a general consensus in the government that the public sector should move in the direction of introducing performance measurement. It is also clear that the benefits of introducing performance measurement have to be explained to internal players and external users, emphasizing that the system is beneficial for an employee, a citizen, and the wider society as well. A highly-performing performance measurement system should clearly lead to reduction in social waste and social cost.

It is also stressed that political independence must be exercised, as often public sector managers that are close to the ruling political party or parties, can get away with much mischief. Objectivity has to be one of the underlying principles in the implementation of a performance measurement system. It has been stressed that in an unhealthy political environment, survey data can be fiddled with and filtered to suit the political needs of the ruling parties and their cronies. It seems that, in highly corrupt societies—and, unfortunately all countries in our target group rank highly on the list of corrupted countries—performance measurement, if well-designed and implemented, can deliver as part of the anti-corruption fight.

The authors also spotted a need to allocate (earmark) significant resources to ensure that the performance measurement system can live up to expectations. Although the authors focus on financial resources, it seems that, while crucial, human resources are more important. If civil servants have bought into the reform agenda and are willing to support the introduction of the performance measurement system, many things may look different. However, all the authors (with the exception of Serbia) believe that their respective countries have the professional capacity required to plan, develop and implement performance measurement system; however, these might be optimistic assumptions.

It is also stressed that willingness for pro-active organizational learning is very important. All involved believe that it is of paramount importance to look at PM system building from a comparative perspective; this activity is perceived to go hand-in-hand with education and training. Also, what is new for the region is that all authors understand and stress the importance of a public campaign and the use of mass-media. It seems that the presentation factor is becoming increasingly important, as citizens are more likely to follow mass-media, than under Socialism.

Through case study research, authors concluded that there is no comprehensive set of indicators devel-
oped in any of the countries. In the case of Albania, indicators were created, and therefore it is an open question what quality was finally achieved; the indicators were originally developed for a developed country (the US), which operates in completely different social settings. It appears that it is difficult, if not altogether meaningless, to build a PM system in cases lacking the necessary minimum infrastructure to build a program. For instance, the North of Albania is a characteristically lawless region, while in Serbia, many public services are literally at the brink of collapse for a variety of political and economic reasons.

Authors also focus on time scale, stating that it is important that a performance measurement system is built gradually. It is a possible solution, although rapid introduction may be more appropriate—so that forces that oppose introduction can be dealt with swiftly. If implementation does take a long time, and is under the influence of policy lag, many results can be off-set by opposing interest groups. In the case of rapid reform, opposing forces may not have time to organize themselves effectively, and the system may be successfully introduced, as any opposition would be usually dealt with on a one-to-one basis.

Milutinović offers an interesting idea of developing a ‘cost recovery model’ for Serbia. Drawing on the experience of developed countries, he suggests that it is necessary to apply a cost recovery model in Serbia in order to ensure that large public projects are viable. He focuses on waste management issues, and claims that waste disposal systems are to be built with public money. Then, through user charges, the money should be returned. However, he is aware that the many behavioral patterns lingering from the Communist era may have a negative impact. In this case, many households may not be willing to pay required service fees.

It has been stressed that it is of utmost importance to establish the rules and procedures for performance measurement, together with the establishment of a separate department which will be in charge of the implementation. Finally, it is necessary to develop a comprehensive set of indicators, classified into two groups (cost indicators and quality indicators; see Milutinović this volume), although this sequence of moves can be credibly challenged. Do we establish the department first, and then finalize the set of indicators, or indicators are to be put forward first, and then a department for implementation built?

As all these countries were highly centralized until very recently, it seems that PM system building must be a national issue and to be dealt with by the central (federal) government. While decentralization that has taken place suggests that ‘downwards’ management may well work, it seems that the powers of central government are not of a protocol nature, but real and far-reaching. In the Balkans, power traditionally rested with the one ’who held the stick’. As the central government controls the strongest enforcement mechanisms, so its involvement should guarantee success. However, again different authors believe in different organizational patterns. While Milutinović believes that local governments are much better in innovating (and therefore prone to introduce performance measurement system as something new), Jakir-Bajo (Croatia) supports a classical top-down approach. It seems that both cases are relevant. Again, it is well documented that even in Croatia, several proactive mayors have been working on the introduction of some kind of performance measurement system (for instance, in the town of Varaždin in northern Croatia).

