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Public Administration in EU Eastern Partners: Comparative Report 2012

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Biographical notes



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Angela Secrieru

Angela Secrieru has been involved in the research and projects on economic and financial problems both at macro- and micro levels. She was working as a professional at the Agency for the restructuring of enterprises (ARIA). As expert on public finance she has collaborated with UNDP Moldova, Soros Foundation Moldova and LGI/OSI Budapest on financial decentralization and performance -based budgeting. Currently Angela is professor at the Academy of Economic Studies of Moldova and expert of IDIS „Viitorul”.



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Alexei Sekarev holds a Ph.D. from Shevchenko University of Kiev. He has been engaged in academic research on transition economies in Eastern Europe, including as an Alexander-von-Humboldt research fellow. As team leader of several EU-funded projects, he has been rendering policy advice to Ukrainian, Armenian, Russian and Georgian governments on the implementation of Partnership and Cooperation Agreements, ENP Action Plans and implications of Common Spaces, and Eastern Partnership. Since 2011 he is involved in a number of projects as a freelance consultant, including as project manager at the Estonian Centre for Eastern Partnership.



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List of Acronyms

AA	Association Agreement
CBC	Cross-border cooperation
CIB	Comprehensive Institution Building Programme
CPI	Corruption perception index
DCFTA	Deep and Comprehensive Free Trade Agreement(s)
EaP	Eastern Partnership
ECEAP	Estonian Centre of Eastern Partnership
EEAS	European External Action Service
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
GCI	Global Competitiveness Index
ICT	Information and communications technology
IFC	International Finance Corporation
PAR	Public Administration Reform
SIGMA	Support to Improvement in Governance and Management
SPS	Sanitary and phyto-sanitary (standards)
TI	Transparency International
UNeGovDD	UN e-Government Development Database
WEF	World Economic Forum
WGI	Worldwide Governance Indicators

Executive summary

This annual comparative report is the second in the series established by the Estonian Centre of Eastern Partnership (ECEAP) in 2011. In chapter I, it describes progress of public administration reform in the EU Eastern Partners toward the European principles of public administration. Chapter II offers a detailed country-by-country analysis.

I. Progress of public administration reform in Eastern Partnership region against the European principles of public administration

Historically, the period of observation in the 2012 report almost coincides with the Eastern Partnership launched at Prague Summit in May 2009. The analysis in this chapter shows that the partner countries have been following very different reform paths since then, at times reverting the progress towards establishment of the European principles of public governance. Notably, Ukraine has been delivering negative evidence in many areas of public administration reform, especially with regard to the rule of law, accountability and openness. It hence does not come as a surprise that the country, which once has been the front-runner among the Eastern Partners and the first to conclude Association agreement negotiations, now faces delays in the political relations with the EU. Other countries have improved their record in some areas pertaining to the EU standards of governance.

Overall, in 2011-12 no distinct progress towards those standards could be observed in the EaP region. Cases of worsening performance were more frequent than the opposite, reflecting on-going resistance to a more reliable and accountable public administration. Vested interests, ill-designed legislative systems and biased judiciary remained strong determinants of corruption in many EU Eastern neighbours. Nevertheless, progress in selected reform areas – such as e-government, access to government decisions affecting business, more efficient government spending – has been quite pronounced, so that EaP economies occasionally even outscored the levels achieved in some of the EU member states.

Reliability and predictability (legal certainty)

The overall trend with regard to reliability and predictability of public administrations remains mixed in the EaP region. Georgia and Armenia recorded distinct progress on curbing irregular payments. In contrast, Ukraine, Azerbaijan and Belarus displayed an unsteady performance in overcoming favouritism in government decisions and bribery. On the rule of law, the situation in these three countries has been continuously deteriorating since 2008, while Georgia, Armenia and Moldova gradually position themselves as regional top-performers. On restraining favouritism, the three South Caucasus states stayed well ahead of Ukraine and Moldova.

Openness and transparency

EaP countries have been quite hesitant in raising the level of openness and transparency of their public administrations. In many cases, no meaningful improvements could be registered, particularly regarding transparency in policymaking and corruption perception. In contrast to that overall stagnant trend, Armenia set forth efforts to improve access to information on government policies affecting business. The country became a pronounced regional leader on that indicator in 2011-12, owing to several consecutive years of successful introduction of electronic communication tools. Besides, the prevailing trend on e-government in the region reverted for positive in the recent two years, as all EaP countries posted visible improvements. This should reflect national policies to develop electronic infrastructure and make government services more available on-line.

Accountability

The EaP region has shown no consequent improvements so far in the direction of a more accountable public administration. Moldova, Georgia and Armenia have improved their performance on accountability and freedom of speech, however, the overall trend on this indicator has been quite mixed. Likewise, only sporadic improvements, mostly against very low base periods, were registered regarding judicial independence and diversion of public funds. Armenia and Georgia managed to seriously upgrade their doing-business rankings in 2013, as did Ukraine, owing mainly to introducing friendlier start-up regulations and eas-

ier property registering. Georgia managed to retain its position as a pronounced regional leader in combating diversion of public funds and improving business conditions.

Efficiency and effectiveness

Except in Ukraine, government effectiveness has improved – yet at very different comparable levels – in all EaP economies. Moldova and Georgia, in addition, have been raising regulatory quality throughout the observation period, while the performance in other countries has been mixed, with no meaningful changes for better. Government spending on provision of the necessary goods and services is being positively perceived in the three South Caucasus economies, all of which perform above the average of the World Competitiveness Indicators' database. However, only in Georgia this assessment is underpinned by respectively high values of indicator C3 “Diversion of public funds”. Moldova, and in particular Ukraine, still have to make their budget spending less wasteful in the longer run. Ukraine is the only EaP country with public administration becoming less efficient and effective, this drifting further away from the European standards.

II. European Principles of Public Administration in the EU Eastern Partners: Country assessments 2008-2012

Armenia

Armenia has upgraded its status to an “efficiency-driven” economy in the international databases, reflecting the overall reform progress and a good development outlook. The country posted steady – albeit slow – improvements of public administration reform in accordance with the European principles. It managed a break-through on transparency of policymaking, and became the regional leader also in overcoming wasteful government spending. In other areas, no drastic slippages could be registered. The overall good progress on transparency and efficiency of public governance highlights however the need to make public administration more reliable and accountable in the longer-term perspective. In the latter aspects, the country still lags behind the regional top performers.

Azerbaijan

In 2012 Azerbaijan took initiatives to introduce e-government services and enhance measures against corruption. These reforms, which will need to be continued to achieve improvements, were in fact the only noteworthy steps in the direction of European principles of public administration in the country. Corruption, lack of accountability of government agencies, overconcentration of government policies on oil sector to the detriment of other parts of the economy, violations of citizen's rights and political pressure on judiciary prevent the establishment of a reliable, accountable and efficient public administration in Azerbaijan.

Belarus

Belarus firmly stands in the rear of the EU Eastern Partner countries in moving toward European standards of public administration. Violations of human rights are frequent and increasing in number, causing concern of the international community. For that reason, international organisations have not recognised the legitimacy of the Belarusian parliament elected in September 2010, and OSCE in September 2012 discussed possible suspension of Belarus' membership in the organisation, should the situation in the country not change for better. The rule of law is widely ignored: any presidential decision overrides laws adopted by the parliament, and, more often than not, international treaties. Reforms in the e-government have been hesitant, as authorities prefer to retain control over information flows. On a positive side, one should note successful short-term anti-crisis measures that helped the economy to restore macroeconomic balance in 2011. However, in the absence of structural reforms and productivity gains, the country may face economic contraction and social tensions again.

Georgia

Georgia kept up its leading position among the EaP countries in reforms in general and making its public administration more European in particular. Commendable progress was achieved in such areas as fight against corruption, including bribes, enhancing transparency, accountability and many others. International observers praised the 2012 parliamentary elections for adherence to the democratic principles; however, the near future will show how effective the new policy structures can operate. At the same time excessive use of force toward

unsanctioned public gatherings, as well as cases of mistreatment of detainees by law enforcement bodies highlighted the persisting problems the areas of the rule of law and impartial judiciary. Authorities should also invest more efforts in regulatory reform and raising efficiency of government policies.

Moldova

Statistically, international databases do not yet reflect Moldova's latest accomplishments in European integration. The country's efforts to develop a more reliable and transparent public administration have not brought visible results so far, even if those efforts are being predominantly perceived as pro-European. With regard to accountability, dependent judiciary and wide practice of diversion of public funds, coupled with muddling-through in improving business conditions, outweigh positive trends in the observance of main human rights and freedoms, where the country became the regional leader in 2012. No significant progress has been registered since 2008 in making the public administration more efficient and effective. Many negative trends seem still to originate from the deep and lengthy domestic political crisis of 2008-12. The country clearly requires time and strong political will to overcome its consequences and catch up with EaP top performance.

Ukraine

Ukraine has shown a disappointing performance against the European principles of public administration. Brutal rule of law violations, political pressure on judiciary and media, inefficient and wasteful budgeting, further increasing favouritism in government decisions outweighed critically all the modest improvements in e-government and dismantling of formal administrative barriers to business start-up. The overall trend in the public administration reform has been, for the second consecutive year, rather against than toward a more reliable, transparent, accountable and efficient public administration. Parliamentary elections of October 2012, held in an uneven playing field and with active influence of powerful oligarchic groups on voting, were a decisive element to further delay the signing of an Association Agreement between Ukraine and EU for the unidentifiable future.

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Public Administration
of the
EU Eastern Partners
in 2008-2012:
Compliance with the
European Principles

This chapter gives an overview of public administrations in EU Eastern neighbours from the perspective of their adherence to the European principles of reliability and predictability, openness and transparency, accountability, and efficiency and effectiveness.

The second annual comparison in series covers, with few exceptions, the five-year period 2008-2012. This allows more meaningful medium-term con-

clusions under each principle about the trends in the region as a whole, about disparities across the region, i.e. different (sometimes even contradictory) developments in the 6 countries, and finally about contrasts or similarities between the Eastern Partners and the EU itself, as represented by reference member states Estonia and Germany.

Methodological notes¹

The ECEAP applies the following dataset to comparatively assess reform progress along the European principles of public administration.

European principles	Indicators	Source
A. Reliability and predictability (legal certainty)	A1. Rule of law	WGI
	A2. Favouritism in government decisions	GCI
	A3. Irregular payments and bribes	GCI
B. Openness and transparency	B1. Transparency in policy making	GCI
	B2. Corruption perception	TI
	B3. e-government	UNeGovDD
C. Accountability	C1. Accountability and freedom of speech	WGI
	C2. Judicial independence	GCI
	C3. Diversion of public funds	GCI
	C4. The ease of doing business	IFC / WB
D. Efficiency and effectiveness	D1. Regulatory quality	WGI
	D2. Government effectiveness	WGI
	D3. Wastefulness of government spending	GCI
Consolidating indicator	E1. Public institutions	GCI

There are three circumstances that need to be taken into account in interpreting progress of public administration reforms in EU Eastern Partners, as presented in this comparative report.

Firstly, changes to methodologies took place in the two international databases: Worldwide Governance Indicators (WGI) of the World Bank, and the IFC Doing Business survey. These changes resulted in recalculation of numbers for the pre-

vious periods. This report introduces the updated numbers, which give a coherent retroactive view on the respective indicators. However, owing to a different methodology, those numbers become incomparable with the previous-year edition.

Secondly, Eastern Partnership economies Armenia, Georgia and Ukraine were upgraded in 2012 to higher categories in the classification applied by the World Economic Forum (WEF) in its Global Competitiveness Index (GCI). These changes are shown in the following table.

1 For the detailed explanation of methodology, please refer to: Public Administration in EU Eastern Partner Countries: ECEAP Comparative Report 2011, http://www.eceap.eu/ul/Vordlev_Report_2011.pdf

Categories	2011	2012
Stage I: Factor-driven	Moldova	Moldova
Transition from stage I to stage II	Armenia, Azerbaijan, Georgia, Ukraine	Azerbaijan
Stage II: Efficiency-driven	–	Armenia, Georgia, Ukraine
Transition from stage II to stage III	Estonia	Estonia
Stage III: Innovation-driven	Germany	Germany

Source: The World Economic Forum Global Competitiveness Report 2012.

In accordance with the WEF approach, the so-called efficiency enhancers (higher education and training, markets' efficiency and size, technological readiness) play the key role for the competitiveness of efficiency-driven economies, whereas factor-driven economies rely mainly on basic requirements (institutions, infrastructure, macroeconomic stability, health and primary education). With this distinction in mind, this report concentrates on public institutions as the central issue and the actual sub-

ject matter of public administration reform.

Thirdly, data on corruption perception (indicator B2) remain unchanged from the previous-year edition, as the annual update from TI was due after this report has been completed.

In addition to the above, international sources have adjusted geographical coverage of their databases. These adjustments are shown, together with other specific features, in the overview below.

	WGI	GCI	Corruption perception	E-government	Doing business
Absolute values by indicator (worst ... best)	-2.5...+2.5	1...7	1...10	0...1	n.a.
Ranking	Percentile, 1 to 100	Simple, 1 to 142	Simple, 1 to 183	Simple, 1 to 192	Simple, 1 to 183
Regularity	annual	annual	annual	bi-annual	annual
Number of observed economies (latest report available)	215 (213)	144 (142)	183	193 (192)	185 (183)

How meaningful are the indicators?

Indicators of quality of public governance rest overwhelmingly on its perceptions by the various stakeholders – economic agents (domestic companies / households and foreign investors), international partners (governments and IFIs), academic community, NGO and media. Because perceptions by their nature reflect individual or corporate experiences, indicators are prone to disputes, albeit to a varying extent from one indicator to another. Internationally renowned sources used in this report apply methodologies, which capture possible risks of misinterpretation and ensure acceptable level of confidence of overall results.

Nevertheless, international indicators of quality of governance and respective ranking of an

economy convey only indications rather than final judgements. The interpretation of those indications should be therefore careful and imply comparisons against a broader background as well as understanding of different country- and region-specific contexts. For example, non-transparent government decision-making would outweigh an advantage of high PC density in judging the overall quality of governance in an economy, as would fragile regional security constrain the efficiency of government spending on sustainable economic growth. With these observations in mind, the ECEAP believes that the report offers a meaningful comparison of the public administration reform process in the EU Eastern neighbourhood.

EU Eastern Partnership: GNI per capita, current US-\$ at market exchange rates

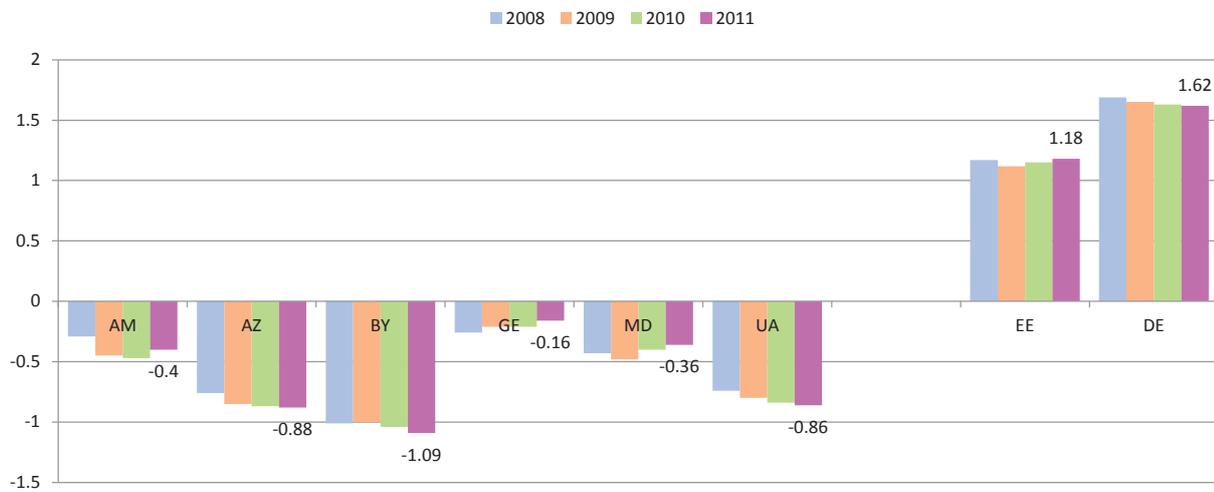
	2009	2011	WB income group, 2011*
Armenia	3,100	3,360	lower middle income
Azerbaijan	4,840	5,290	upper middle income
Belarus	5,540	5,830	upper middle income
Georgia	2,530	2,860	lower middle income
Moldova	1,590	1,980	lower middle income
Ukraine	2,800	3,120	lower middle income
<i>Memorandum items:</i>			
Estonia	14,060	15,200	high income
Germany	42,560	43,980	high income