5. OFFERING A MODEL FOR SUCCESS: DESIGNING AND IMPLEMENTING A PERFORMANCE MANAGEMENT SYSTEM IN THE PUBLIC SECTOR IN A TRANSITIONAL COUNTRY

It is very difficult to offer one far-reaching and universal model for designing and implementing performance measurement in the public sector. These steps are usually recommended:

1) Define strategic plan;
2) Choose indicators;
3) Choose data collection method(s);
4) Complete the performance management plan;
5) Conduct a baseline study; and
6) Plan for mid-term assessment and a final evaluation (see: USAID/OTI, 2002).

The first step in PM system building involves preparing a strategic plan, following the vision of leaders
or central figures in the respective organization. It is necessary to define the goals, aims, and objectives of the particular program. Goals should answer the question ‘where are you going?’ (USAID/OTI, 2002), while objectives are an answer to the question ‘what are you trying to achieve?’ It is then necessary to define the activities that will deliver and finally decide on monitoring and evaluation (‘how will we know that objectives have been reached?’). It is important that objectives are measurable, realistic, and related to the activities that are being implemented. They must be single-dimensional and achievable within the set time schedule.

The second step considers the choice of indicators. First of all, an indicator is a particular characteristic or dimension used to measure intended change (USAID/OTI, 2002). An indicator generally answers ‘how’ and ‘if’ questions, while ‘why’ questions usually remain without answer. Indicators should be direct, objective, practical, and sensitive. Both quantitative and qualitative indicators should be defined, as one-dimensional indicators may fail to grasp the nuances in changes that have happened. In the process of deciding on indicators, one must define inputs and desired outputs together with their expected impact. Each dimension has its own set of indicators to consider.

There are a number of methods that can be used in data collection when a performance measurement system is in place. In terms of qualitative methods, manuals usually list community interviews, mini-surveys (25-50 individuals), semi-structured interviews, focus group interviews, testimonials, key informant interviews, direct observation and beneficiary assessment. As quantitative methods are listed questionnaires and pools/surveys (USAID/OTI, 2002). However, it is important to note that all information gathered should be shared with all interested parties—that is, the stakeholders. Without communication with stakeholders, the performance measurement system is useless.

The Performance Measurement Plan (PMP) is an important matrix which ties all the steps of the strategic planning process together (USAID/OTI, 2002: 17). It assists in organizing, planning and documenting the collection of data, to be later used in performance monitoring. PMP requires defining indicators to be tracked, data collection method and sources, frequency of collection and responsibility. It is also recommended to conduct a baseline study, which is defined as ‘the collection of primary and secondary data which describe and analyze the situation in a certain area at a certain point in time’ (USAID/OTI, 2002: 19). The baseline study is to assist in the planning process, assisting in developing goals of the project, determining the needs of the target groups, designing the monitoring system and to be able to continuously measure changes in relation to the benchmark, etc. A baseline study can also be called a pilot study. The purpose of such activities is to ensure that a project is feasible and fits into the general framework.

It is also expected that, in the process of designing and implementing performance measurement, it is necessary to close the communication cycle and to ensure that the implementation of the system is assessed and evaluated. Evaluation, both mid-term and final, are conducted in order to improve performance of the very system, and to identify constraints and problems. Also, continuous observation and periodical evaluation should tell in time whether objectives may have evolved since the project began. Results of evaluation are to be used for steering the project, bringing problems to the attention of all the involved parties, checking the objectives and their fulfilment, generating lessons learned and questioning performance of the performance measurement (management) system itself. Generally good and objectively undertaken evaluation and assessment should eliminate bias and have credibility with all the parties in the process, whether within or outside the organization. Evaluations are to be periodical and preferably regular, and have to be conducted from an independent perspective. It is also important to ensure that all results are properly utilized by all the stakeholders who are invited to give their view on the system and its implementation.

It may be confusing to monitor performance of the performance measurement (management) system, but it is in the very nature of the idea. Every aspect of the program has to be evaluated and all interested parties given the chance to contribute and see the performance measurement program as their own. If people buy in, then the program is more likely to succeed.

Research presented in this volume has shown that one of the major problems facing not only the Balkans,
but all transitional countries, is the lack of strategic planning and management. These concepts were generally alien to the Socialist model, although planning was a considerable part of it. Enabling national and sub-national governments to ‘think strategically’ is of utmost importance. It seems that many mayors have endorsed the idea to provide their city or town with a vision, and some kind of mission statement for his or her administration. The question, however, remains as to whether they can really exercise all the powers that they claim they may have. Still in the majority of observed countries, some type of a model of collective leadership is applied. Mayors usually chair the city council, but many operational powers still rest with the council, rather than with a mayor.

Performance measurement serves to make public agencies accountable for results to elected politicians and the general public, as well as improving services to citizens by motivating public employees and their contractors to continually improve the quality and outcomes of the services that these employees are delivering. All of that should finally lead to an increase in the level of trust in the government. If the model is well-designed and civil servants are ready to assist in its implementation, the program should facilitate the shift from a primary focus on outputs to a focus on outcomes. From a policy point of view, outcomes are more important, as they make the necessary social impact in which elected officials are interested. Traditionally, the focus of governments has been on tracking expenditures, the number of employees, and, quite often, physical output. However, the outcomes focus of performance measurement uses performance indictors that are more specific, rather than simple output measures. In a performance measurement system, an outcome-focused management process is commissioned, and all indicators relate in one way or another to the final user: customer; citizen; or voter. Performance measurement leads to the production of disaggregated data, assigned to different classes that take into consideration important features of users/customers. Also, performance measurement must provide explanatory information that can be later used for policy purposes. As performance measurement is retrospective (but not purely historical) the system must contain certain comparisons. Those comparisons can be with other organizations of the same class (benchmarking), or with planned, estimated, forecasted or targeted properties, that were provided more-or-less internally.

Building a performance measurement (management) system is a learning experience. First of all, an organization will be required to assess itself, its strength and weaknesses, and position itself in relation to other similar entities. Depending on this self-assessment, an appropriate PM system can be developed. Secondly, communication both within the organization and with the external stakeholders must be significantly improved. Without communication, the performance measurement system is doomed to fail. Thirdly, the introduction of a PM model should initiate a significant organizational change. Thus, performance measurement may emerge as a robust driver of organizational change. This is something that the countries under our scrutiny need—and desperately.

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ENDNOTE

1 Replaced in the UK with ‘Services First’ as a modernised concept of public service provision and focus.

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LGI Policy Fellowship Program

Each year LGI selects talented professionals to participate in its one-year multinational fellowship program. Fellows work in small teams under the guidance of a well-respected mentor to produce analytical studies on a given topic. The mentors help build the capacity of the LGI policy analysts and experts. The studies, such as this publication, present policy options and alternatives and are geared towards the policymaking community in fellows’ respective countries. Once the studies have been published, LGI determines the steps it can take to support the proposed recommendations.

The primary goal of the LGI Policy Fellowship program is to support policy research aimed at stimulating innovative and practical policy recommendations related to various areas of governance and the provision of public services. Fellows are encouraged to initiate research and to work on policy conclusions with national and local government officials and advisers. Each year broad topics are identified for candidates from different country groups.

Fellows are generally governmental officials, civil servants, members of advocacy groups or professional associations, policy researchers and policy advisers. Fellows join teams of five to seven members each, which are then supervised by expert mentors. Fellows are encouraged to support each other’s work with their expertise and comments within their teams. LGI encourages teams of fellows to develop joint or comparable research agendas.

The four fellowship topics for 2002–2003 are: the digital divide and e-democracy in Eastern Europe and Central Asia; housing the poor in major urban centers; decentralization and transformation of the governance of education; and administrative remedies for abuses at the local level.

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