* unchanged since 2009

Source: World Development Indicators, The World Bank Atlas method

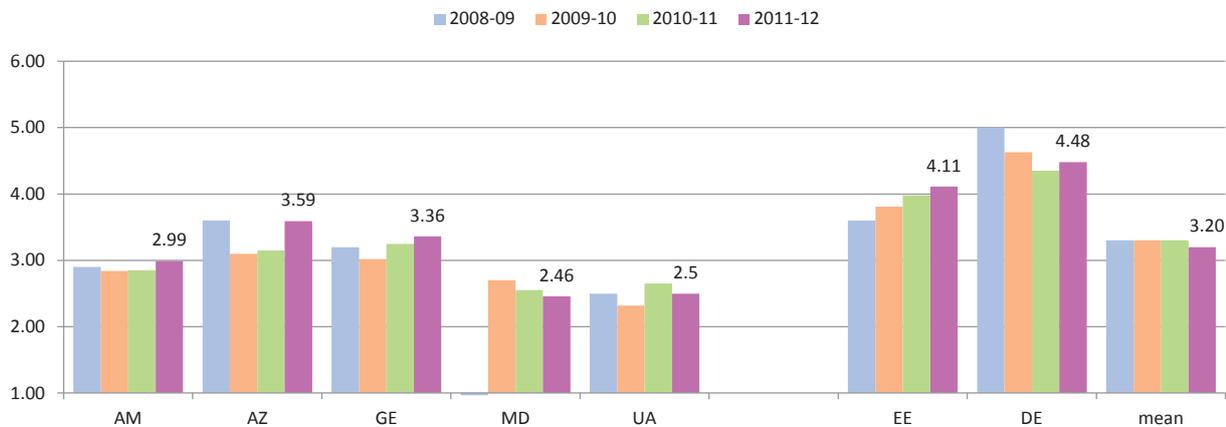
A. Reliability and Predictability (Legal Certainty)

A1: Rule of law



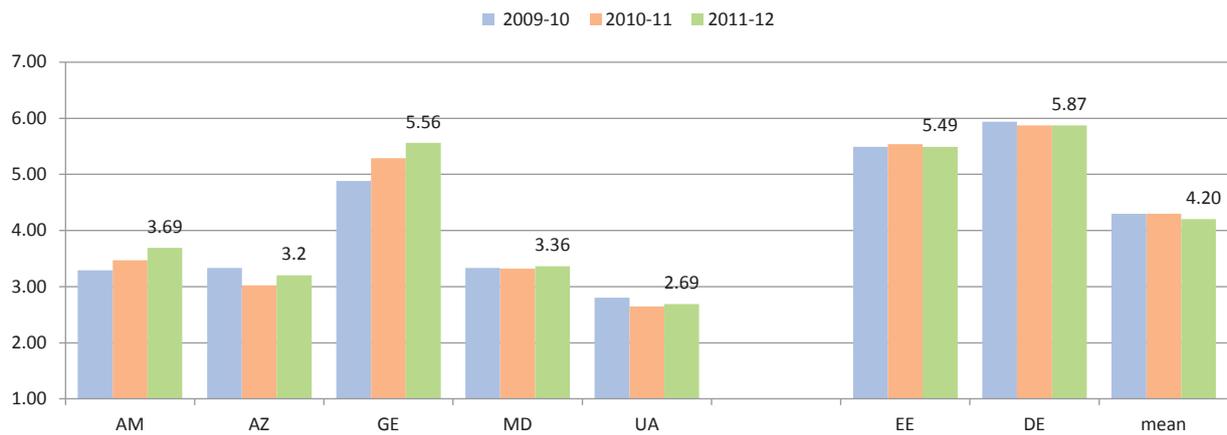
Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Scale from -2.5 (worst) to 2.5 (best)

A2: Favouritism in government decisions



To what extent do government officials in your country show favouritism to well-connected firms and individuals when deciding upon policies and contracts? 1 – always; 7 – never

A3: Irregular payments and bribes



How common is it for firms to make undocumented extra payments or bribes connected with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licenses; (e) obtaining favourable judicial decisions? 1 – irregular payments are very common; 7 – irregular payments never occur

Trends in the region in 2008-2012:

- In the observation period, the overall trend with regard to reliability and predictability of public administrations remained mixed in the EaP region. Georgia and Armenia recorded distinct progress on curbing irregular payments. Moldova joined regional top-performers very recently, notably with regard to the rule of law enforcement.
- In contrast, Ukraine, Azerbaijan and Belarus displayed an unsteady performance in overcoming favouritism in government decisions and bribery. On the rule of law, the situation in these three countries has been visibly deteriorating throughout the observation period. The most recent data confirm our prediction from the previous comparative report about the adverse impact of arbitrary interpretation of legislation and intimidation of the opposition on reliable and predictable public governance.

Disparities in the region:

- Georgia keeps up its leading position in the region with regard to the rule of law and overcoming petty corruption. However, Azerbaijan scored top in the region in 2011-12 on restraining favouritism in government decisions. The latter development does not yet indicate any settled trend in the country (see Chapter III for more detail).
- Within the EaP region, slightly different patterns have become visible indicator by indicator: (i) on the rule of law, the leading country Geor-

gia is followed by Armenia and Moldova with similar scores, with the remaining three countries lagging distinctly behind; (ii) on restraining favouritism, the three South Caucasus states are well ahead of Ukraine and Moldova; (iii) on irregular payments, Armenia, Moldova and Azerbaijan score comparably behind the regional leader Georgia, with Ukraine standing at the rear.

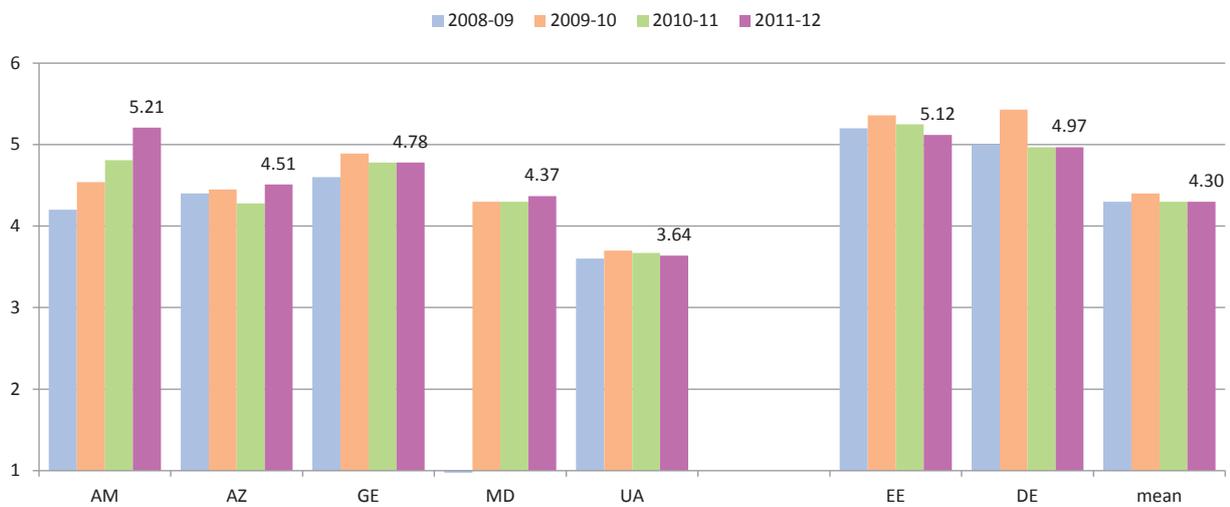
- These emerging regional patterns should be followed closely in the next years, so as to judge if the regional leaders and backmarkers crystallise themselves as such in the medium- to long-term perspective.

Comparison with EU member states:

- On the rule of law, the gap between the EaP region and the EU reference countries remains pronounced: Eastern partner countries still have a long way to go to reach EU standards, all the more so as Belarus, Ukraine and Azerbaijan have been drifting away from those standards in the recent 5 years.
- Owing to credible domestic reform progress, Georgia has outscored Estonia and a number of weaker-performing EU member states in barring irregular payments, while the others still need to catch up with the world average.
- While the distinction between the EU and EaP countries on favouritism in government decision is less pronounced, the latter still need to invest much effort to make their public administrations more reliable and predictable.

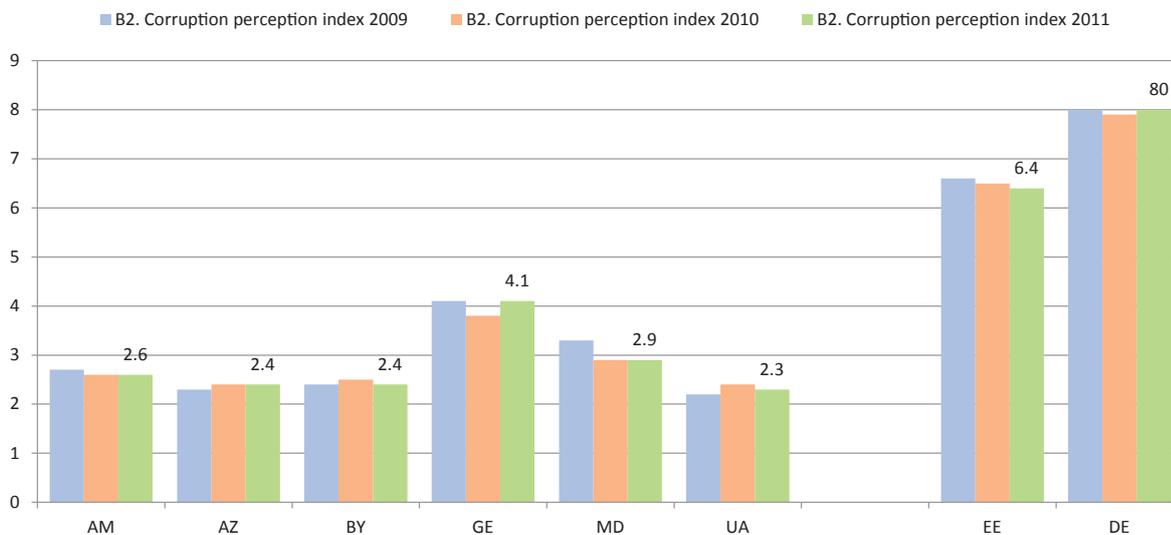
B. Openness and Transparency

B1: Transparency in policy making



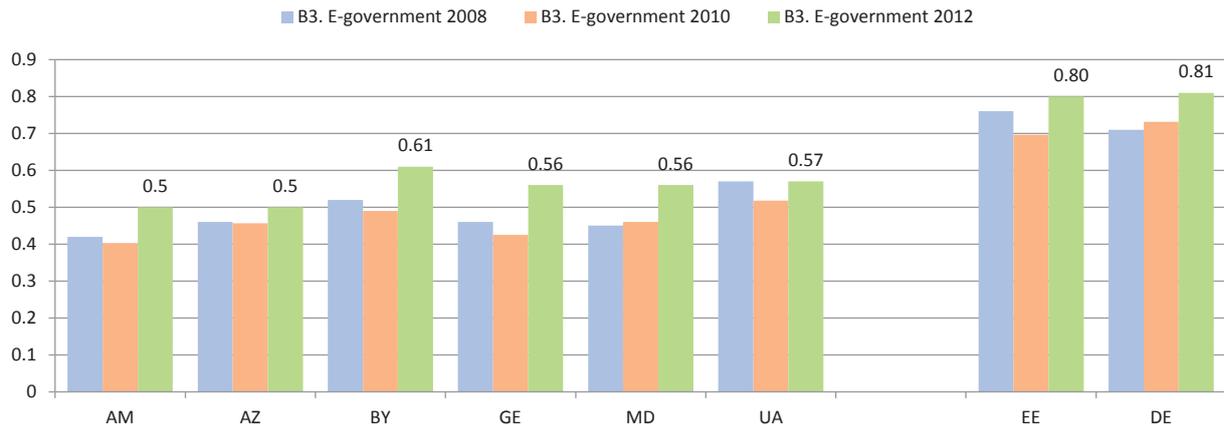
How easy is it for businesses in your country to obtain information about changes in government policies and regulations affecting their activities? 1 – impossible; 7 – extremely easy

B2: Corruption perception



1 - the economy is highly corrupt; 10 - the economy is very clean

B3: E-government



Availability of e-services, e-readiness based on website assessment, human resource endowment, index of the telecommunication and index of e-participation. Scale from 0 (worst) to 1 (best)

Trends in the region in 2008-2012:

- EaP countries have been raising the level of openness and transparency of their public administrations very hesitantly. In many cases, no meaningful improvements could be registered in the observation period, particularly regarding transparency in policymaking and corruption perception. There are however two important exceptions from that trend.
- Firstly, Armenia set forth efforts to improve access to information on government policies affecting business. The country became a pronounced regional leader on that indicator in 2011-12, owing to several consecutive years of successful introduction of electronic communication tools.
- Secondly, the prevailing trend on e-government in the region reverted for positive in the recent two years, as all EaP countries posted visible improvements. This should reflect national policies to develop electronic infrastructure and make government services more available online.

Disparities in the region:

- Armenia has consolidated its leading position in the region on transparent policymaking. Georgia, Azerbaijan and Moldova compose a relatively homogeneous followers' group, with Ukraine lagging visibly behind.
- On corruption perception, Georgia remains the regional leader. Other countries display much lower comparable values, with no improvements registered in 2010-11.
- Belarus has become regional leader on E-gov-

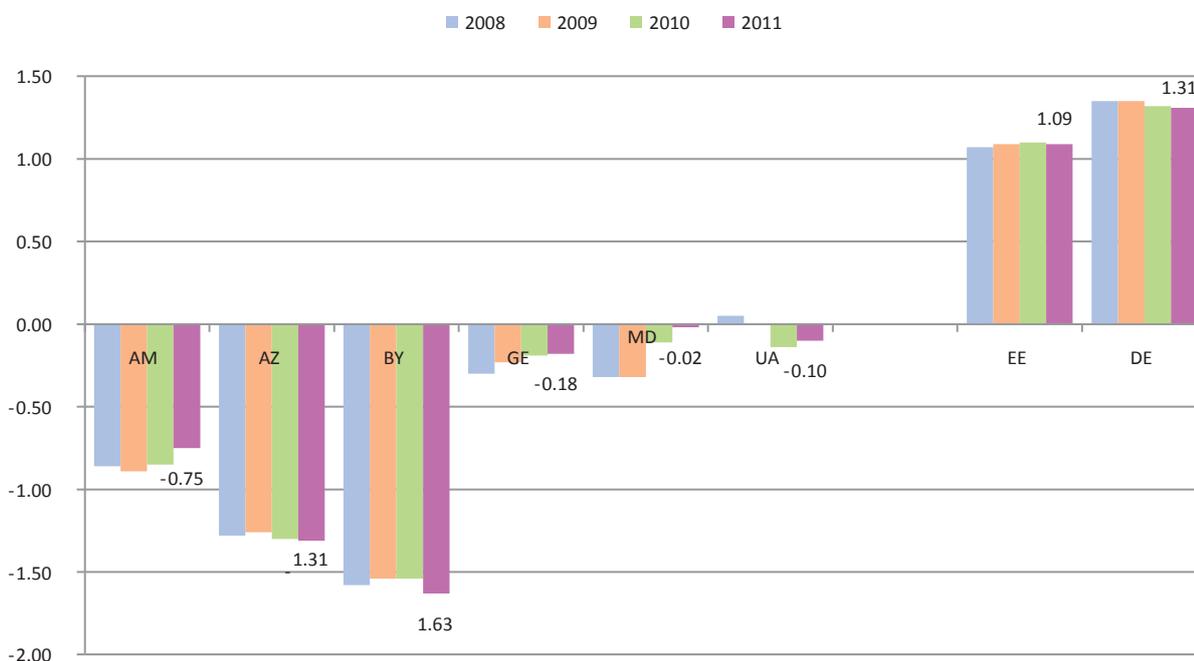
ernment, outscoring Ukraine and the rest EaP countries, which follow densely up. It is remarkable that, on e-government, all EaP countries have improved their performance over the recent two years. ECEAP plans to analyse this development in more detail in the Comparative report 2013.

Comparison with EU member states:

- Similarly to the principle of reliability and predictability, EaP countries can compare with the EU reference member states only in selected components of an open and transparent public administration.
- Mostly remarkable is the similarity on easiness of obtaining information about government decisions affecting business. On the related indicator B1 "transparency in policy making", the regional leader Armenia outscores even Estonia and Germany. In addition, all five EaP economies display a better performance than EU members Romania and Bulgaria, and with Ukraine excluded, Eastern Partners outscore also Poland and Hungary.
- As mentioned, e-government levels have grown in the region, but the gap to EU remains apparent
- This gap vis-à-vis the EU becomes even more pronounced with regard to corruption perception. Complexity of combating corruption, vested interests and respectively half-hearted anti-corruption policies are the main reasons behind the stagnant development in EaP region.

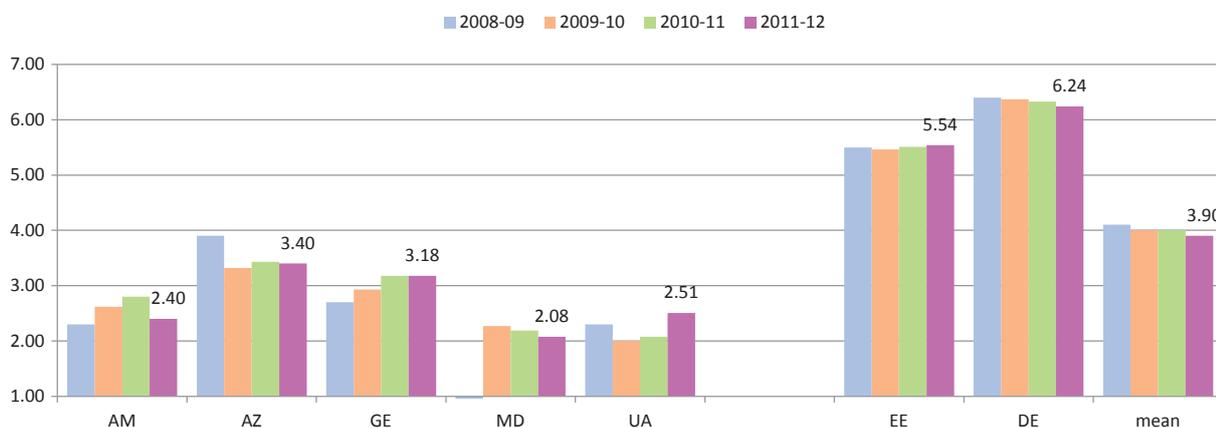
C. Accountability

C1: Accountability and freedom of speech



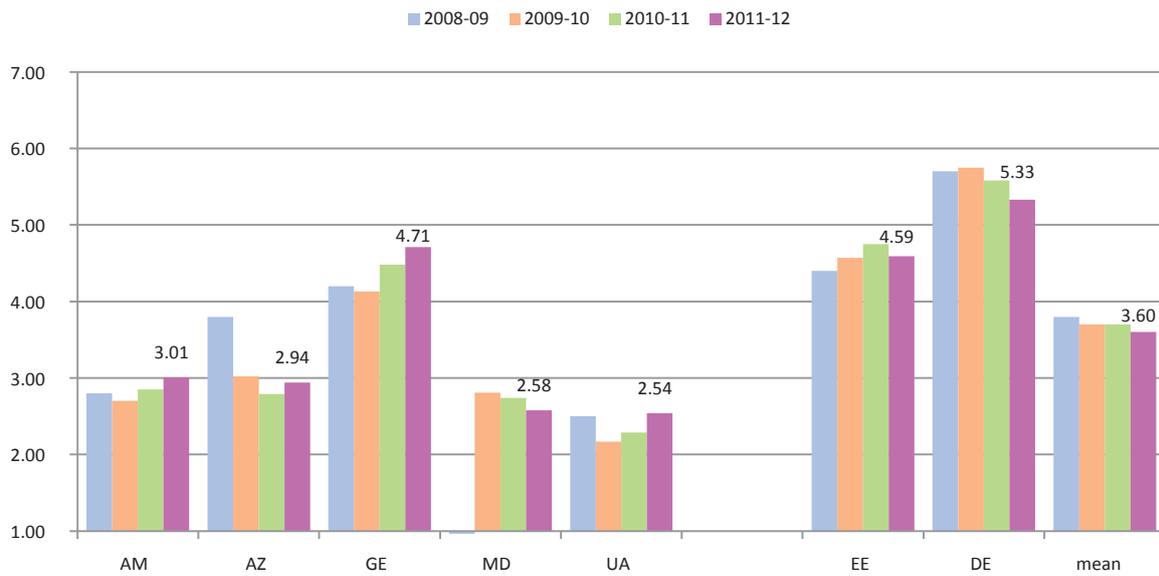
Shows extent, to which citizens are able to participate in the selection of their government, as well as freedom of expression, freedom of association, and freedom of media. Scale from -2.5 (worst) to 2.5 (best)

C2: Judicial independence



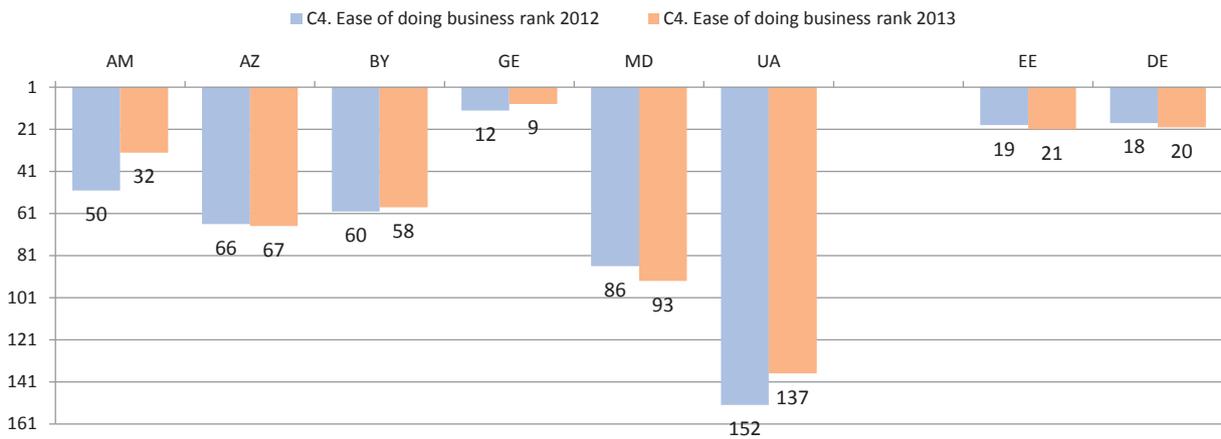
1 – judiciary is heavily influenced by government, citizens or firms; 7 – judiciary is entirely independent

C3: Diversion of public funds



1 – diversion of public funds due to corruption is very common; 7 – such diversion never occurs

C4: Ease of doing business



Shows ranks of the economies on a simple scale from 1 to 184 (2013)

Trends in the region in 2008-2012:

- No stable changes to a more accountable public administration could be identified so far. Moldova, Georgia and Armenia have improved their performance on accountability and freedom of speech, however, the overall trend on this indicator has been quite mixed.
- Likewise, only sporadic improvements, mostly against very low base periods, were registered regarding judicial independence and diversion of public funds.
- Armenia and Georgia managed to seriously improve their doing-business rankings, as did Ukraine, owing mainly to introducing friendlier start-up regulations and easier property registering.

Disparities in the region:

- Georgia managed to retain its position as a pronounced regional leader in combating diversion of public funds and improving business conditions

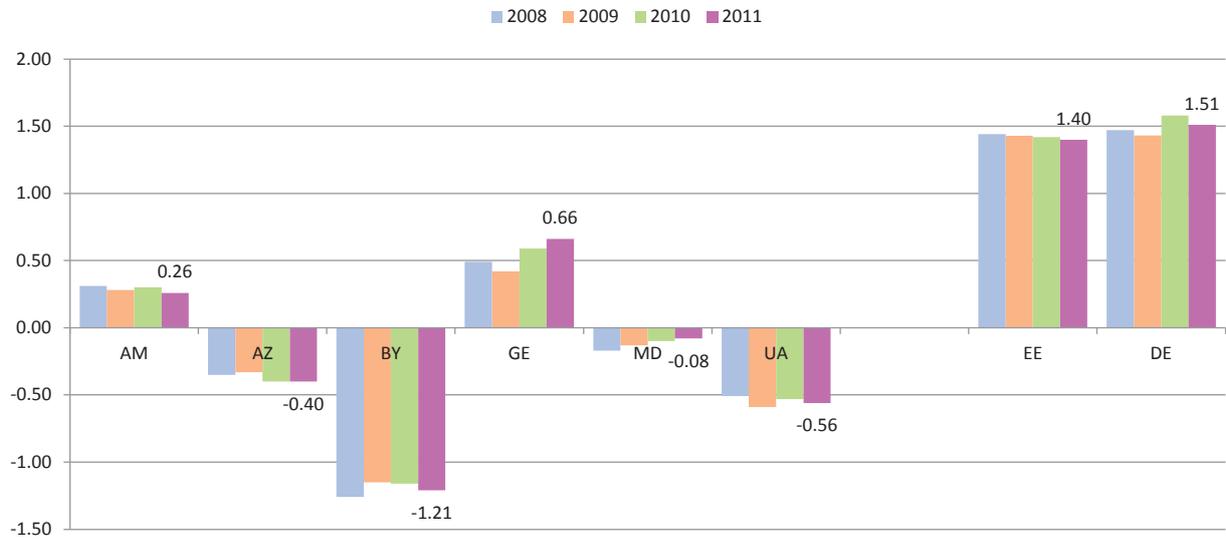
- Upon settling the domestic political crisis of 2009-10, Moldova has posted credible progress in consolidating a democratic election system and public freedoms and became the regional leader on that indicator. Interestingly enough, Moldova, Ukraine and Georgia are visibly ahead of the other 3 countries on accountability and freedom of speech.

Comparison with the EU member states:

- Overall, accountability of public administration in EaP countries remains incomparable with the advanced EU countries Estonia and Germany. The region displays a below-the-average performance on most of the indicators.
- It is only sporadically that EaP countries catch up with EU level (e.g. Georgia on diversion of public funds or on improving business conditions), which is quite insufficient to judge about moving toward an EU-conform, accountable public administration.

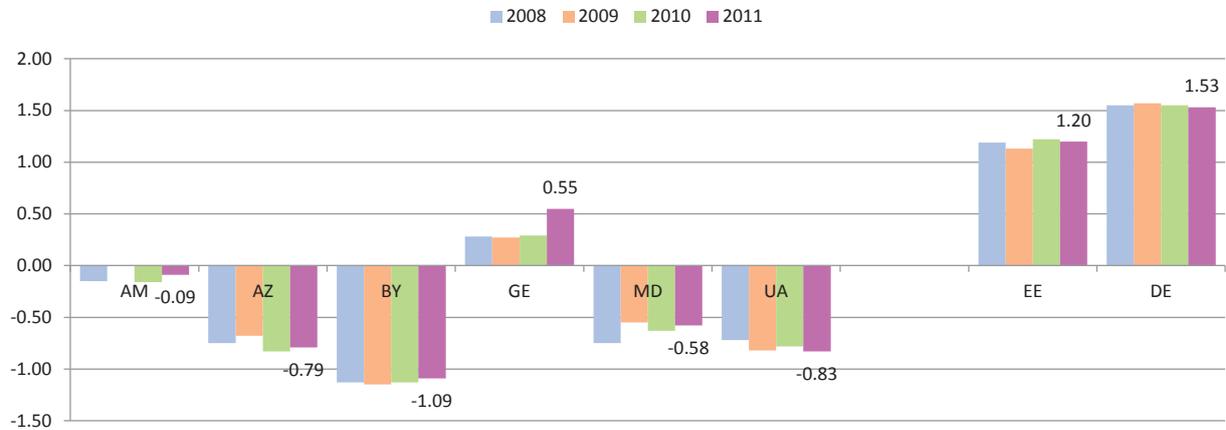
D. Efficiency and Effectiveness

D1: Regulatory quality



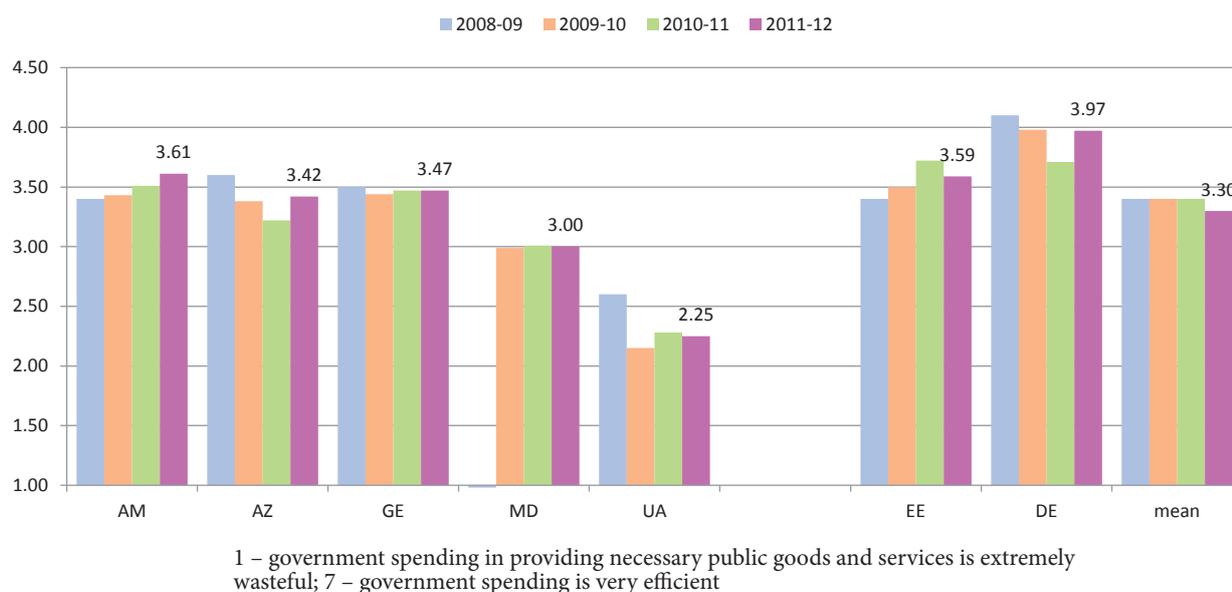
Shows perceptions of the government ability to formulate and implement sound policies that permit and promote private sector development; scale from -2.5 (worst) to 2.5 (best)

D2: Government effectiveness



Captures the quality of public service and degree of its independence from political pressure, quality of policy formulation and implementation, and credibility of government commitments to such policies; scale from -2.5 (worst) to 2.5 (best)

D3. Wastefulness of government spending



Trends in the region in 2008-2012:

- Except in Ukraine, government effectiveness has improved – albeit at very different comparable levels (see below) – in all EaP economies. Moldova and Georgia, in addition, have been raising regulatory quality throughout the observation period, while the performance in other countries has been mixed, with no meaningful changes for better.
- Government spending on provision of the necessary goods and services is being positively perceived in the three South Caucasus economies, all of which perform above the average of the World Competitiveness Indicators' database. However, only in Georgia this assessment is underpinned by respectively high values of indicator C3 "Diversion of public funds". Moldova, and in particular Ukraine, still have to make their budget spending less wasteful in the longer run.

Disparities in the region:

- On regularly quality and government effectiveness, Georgia consolidated its regional leader's position in the recent years. The front-runner is being followed by Armenia and, what concerns private sector-friendly regulatory framework, by Moldova. These three economies outscore the others, where no consistent changes for better could be seen in the observation period.
- On the efficiency/wastefulness of government spending, disparities in the EaP region are less

pronounced, except that Ukraine and, less pronouncedly Moldova, have been performing below the world average.

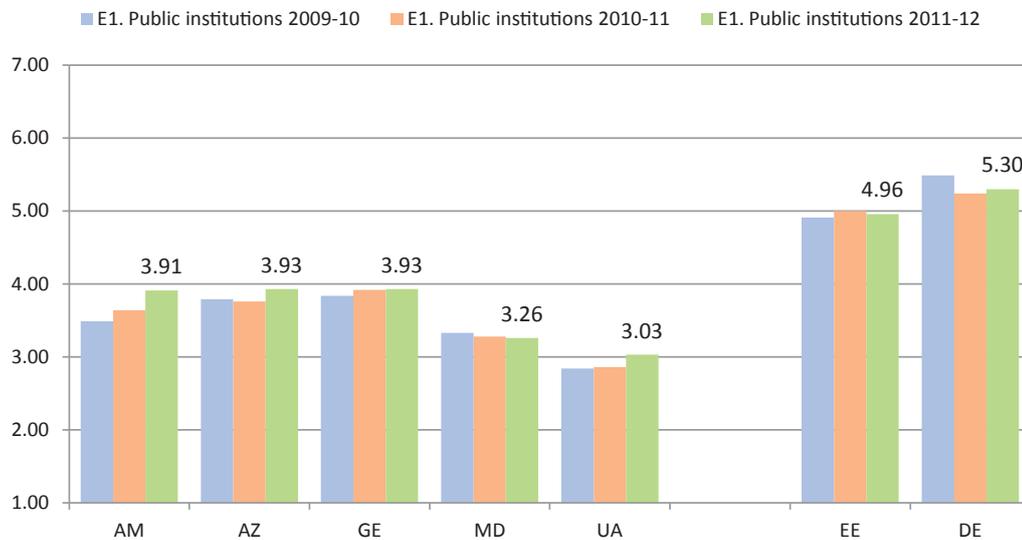
- Ukraine is the only EaP country to display worse performance on all three indicators and thus to move further away from the European principle of an efficient and effective public administration. This certainly builds a mismatch to the progress of upgrading political and economic relations with the EU, where the negotiations of the Association Agreement and DCFTA have been completed, but further steps frozen so far, owing to appalling deficits in democratic governance.

Comparison with the EU member states:

- Although the gap toward EU remains substantial on regulatory quality and government effectiveness, EaP front-runners Georgia, Armenia and Moldova have good chances to catch up, provided efforts to raise government efficiency and effectiveness retain momentum.
- The three South Caucasus countries displayed again comparable levels with the EU on the efficiency of government spending. Similarly to the previous year, these economies even outscored in 2011-12 many EU member states with lower-than-average performance on that indicator (Latvia, Bulgaria, Poland, Slovenia, Italy, Greece and Portugal).

E. Consolidating indicator

E1: Public institutions



Trends in the region in 2009-2012:

- Armenia, Georgia and, at a lower level, Ukraine have been improving their scores throughout the 3-year observation period.
- Azerbaijan displayed an upward development in 2011-12, while Moldova remained broadly stagnant.

Disparities in the region:

- Like on some other indicators of public governance, the three South Caucasus countries displayed better position compared with the Eastern Neighbourhood.
- Despite the most recent improvement, Ukraine remained the worst performer among the observed EaP economies.

Comparison with the EU member states:

- On public institutions, the EaP regional front-runners outscored a number of EU member states, such as Italy, Greece, Romania and Bulgaria. Nevertheless, catching up with the EU poses still a big challenge, especially in combination with other aspects of good governance.

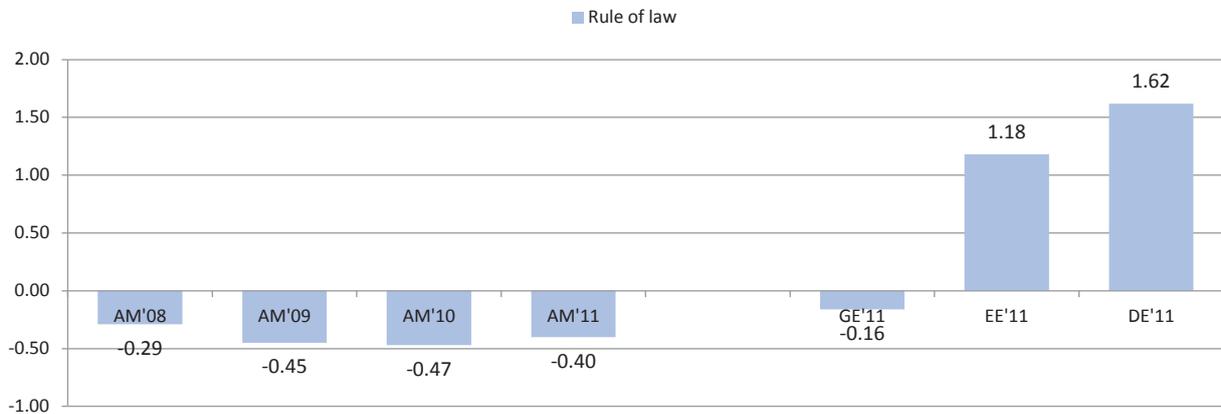
II

European
Principles of Public
Administration
in the EU Eastern
Partners: Country
assessments
2008-2012

EUROPEAN PRINCIPLES OF PUBLIC ADMINISTRATION IN ARMENIA²

A: Public administration in Armenia: Reliability and predictability

A1: Rule of law



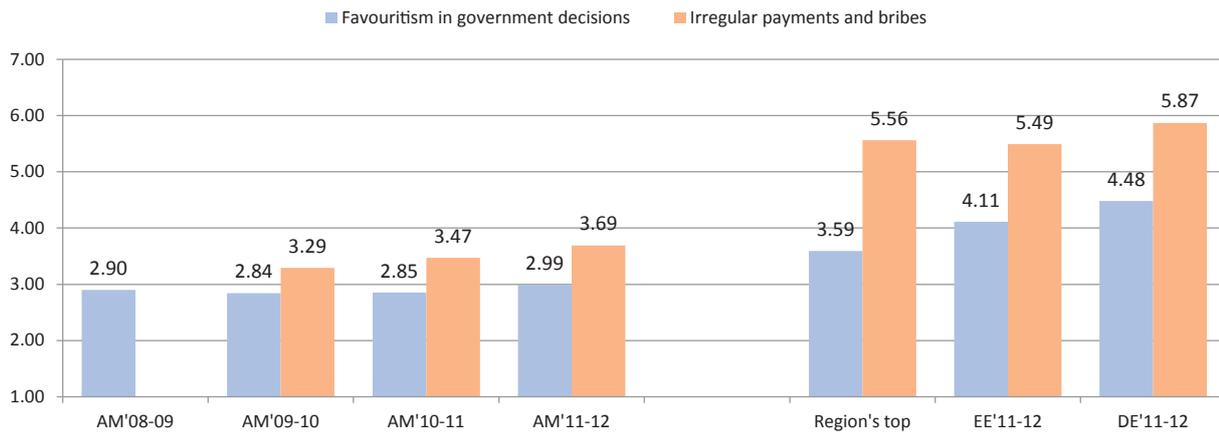
Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Scale from -2.5 (worst) to 2.5 (best)

The EU attested Armenia “a serious effort” in addressing issues related to human rights and fundamental freedoms. The country introduced amendments to electoral legislation, and the opposition leaders, detained on political reasons after March 2008 presidential elections, were set free per presidential decree. However, implementation of legislation remains traditionally weak, owing mainly to the heavily influenced judiciary (see also the country’s backward scores under C2). This also explains the lack of any credible progress on the rule of law over the last four years. Most recent developments highlight the fragility of the situation: hardly had

the 2008 conflict with the opposition been settled – not unimportantly, under pressure from the EU and other western partners – authorities have resorted again to a selective, politically motivated application of law to a possible opposition candidate for 2013 presidential elections, former foreign minister and leader of “Prosperous Armenia” opposition party Vartan Oskanyan. The case has caused new concerns about rule of law in the country. The U.S. urged the authorities to “live up to its commitments to the systematic, fair and transparent implementation of the rule of law”.

² As a rule, graphs show country’s performance on the left-hand side; on the right-hand side, the Eastern Partnership region’s top score as well as reference numbers for Estonia and Germany are given.

A2: Favouritism in government decisions, A3: Irregular payments and bribes



A2: To what extent do government officials in your country show favouritism to well-connected firms and individuals when deciding upon policies and contracts? 1 – always; 7 – never

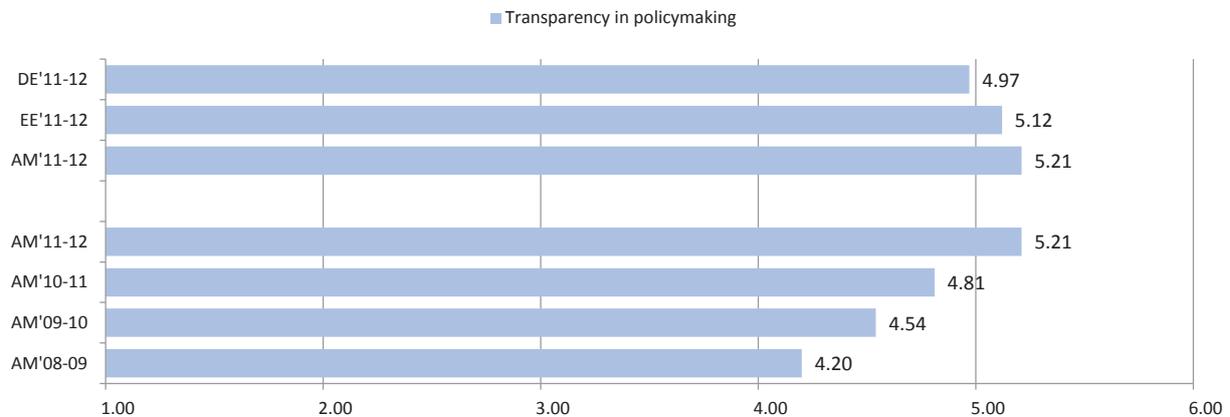
A3: How common is it for firms to make undocumented extra payments or bribes connected with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licenses; (e) obtaining favourable judicial decisions? 1 – irregular payments are very common; 7 – irregular payments never occur

The country shows slow but steady improvements on the two indicators, stays however visibly behind the regional leaders in both overcoming favouritism and banning irregular payments and bribery. Vested interests between the economy and politics are very often anchored by kinship or personal involvement of members of the government and Parliament in lucrative businesses, thus nourishing favouritism. Surprisingly or not, favouritism and bribery co-exist

with improvements of business environment, as witnessed by more transparency and less bureaucratic burden (see B1 and C4), but make it nevertheless vulnerable to changes in political power. A separate knot of problems are the relations of business agents with the tax and customs authorities, where fiscal harassment remains a serious barrier to enterprises.

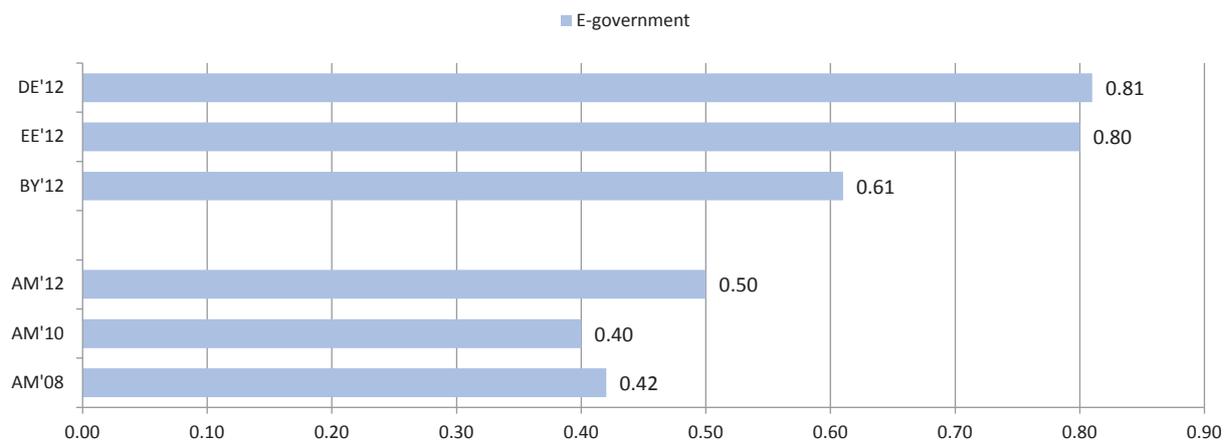
B: Public administration in Armenia: Openness and transparency

B1: Transparency in policymaking



How easy is it for businesses in your country to obtain information about changes in government policies and regulations affecting their activities? 1 – impossible; 7 – extremely easy

B3: E-government

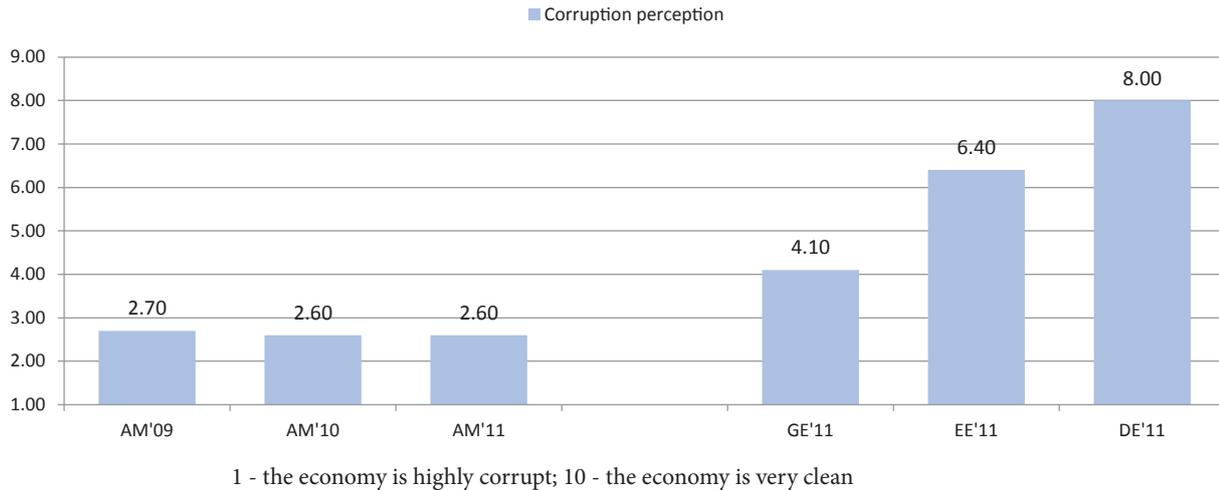


Availability of e-services, e-readiness based on website assessment, human resource endowment, index of the telecommunication and index of e-participation. Scale from 0 (worst) to 1 (best)

Armenian public administration has been continuously improving access to the information on any government decisions affecting businesses. In no other EaP country has the progress on this indicator been so convincing (see comparisons in Chapter II), and Armenia fully deserves being the regional leader. www.e-gov.am website has been kept updated on the most recent government decisions, and offers a number of government services – tax statements, intellectual property application,

access to legislation database, direct communication with the government etc. – online. A state electronic payment system and access to electronic property cadastre have been added recently. Services are overwhelmingly available only in Armenian language, which is satisfactory for national companies and joint ventures, but might pose an additional barrier for market access of potential foreign investors.

B2: Corruption perception

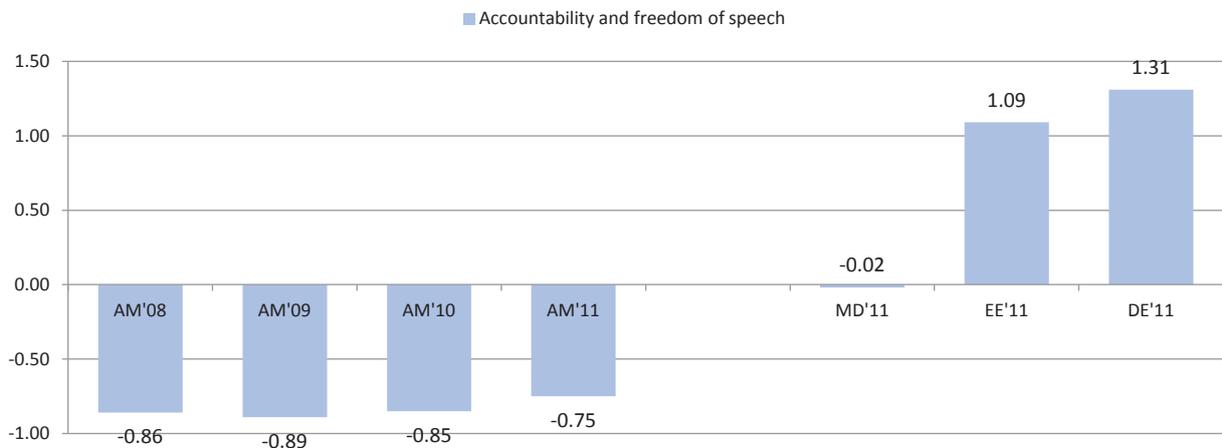


According to a survey of the Caucasus Research Resource Center (CRRC), 82 percent of people consider corruption a serious problem in Armenia. It can be said that a “corruption culture” exists in the society, since more than a half of the survey respondents (58%) were willing/ready to pay a bribe. The most high-ranked officials are perceived to be the most corrupt, hence the commitment to crack

down on corruption declared by the Prime Minister, which led to dismissals of a number of middle to high-rank officials in the Ministries of Agriculture, Education and Health, is largely considered to be more of a show. Judiciary, and especially the Office of the Prosecutor, as well as the Central Election Committee are perceived as the most corrupt.

C: Public administration in Armenia: Accountability

C1: Accountability and freedom of speech

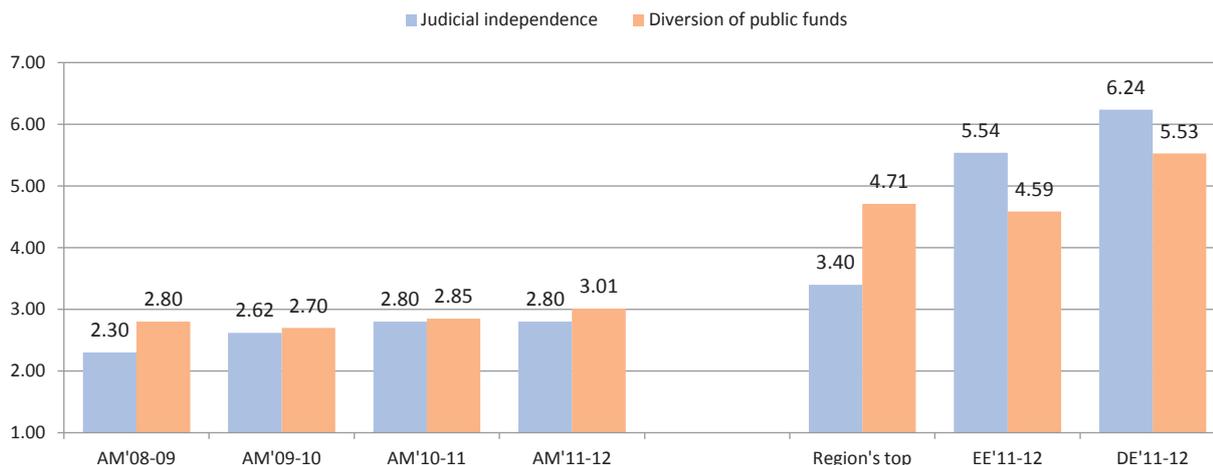


Shows extent, to which citizens are able to participate in the selection of their government, as well as freedom of expression, freedom of association, and freedom of media. Scale from -2.5 (worst) to 2.5 (best)

Armenia lags behind the EaP regional leader (Moldova) on accountability and freedom of expression, and the progress on the observation period has been quite hesitant. The EU raises concern about media freedom relating to the print media affiliation, limitations on TV broadcasting and to civil lawsuits for insult and defamation. Defamation was decriminalised in 2010, but effectively reversed in July 2012, as the Court of Review adopted a controversial

interpretation of concepts of “insult” and “defamation”, which de-facto allowed arbitrary application of law. The country managed to improve its freedom-of-media rating in 2012, but just to the level before 2008 presidential elections. Opposition media are often drawn to courts, while the fines imposed are unreasonably high and may jeopardise further functioning of printed or internet medium.

C2: Judicial independence, C3: Diversion of public funds



C2: 1 – judiciary is heavily influenced by government, citizens or firms; 7 – judiciary is entirely independent
 C3: 1 – diversion of public funds due to corruption is very common; 7 – such diversion never occurs

On the two indicators, Armenia lags behind the regional leaders. Because the judiciary is openly biased in favour of authorities, and cases of ill-treatment and brutality by prosecution remain quite frequent. In this sense, about a half of the European Court of Human Rights decisions are those on violation of citizens' rights on fair treatment by courts, which signifies lack of confidence of citizens toward national judiciary. Although citizens had access to courts to bring lawsuits seeking damages for, or cessation of, human rights violations, the courts were widely perceived as corrupt, and potential litigants in civil cases often evaluated the advisability of bringing suit by comparing their and their opponent's respective resources with which to influence the judge.³ For similar reasons, business entities with foreign participation prefer to avoid Armenian courts when it comes to dispute settlement. Diversion of public funds likewise remains a frequent irregularity, which might complicate budget support to Armenia on the part of the EU. Armenian Chamber of Control reported in September 2012 that the most cases of embezzlement during the year 2011 were registered in financing of national research and development projects.

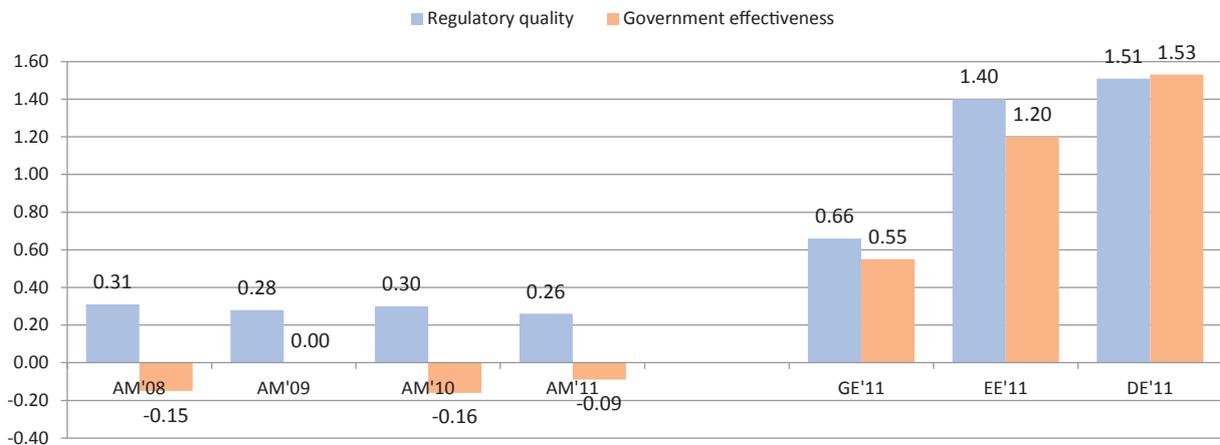
C4: Ease of doing business global rank 2013: Armenia – 32, Germany – 20, Estonia – 21

Armenia has achieved good progress on improving business conditions, according to the Doing business rankings for 2013 by the IFC and the World Bank. The country managed to improve its rating by 18 points and climbed from 50th to 32nd rank among the 185 sampled economies. In particular, improvements were reported on protection of investors, paying taxes, provision of electricity and dealing with construction permits. In contrast, conditions for trade across borders, access to credits and business start-up deteriorated slightly. In absolute terms, the country keeps up quite low positions in international comparison in what concerns contract enforcement, trade regulation, relations between businesses and tax authorities as well as electricity supply – the two latter despite the recent-year improvements. These persisting obstacles undermine the advantage of an easy business start-up and property registering and generally impair the business climate.

³ See United States Department of State, *2011 Country Reports on Human Rights Practices - Armenia*, 24 May 2012, available at: <http://www.unhcr.org/refworld/docid/4fc75abe41.html> [accessed 28 October 2012].

D: Public administration in Armenia: Efficiency and effectiveness

D1: Regulatory quality D2: Government effectiveness

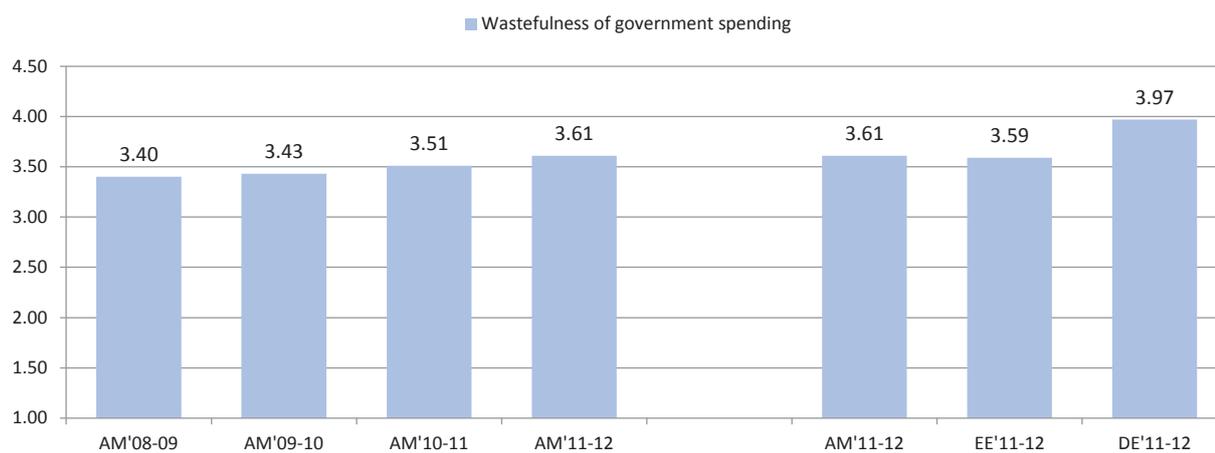


D1 shows perceptions of the government ability to formulate and implement sound policies that permit and promote private sector development; D2 captures the quality of public service and degree of its independence from political pressure, quality of policy formulation and implementation, and credibility of government commitments to such policies. Scale from -2.5 (worst) to 2.5 (best)

The numbers show a mixed trend with regard to the ability of Armenian government to foster private sector development. Public service remains disposed to political pressure, which undermines the credibility of government commitment to the adopted policies. Government effectiveness and regulatory quality differ in the country depending on the area of reform. It is typical for Armenia that fiscal considerations, often exaggerated, supersede support to business: a workable banking system, quick access

to business information, easy property registering co-exist with lack of confidence to judiciary, as well as tax and customs authorities. The most recent developments, however, such as opening of DCFTA negotiations with the EU in February 2012, signify that the government is able to subordinate narrow ministerial interests to a clear political goal, which is likely to bring benefits to the whole economy.

D3: Wastefulness of government spending



1 – government spending in providing necessary public goods and services is extremely wasteful; 7 – government spending is very efficient

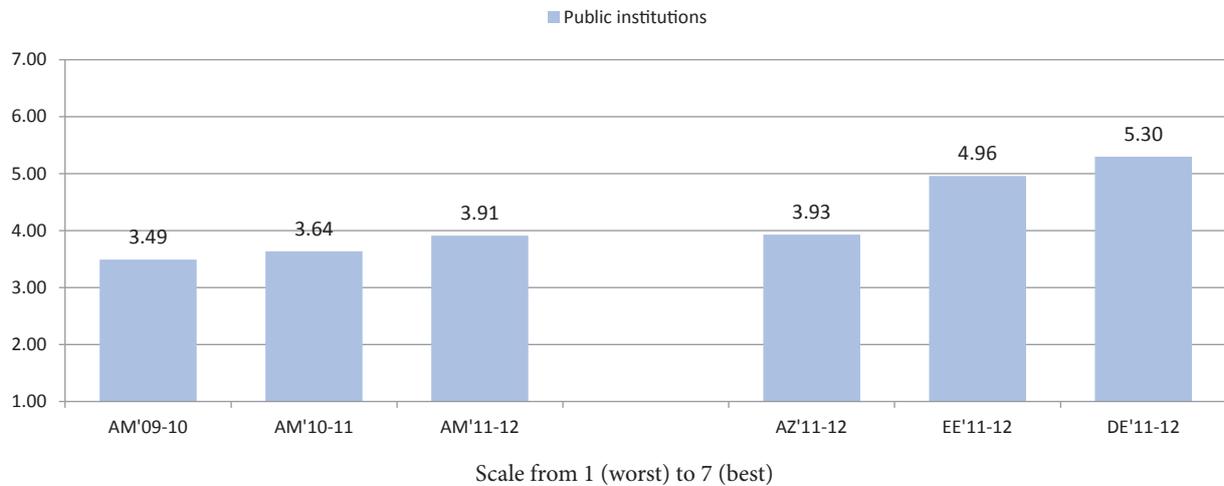
Armenia kept up its leading position among the Eastern Partnership countries in 2011-12 with regard to minimise wasteful government spending. The country performance is also very much comparable with EU reference countries Estonia and Germany. However, persistently weak tax collection base causes some concern: authorities have nearly exhausted the available revenue effort, so that further revenues raise is a challenge. The IMF encouraged the government to further improve the tax system by casting a wider tax net and achieving gains

in revenue administration,⁴ so as to limit spending compression. Political tensions in the Caucasus region may always affect negatively the Armenian fiscal balance, should the authorities see the need to an abrupt expansion of military expenditure and divert public funds (see C3) from social and development programs.

4 IMF program note, Republic of Armenia, 02.10.12 <http://www.imf.org/external/np/country/notes/armenia.htm> [accessed 28.10.12]

E: Public administration in Armenia: consolidating indicator

E1: Public institutions



Synopsis

Armenia has upgraded its status to an “efficiency-driven” economy in the international databases, reflecting the overall reform progress and a good development outlook. The country posted steady – albeit slow – improvements of public administration reform in accordance with the European principles. It managed a break-through on transparency of policymaking, and became the regional leader also

in overcoming wasteful government spending. In other areas, no drastic slippages could be registered. The overall good progress on transparency and efficiency of public governance highlights however the need to make public administration more reliable and accountable in the longer-term perspective. In the latter aspects, the country still lags behind the regional top performers.

EUROPEAN PRINCIPLES OF PUBLIC ADMINISTRATION IN AZERBAIJAN

A: Public administration in Azerbaijan: Reliability and predictability

A1: Rule of law

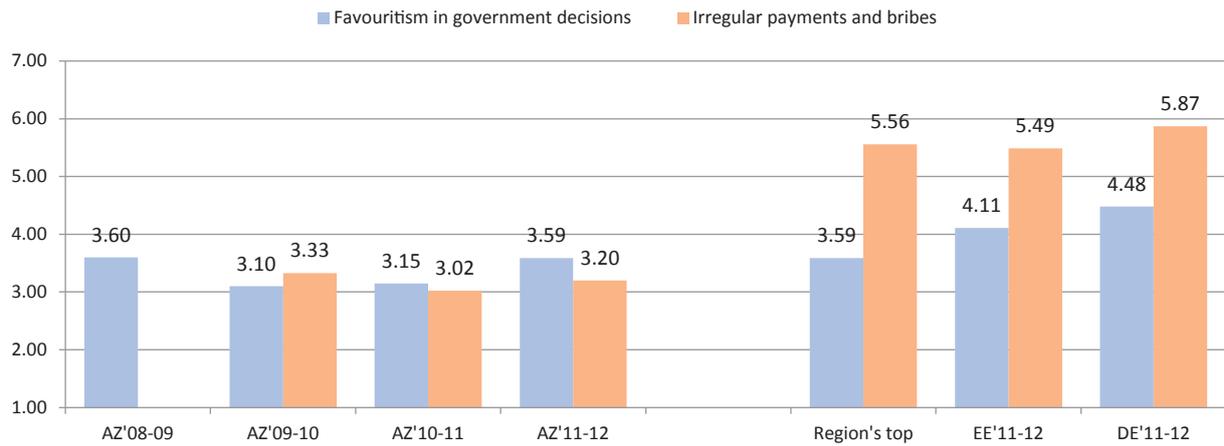


Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Scale from -2.5 (worst) to 2.5 (best)

In comparison with 2011, no significant changes have occurred with regard to the rule of law in Azerbaijan. Violation of human rights went on in 2012, owing mainly to a biased court system, and dissatisfaction with the level of protection of private prop-

erty rights remained the most serious problem. At purchasing private property for governmental purposes, prices and compensations were unlawfully biased to the privilege of government officials.

A2: Favouritism in government decisions, A3: Irregular payments and bribes



A2: To what extent do government officials in your country show favouritism to well-connected firms and individuals when deciding upon policies and contracts? 1 – always; 7 – never

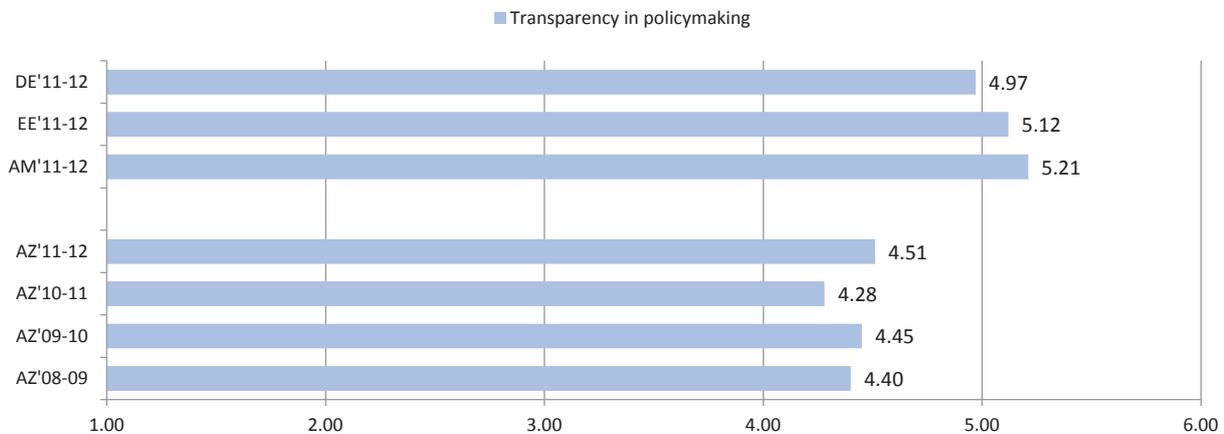
A3: How common is it for firms to make undocumented extra payments or bribes connected with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licenses; (e) obtaining favourable judicial decisions? 1 – irregular payments are very common; 7 – irregular payments never occur

Although favouritism and irregular payments are serious problems in Azerbaijan, the situation in 2012 improved slightly compared with 2011. This improvement is attributable directly to the President's initiative to take measures against corruption and to establish a special agency to develop e-government in 2012. Nevertheless, favouritism and irregular payments are practiced in government pro-

curement tenders and in the day-to-day functioning of most government agencies. Generally, tendered contracts for large investment projects are awarded to companies close to the organizing agency. In the recent years, the most observed trend in this field is setting up an offshore company by a governmental agency, which then “wins” the tender.

B: Public administration in Azerbaijan: Openness and transparency

B1: Transparency in policymaking

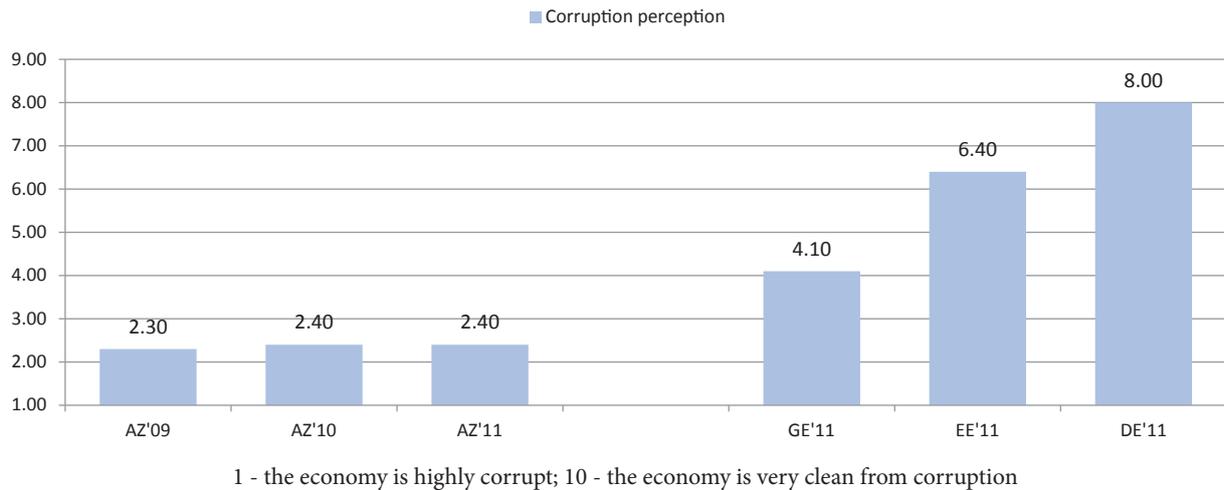


How easy is it for businesses in your country to obtain information about changes in government policies and regulations affecting their activities? 1 – impossible; 7 – extremely easy

Although data from some governmental agencies such as the State Oil Fund and the Ministry of Taxes are readily available, getting information from the majority of agencies is difficult. In comparison with 2011, the situation in 2012 has improved because of a newly-formed system of electronic inquiry and an expansion of the right of citizens to access information online by government. However, amendments,

introduced in 2012 by the Parliament to the “Law on Freedom of Information”, have complicated the mechanism for getting information from companies. At the same time, a number of state agencies simply do not respond to timely inquiries as defined in the legislation, which violates the right of citizens to get access to information in a timely manner.

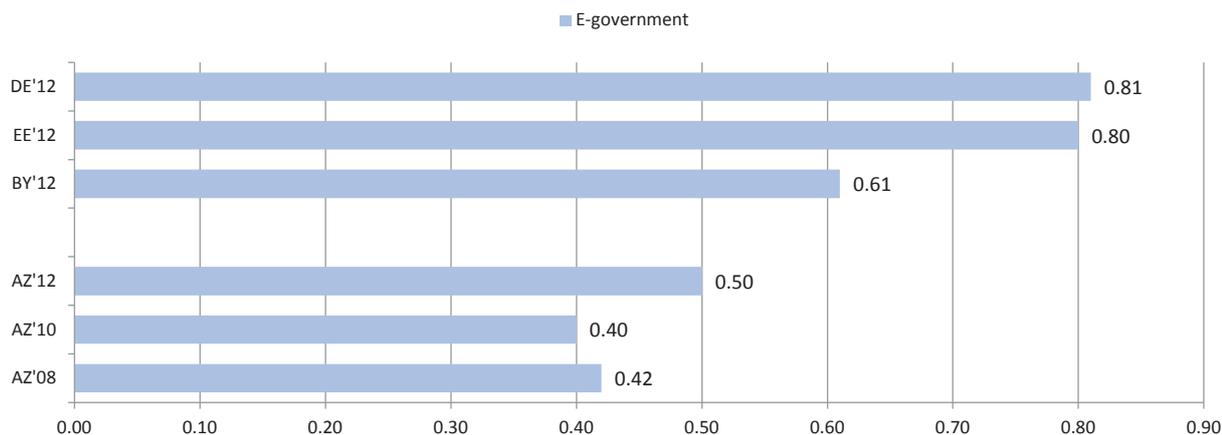
B2: Corruption perception



Despite the adoption of numerous anti-corruption laws and action plans since 2004, the perception of corruption in Azerbaijani society has not improved. The application of anti-corruption legislation has been inadequate and implementation of action plans, lax. The country's main organisation that fights corruption is the Anti-Corruption Administration under the Prosecutor General established by the decree of the President of Azerbaijan Republic No. 114, dated March 3, 2004. The decree specifies a comprehensive set of measures to prevent and combat corruption; however, the Administration is effectively unable to investigate corruption

cases involving high-ranking officials. The areas, where such practices are most intensive, typically encompass construction and publicly financed infrastructure projects. For example, the overall costs of building the Oguz-Gabala-Baku water pipeline and the Baku-Tbilisi-Kars railway became 10 times more expensive than envisioned at planning stage. Another failure of anti-corruption efforts is the regular abuse of the 2005 law, which obliges officials to disclose annual income statements. Such statements have never been made public.

B3: E-government



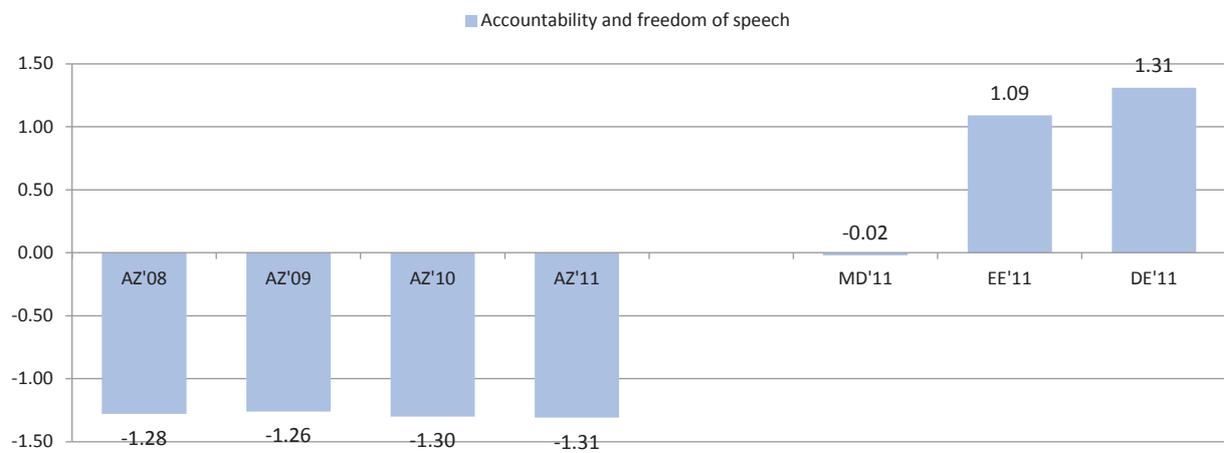
Availability of e-services, e-readiness based on website assessment, human resource endowment, index of the telecommunication and index of e-participation. Scale from 0 (worst) to 1 (best)

In 2012, some important steps were taken towards the establishment of e-government. A special government Agency was established in August 2012 in order to develop e-government and innovative activities. Before this, the President issued an order (April 2012) to establish the State Agency for e-government under the Ministry of Communications and Information Technology. The order obliged the Cabinet of Ministers to submit to the President within one month a draft Regulation on the Agency and its staffing, settle organizational issues and ensure financial and logistical support.

Ministry of Communications & IT of Azerbaijan integrates e-services of diverse ministries and departments into single portal system E-government. According to the ministry, completion of this work is scheduled for the end of 2012, after which the portal would become fully operational. To date, the portal has connected 16 government agencies, and the total number of e-services provided by them exceeds 60 items. Further improvements, in particular extension of government services available online, are to follow.

C: Public administration in Azerbaijan: Accountability

C1: Accountability and freedom of speech

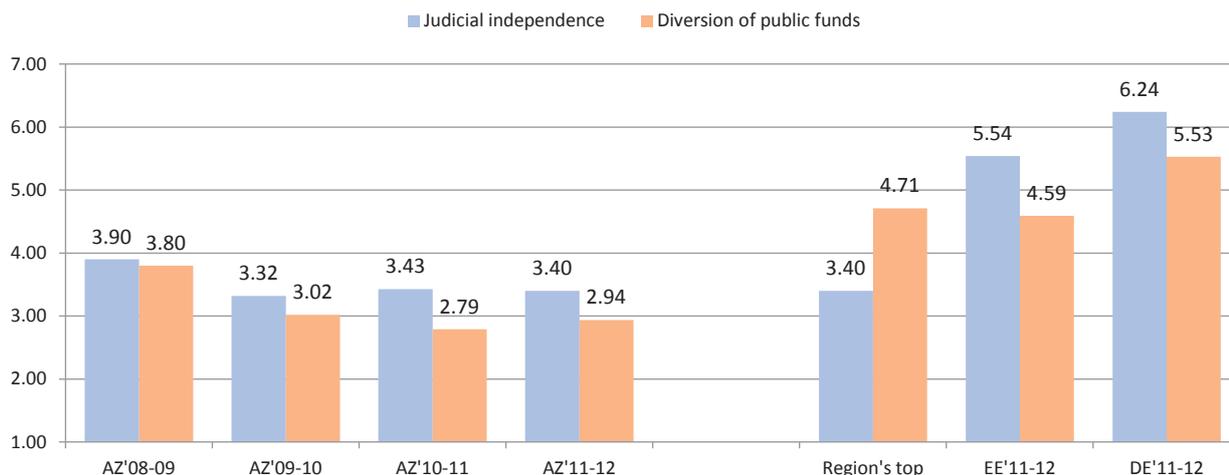


Shows extent, to which citizens are able to participate in the selection of their government, as well as freedom of expression, freedom of association, and freedom of media. Scale from -2.5 (worst) to 2.5 (best)

In comparison with the previous years, there has been no breakthrough in accountability and freedom of speech in Azerbaijan in 2012. The government still controls the media, and the level of the government's accountability is very low. Opposition newspapers circulate in negligible amounts and

have limited geographic coverage, which prevents dissemination of alternative thoughts to the general public. At the same time, one of the distinguishing features of 2012 has been widespread use of social networks for information sharing.

C2: Judicial independence C3: Diversion of public funds



C2: 1 – judiciary is heavily influenced by government, citizens or firms; 7 – judiciary is entirely independent
 C3: 1 – diversion of public funds due to corruption is very common; 7 – such diversion never occurs

In 2012 Azerbaijan statistically became the Eastern Partnership region's top performer on judicial independence, according to the WEF Global Competitiveness Report. Nevertheless, judiciary in Azerbaijan is still far from being really independent, as is evident from the gap to the EU member states. For instance, according to the U.S. Department of State,⁵ judges and prosecutors still take instruction from the presidential administration and the Ministry of Justice, particularly in cases of interest to international observers. The government also frequently practices diversion of public funds. These developments cast serious doubts on the accountability of Azerbaijani administration.

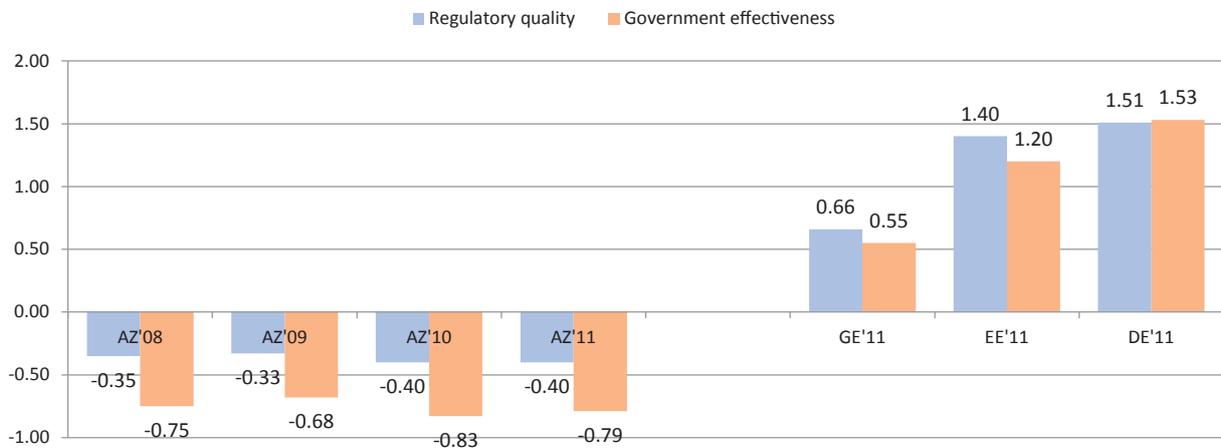
C4: Ease of doing business global rank 2013: Azerbaijan – 67, Germany – 20, Estonia – 21

Azerbaijan worsened its Doing Business rank by one position in 2013 compared to 2012. High costs of business are attributable to restricted access to credit, especially for SMEs, fiscal harassment by the authorities, and the general abundance of red-tape and corruption. Typical barriers to doing business include obtaining construction licenses and permits, operations with land property, and putting up collateral for bank loans. All these operations require excessive allocation of time and money. In the regions, authorities regularly demand “additional funding” from local companies, even when it comes to purely public services such as construction of schools or simple road works. The National Fund for Assistance to Entrepreneurs was established under the Ministry of Economic Development in 1992 with the aim of facilitating access to credit. Even though most loans granted by the Fund are registered in the names of private entrepreneurs, it is common knowledge that these assets are used by public officers.

⁵ See <http://www.state.gov/g/drl/rls/hrrpt/2010/eur/154413.htm>

D: Public administration in Azerbaijan: Efficiency and effectiveness

D1: Regulatory quality D2: Government effectiveness

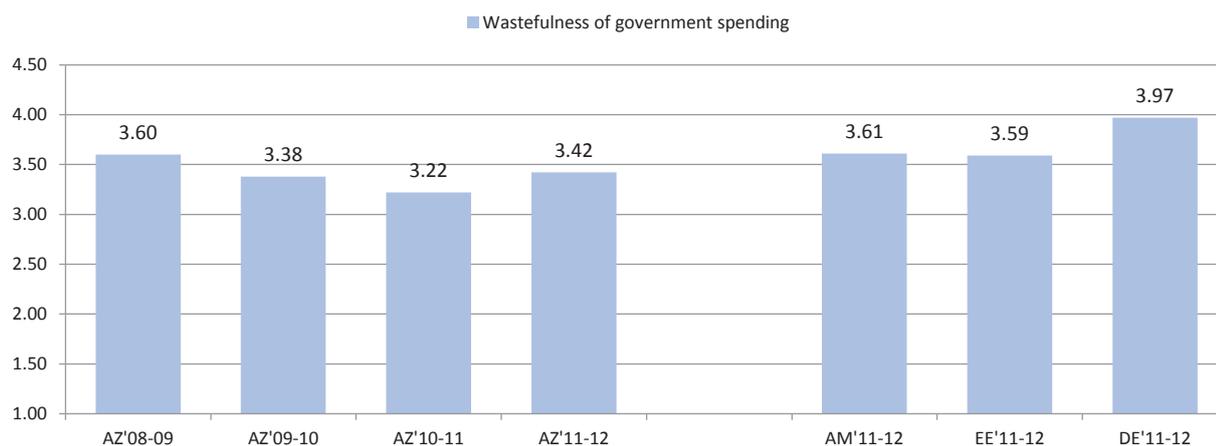


D1 shows perceptions of the government ability to formulate and implement sound policies that permit and promote private sector development; D2 captures the quality of public service and degree of its independence from political pressure, quality of policy formulation and implementation, and credibility of government commitments to such policies. Scale from -2.5 (worst) to 2.5 (best)

Both regulatory quality and government effectiveness are weak in Azerbaijan due to the lack of systematic reforms in public administration. Delay in Azerbaijan's WTO accession and the absence of trade liberalization deprive the business sector of all related benefits in this field. The oil industry is still the dominant sector in country's economy. According to the Ministry of Finance, 75 percent of budget revenues, and 54 percent of GDP originate from the

oil sector. Against this background, government reform initiatives remain scarce for non-oil sectors, which dramatically complicates business development in the rest of the economy. At the same time, delay in adopting the Competition Code by Parliament (for more than 3 years) limits possibilities for private business development.

D3: Wastefulness of government spending



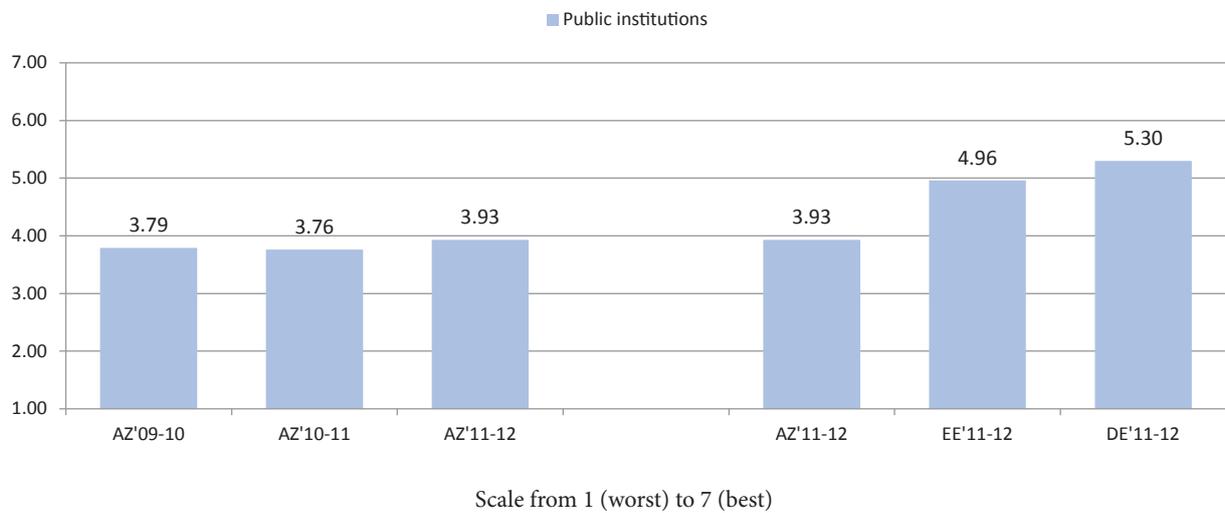
1 – government spending in providing necessary public goods and services is extremely wasteful; 7 – government spending is very efficient

The government undertook some steps in 2012 to raise the efficiency of public spending. The introduction of e-government services has increased efficiency and strengthened public monitoring of government spending. Nevertheless, wastefulness still remains a serious problem, and e-services do not reveal the full information. For example, a monitor-

ing of construction of the new Building of Azerbaijani Oil Foundation by the non-government Centre for Economic and Social Development revealed incongruities in the use of budgetary funds, typically related to overpricing of supplies compared to the initial budget plan.

E: Public administration in Azerbaijan: consolidating indicator

E1: Public institutions



Statistically, Azerbaijan became EaP regional leader on public institutions, which most probably reflects their formal stability in the country. Despite presidential initiatives to step up anti-corruption measures, Azerbaijani public institutions remain excessively centralized, built up on kinship and conducive to rent seeking. Any reforms toward a more accountable, reliable and efficient government administration are effectively blocked by the mix-up of commercial and bureaucratic interests at public institutions. At the same time, implementing e-governance measures and minimizing obstacles to direct connection of the government and its citizens play a special role in increasing the efficiency of public institutions.

Synopsis

In 2012 Azerbaijan took initiatives to introduce e-government services and enhance measures against corruption. These reforms, which will need to be continued to achieve improvements, were in fact the only noteworthy steps in the direction of European principles of public administration in the country. Corruption, lack of accountability of government agencies, overconcentration of government policies on oil sector to the detriment of other parts of the economy, violations of citizen's rights and political pressure on judiciary prevent the establishment of a reliable, accountable and efficient public administration in Azerbaijan.

EUROPEAN PRINCIPLES OF PUBLIC ADMINISTRATION IN BELARUS

A: Public administration in Belarus: Reliability and predictability⁶

A1: Rule of law



Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Scale from -2.5 (worst) to 2.5 (best)

The country performance under the rule-of-law principle has been deteriorating further in the recent years. The president has been misusing his unlimited autocracy over the legislative and executive power, local authorities and security forces, established by the controversial referendum in November 1996. Typical practice is that the president frequently overrules laws adopted by the Parliament and decisions of the Constitutional Court. A good example of “hands-on” governance is the government decree No 841, which, following the president’s address to the nation in May 2012 (see below), introduced personal responsibility of ministers and heads of government agencies for the state-owned enterprises. The European Parliament harshly criticised Belarus’

parliamentary elections held in September 2012, in particular for the fact that no single representative of opposition had been elected. Experts say that the role of the parliament is being downplayed to that of a “discussion club” on social and economic issues,⁷ while the real power remains concentrated with the president.

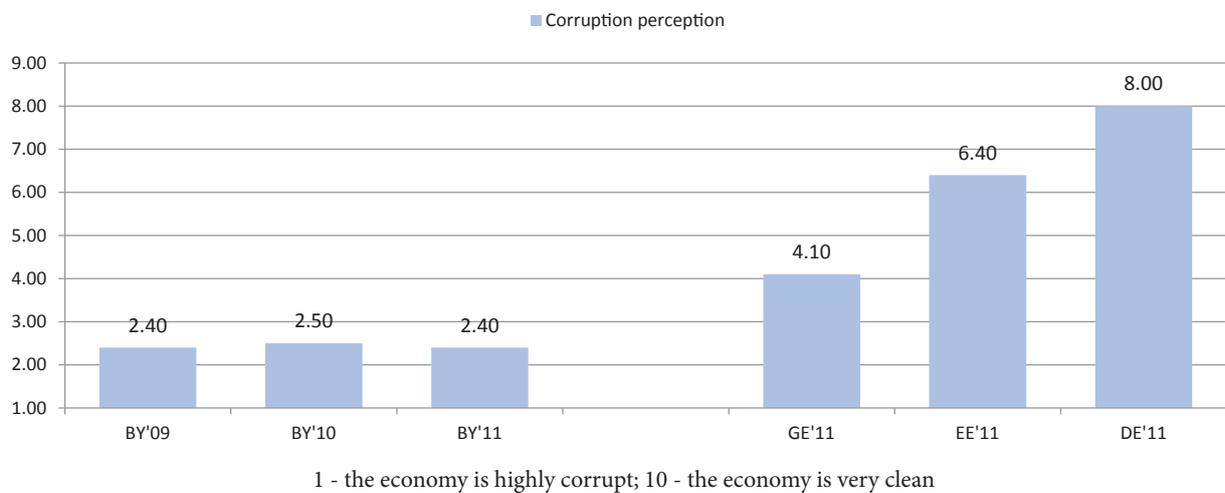
In the framework of regular monitoring of the observance of rule of law, OSCE in September 2012 discussed possible suspension of Belarus’ membership in the organisation, should the situation in the country not change for better. Such measure was applied only once in OSCE history, in 1990 to the former Yugoslavia.

⁶ Since WEF Global competitiveness Indicators do not cover Belarus, this country section omits indicators A2, A3, B1, C2, C3, D3 and E1

⁷ See Address to Nation-2012: short, truncated, softened, by A. Autuska-Sikorski. BISS comment, 14.05.2012, http://www.belinstitute.eu/index.php?option=com_content&view=article&id=1235%3A-2012-&catid=11%3Apolitics&Itemid=28&lang=en

B: Public administration in Belarus: Openness and transparency

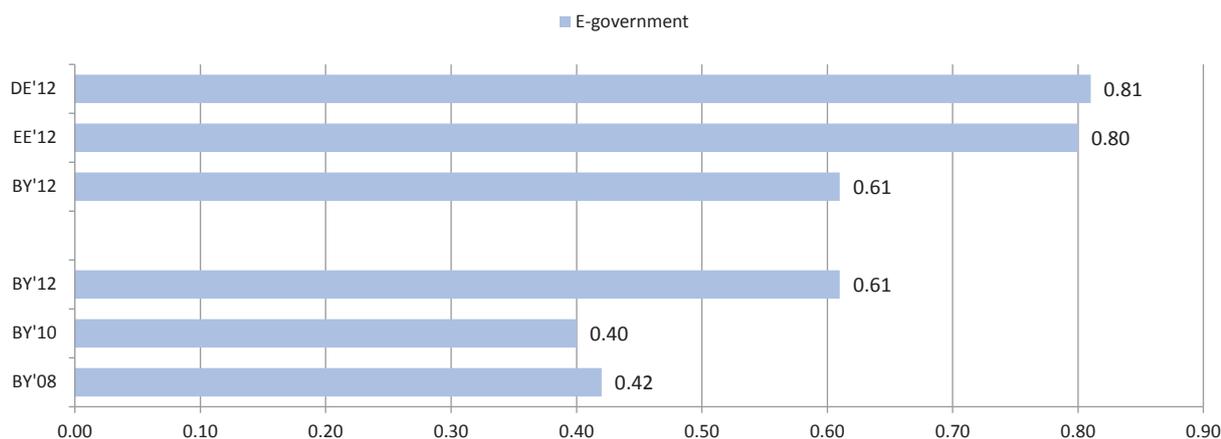
B2: Corruption perception



In 2011, Transparency International ranked Belarus 143 out of 183 countries according to the Corruption Perception Index (this equals 2.4 for Belarus on the scale between 0 “highly corrupt” and 10 “very clean”). The perceived level of corruption in Belarus is the same as in Russia, slightly less than in Ukraine (2.3), but significantly higher than in neighbouring Poland (5.5), Lithuania (4.8) and Latvia (4.2). Some improvement, albeit uneven, may be noticed compared to 2008, when the CPI indicated only 2.0. Corruption is addressed in Belarusian legislation, which

regulates possible conflicts of interest, for example by provision that all draft laws to be considered by Parliament first have to pass the so-called criminology test in the office of Prosecutor General to examine whether it could encourage bribery. Economic liberalization and de-bureaucratization initiatives pursued on a limited scale by the government in the past two years have led to some improvements in the overall transparency of the government.

B3: E-government



Availability of e-services, e-readiness based on website assessment, human resource endowment, index of the telecommunication and index of e-participation. Scale from 0 (worst) to 1 (best)

Belarus became the regional leader on e-government in 2012, according to the e-government development database of the UN. This progress rests on a well-developed telecommunications infrastructure, growing countrywide internet penetration and the adoption of regulatory documents on electronic signature, the structure of government websites etc. There remain however still many unsolved issues to make e-government an effective tool. Government agencies have focused implemented the State program of IT development (“Electronic Belarus”) 2003-2010 primarily on their own administrative needs, which made Belorussian e-government system centred on administration itself rather than citizens. Selected government agencies and municipalities offer many services online, but not all of them are user-friendly and easy to operate. For example, Ministry of Justice provides access to State Register of judicial persons and entrepreneurs on the web page, but it is limited to Russian-language users and offers no search engines.⁸ An integrated, user-friendly government portal still needs to be developed.

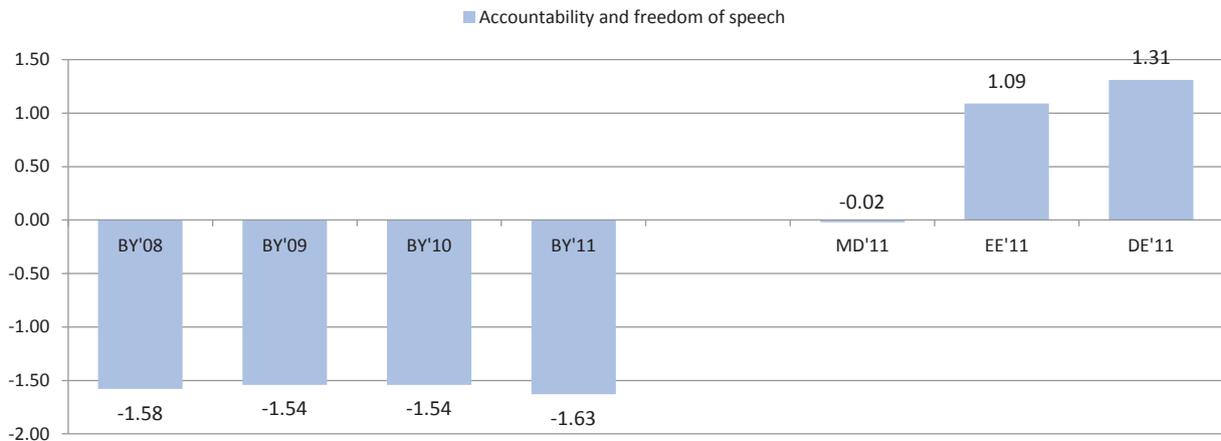
This is one of the central tasks of the new state “Information Society Strategy 2010-2015”. The Strategy enjoys however a very generous timeline: government decree No. 509 of May 31, 2012, obliges state authorities and organizations to switch to provision of electronic services through a portal of electronic services by January 1, 2016. Annual action plans to achieve this target are subject to approved by Council of Ministries, which would apparently ensure state control over e-government development. Additional milestones are:

- By May 2013, Ministry of Communication and Information shall start up a system of information intermediaries that provide e-services;
- By January 2015, Ministry of Justice and Ministry of Communication and Information shall launch the “one window” service, together with an “Operational and Analytical Centre”;
- A new “Republican enterprise ‘National Centre for Electronic Services’” shall be created to provide e-government services online.

⁸ Entries to Register can be accessed only through monthly updates in Excel format, i.e. the user is expected to be aware of the time of person's inclusion to / exclusion from the Register. Besides, monthly tables may be unreadable through some software applications.

C: Public administration in Belarus: Accountability

C1: Accountability and freedom of speech



Shows the extent, to which citizens are able to participate in the selection of their government, as well as freedom of expression, freedom of association, and freedom of media. Scale from -2.5 (worst) to 2.5 (best)

Belarus is notorious for undemocratic elections, ever since the current presidential autocracy has been in place. Each new elections draw criticism from European and international bodies, especially when it comes to the use of force against opposition (presidential elections 2010). Parliamentary elections of 2012 signified further reverse from democratic principles: Liberal changes to the election legislation adopted in before previous parliamentary elections (2008) and local elections (2010) were denounced, so as to ensure full control over the process. Human Rights Watch attests Belarus an increasingly repressive government, which continues to clamp down on dissent in Belarus. Human rights defenders, civil society activists, and independent journalists are routinely persecuted for expressing any signs of discontent with the authorities. Hundreds of pro-democracy participants have been punished with administrative or criminal sanctions, frequently in absence of sufficient evidence of an offence having been committed. Violations of detainees' due process rights, including access to defence counsel, are widespread. The authorities enforce new laws further restricting freedoms of association and assembly. Independent media is virtually non-existent with the exception of a small number of online outlets.⁹ In July 2012, the UN Human Rights Council harshly criticised Belarus for systematic violations of human rights, particularly for the continuing crackdown against dissenting voices and civil society activists since the December 2010 presidential election. The

Belarus government continues to restrict the right to freedom of association and prohibits many human rights activists from traveling in and out of the country.

C4: Ease of doing business global rank 2012: Belarus – 58, Germany – 20, Estonia – 21

Belarus slightly improved its position, by 2 points, to become 58th (of 184) economy in the Doing business ranking 2013. Improvements were registered in the procedure of paying taxes and dealing with construction permits, while other determinants of business climate remained broadly unchanged year on year. It should be also remembered that Belarusian companies are exposed to higher-than-average tax burden (60.7 per cent of profit compared to 40.5 per cent in Eastern Europe and Central Asia), so that procedural improvements play a marginal role in enterprises' relations with tax authorities.

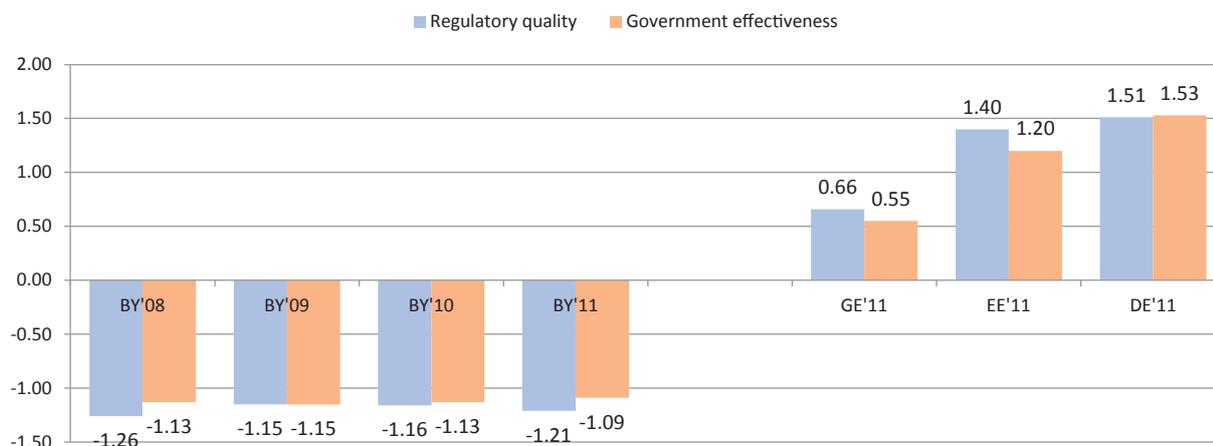
Belarus has performed poorly on large- and small-scale privatisation, which has led to an economic structure with some dominance of state-owned enterprises. State support to those enterprises contains the risk of reducing productivity growth as well as adverse influences on private sector development.¹⁰

9 Cf. <http://www.hrw.org/europecentral-asia/belarus> (accessed on 29.10.2012).

10 See IMF country report 12114 of April 14, 2012.

D: Public administration in Belarus: Efficiency and effectiveness

D1: Regulatory quality D2: Government effectiveness



D1 shows perceptions of the government ability to formulate and implement sound policies that permit and promote private sector development; D2 captures the quality of public service and degree of its independence from political pressure, quality of policy formulation and implementation, and credibility of government commitments to such policies. Scale from -2.5 (worst) to 2.5 (best)

The country's performance on these two indicators has been broadly stagnant, on very low comparable levels, in the medium-term perspective, while nothing indicates that the situation might improve in the near future. The government practices policies that support state-owned enterprises rather – for instance, by subsidizing interest rates – than promote private sector, and the civil service remains heavily dependent on political pressure. On the other hand, businesses operating in Belarus report that authorities strictly observe adopted decisions, bringing in some certainty of the applied rules.

Belarus managed to apply successful anti-crisis policy to overcome severe macroeconomic imbalances in 2011, and the President did not miss self-appraisal in his annual address to the nation in May 2012.¹¹ At the same time, the World Bank, in its country memorandum of July 2012 noted that state officials prefer to refrain from privatisation of state-owned enterprises (which might serve as an efficient anti-crisis instrument), considering them as the main asset of ensuring stability. This in turn freezes any structural reforms, which the economy badly needs to ensure sustainability of growth and keep up the international competitiveness in the medium and long run.

Synopsis

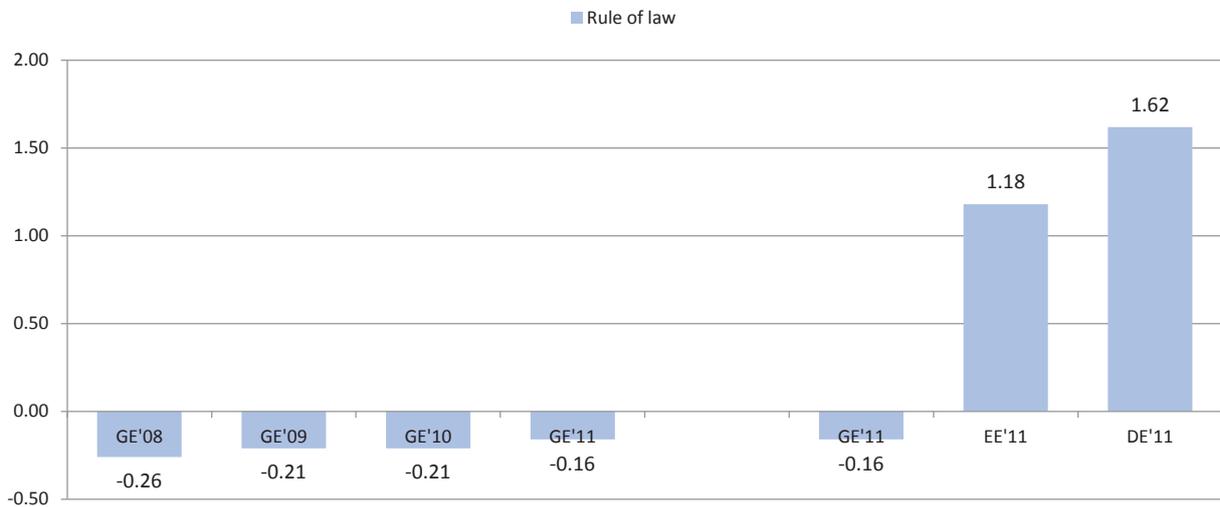
Belarus firmly stands in the rear of the EU Eastern Partner countries in moving toward European standards of public administration. Violations of human rights are frequent and increasing in number, causing concern of the international community. For that reason, international organisations have not recognised the legitimacy of the Belarusian parliament elected in September 2010, and OSCE in September 2012 discussed possible suspension of Belarus' membership in the organisation, should the situation in the country not change for better. The rule of law is widely ignored: any presidential decision overrides laws adopted by the parliament, and, more often than not, international treaties. Reforms in the e-government have been hesitant, as authorities prefer to retain control over information flows. On a positive side, one should note successful short-term anti-crisis measures that helped the economy to restore macroeconomic balance in 2011. However, in the absence of structural reforms and productivity gains, the country may face economic contraction and social tensions again.

¹¹ Annual address of the President to the nation, 8 May 2012: <http://president.gov.by/press129518.html#doc> (accessed 29.10.2012)

EUROPEAN PRINCIPLES OF PUBLIC ADMINISTRATION IN GEORGIA

A: Public administration in Georgia: Reliability and predictability

A1: Rule of law



Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Scale from -2.5 (worst) to 2.5 (best)

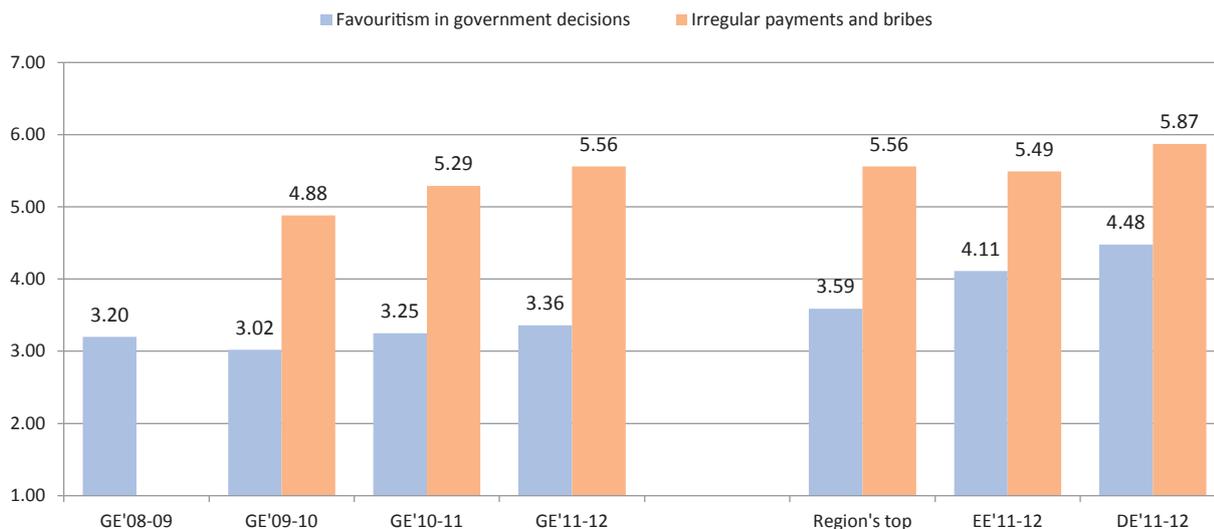
Despite some improvements in 2011 and 2012, including adoption of a new electoral code, laws on juvenile justice, media transparency and public safety, democratic standards in certain areas of public administration remained at unsatisfactory level. A special area of concern was the law enforcement, where state bodies in charges resorted to excessive use of force and inappropriate treatment of detainees, as well as during dissolving unsanctioned mass meetings. Bad practice of torture and ill-treatment in prisons was criticised also in the regular Ombudsman's report. Public revelations of this practice in fall 2012 caused street protests on the eve of parliamentary elections, which, fortunately, settled down peacefully. Impartiality of courts also remains an unreachable target of public demand in the country. Bertelsmann foundation report 2012¹² noted: "doubts persist regarding the independence of courts

from executive influence". EC Progress Report on Georgia 2012 accentuates very high conviction rates (98% in 2011)¹³ in criminal cases. Reportedly, the rate started to decrease slightly in 2012, but it is too early to judge if this signifies any systemic changes. Besides, public opinion expressed through media shows that the lack of impartiality and bureaucratic abuse takes place in functioning of the tax inspection.

12 <http://www.bti-project.de/fileadmin/Inhalte/reports/2012/pdf/BTI%202012%20Georgia.pdf>

13 http://ec.europa.eu/world/enp/docs/2012_enp_pack/progress_report_georgia_en.pdf

A2: Favouritism in government decisions A3: Irregular payments and bribes



A2: To what extent do government officials in your country show favouritism to well-connected firms and individuals when deciding upon policies and contracts? 1 – always; 7 – never

A3: How common is it for firms to make undocumented extra payments or bribes connected with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licenses; (e) obtaining favourable judicial decisions? 1 – irregular payments are very common; 7 – irregular payments never occur

There were no special studies conducted to analyse the extent of favouritism and its impact on the Public Administration in Georgia. Nevertheless, there is undisputed evidence that this bad practice still exists in Georgia, and this is widely known and commented within Georgian society and recognised even by the official view. For example, Public service Bureau of Georgia in its annual report stated that “employment based on favouritism shown to relatives and friends in the public sector should be abolished.”¹⁴ According to different sources, favouritism is especially practiced in such less transparent areas as government procurement, particularly related to urbanisation and infrastructure development projects, as well as privatisation and higher education. In addition, Georgian courts are also

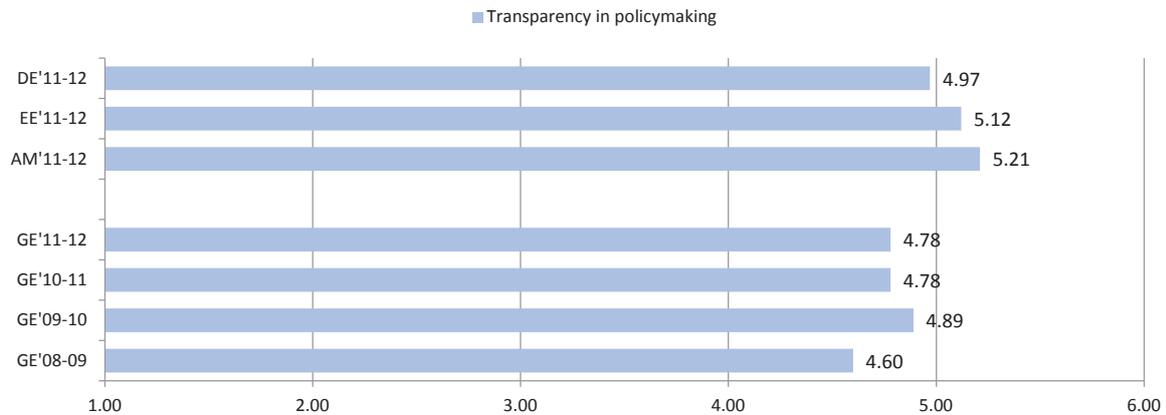
criticized for showing favouritism in their decisions, especially when treating administrative cases.

In contrast, irregular payments and bribes have been practically cast out from Georgian reality. Perception of population puts Georgia in this respect on the same level with Estonia and Germany that are among the highest in Europe.

14 http://www.csb.gov.ge/uploads/CSB-Annual_Report-2011-LAST-ENG-small.pdf

B: Public administration in Georgia: Openness and transparency

B1: Transparency in policymaking

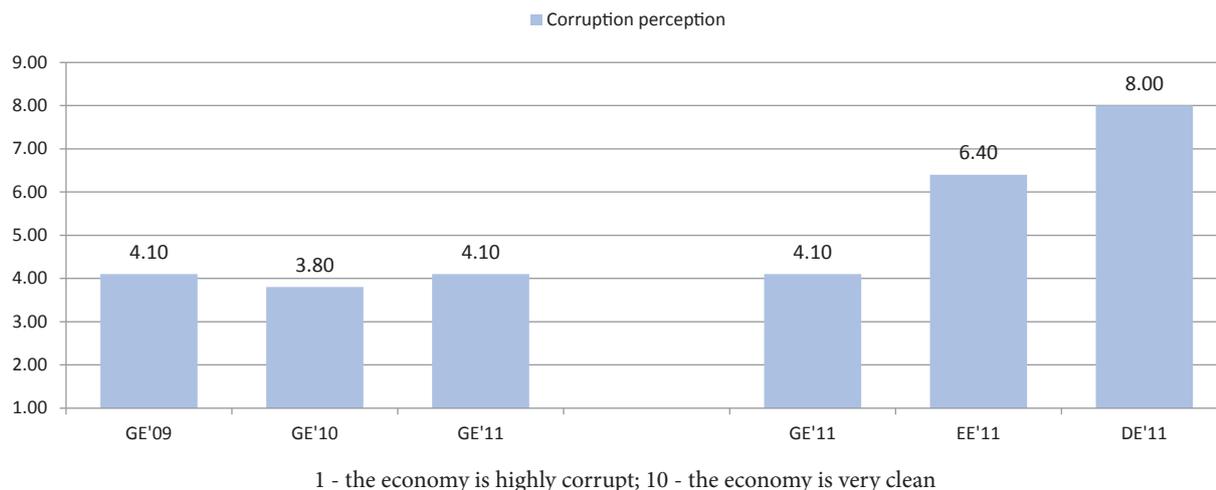


How easy is it for businesses in your country to obtain information about changes in government policies and regulations affecting their activities? 1 – impossible; 7 – extremely easy

Georgia is one of most advanced Eastern European countries with regard to the transparency of Government finances, licensing and granting permits to businesses. State budget, its spending and revenues, in large part, as well as foreign assistance and external funding are open for observation. At the same time, part of government spending, especially the Presidential fund, as well as defence-related procurements are not fully available to the public. E-government promotion introduced some improvements to data access on privatization and public procurement. However, Georgian human

rights defenders criticise the lack of transparency in disputed court decisions, as well as in the proceedings of the prosecutor's office. The lack of transparency can be also noted in the penitentiary system and in the army, so that the observance of human effectively cannot be examined. Progress was achieved in the media ownership transparency, as the respective law entered the force in 2012. Access to the public documents is legally free, but lots of media and NGO representatives report about restraints and impediments in dealing with the government and local authorities.

B2: Corruption perception

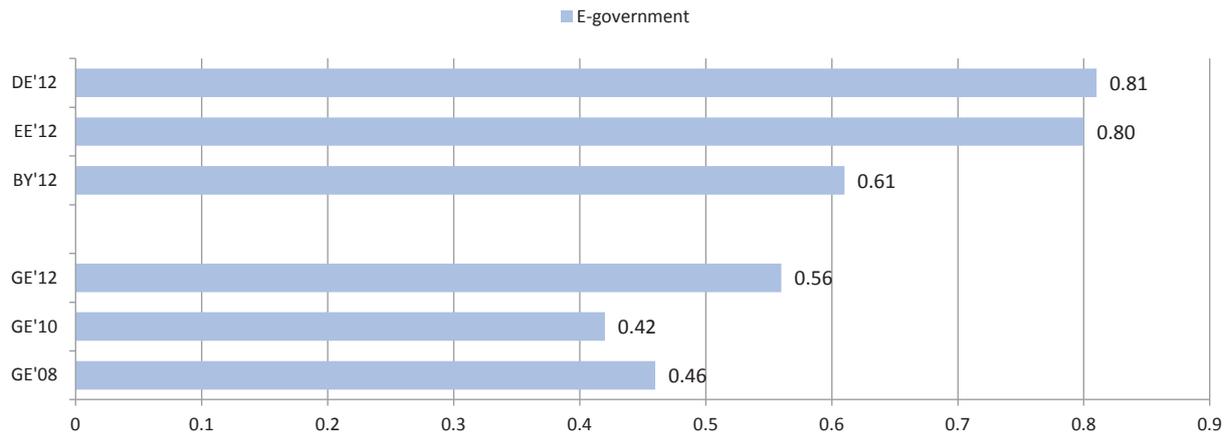


In 2012, the World Bank dedicated to Georgia a special report “Fighting Corruption in Public Services”. The paper describes the success story of Georgia’s anticorruption “saga”, which started in 2003. It praises as “remarkable” elimination of corruption in provision of services at the police, courts, tax administration, customs. Nevertheless, citizens still perceive that corruption is well established at higher public administration levels, as illustrated, in particular, by clandestine connections between business and government. As there is no direct proof of such corruptive practices, Transparency International¹⁵

sees indications for such ill practices in the difficult access to court decisions and the lack of really competitive environment in issuing licenses and privatisation. According to the same source, Georgia has nevertheless booked some progress in anti-corruption policies by introducing e-government tools (see below).

15 <http://www.transparency.org/country#GEO>

B3: E-government



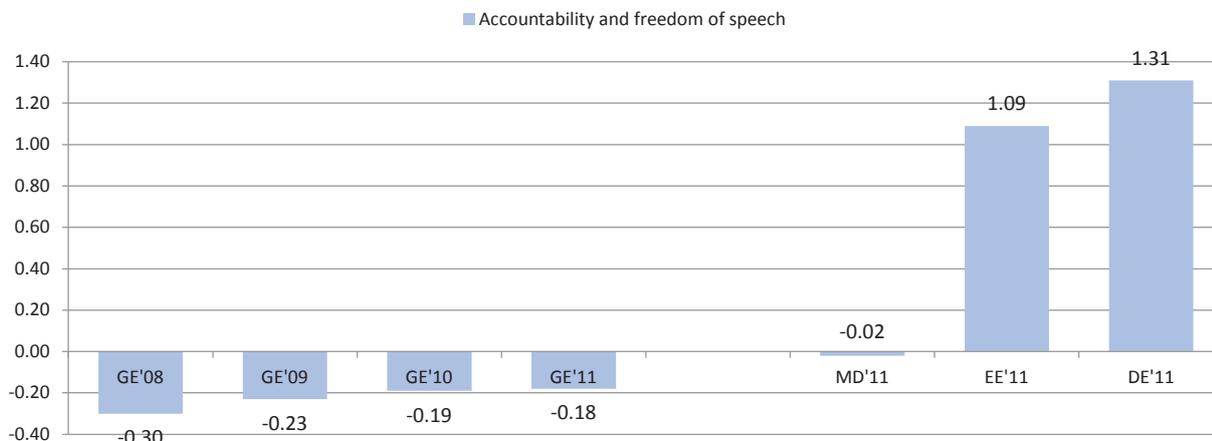
Availability of e-services, e-readiness based on website assessment, human resource endowment, index of the telecommunication and index of e-participation. Scale from 0 (worst) to 1 (best)

Many Georgian state institutions have introduced interactive services for their customers online, as for example Public Register of the Ministry of Justice, Customs and Tax administration, State Public Procurement Agency, Public Service Bureau. In 2011-12, improvements were carried out related to make internet more sophisticated. In individual cases, government agencies cooperate horizontally via specially created common e-space, as illustrated by a special e-tool, which gives the Office of State Minister for European and Euro-Atlantic Integration a possibility to effectively interact by exchange digital information with line ministries and agencies to monitor the implementation of EU-Georgia Action

Plan. Otherwise, no unified system of e-governance linking all state agencies has been developed so far. The introduction of E-signature as per the law adopted in 2011 encounters technical difficulties. Internet was widely used during the electoral process of 2012, facilitating timely adjustments of voters' lists and communicating necessary information to the population. The introduction of the mobile devices created an opportunity for a much easier internet access in the rural areas. However, in an environment of high levels of poverty the use of this opportunity is constrained.

C: Public administration in Georgia: Accountability

C1: Accountability and freedom of speech



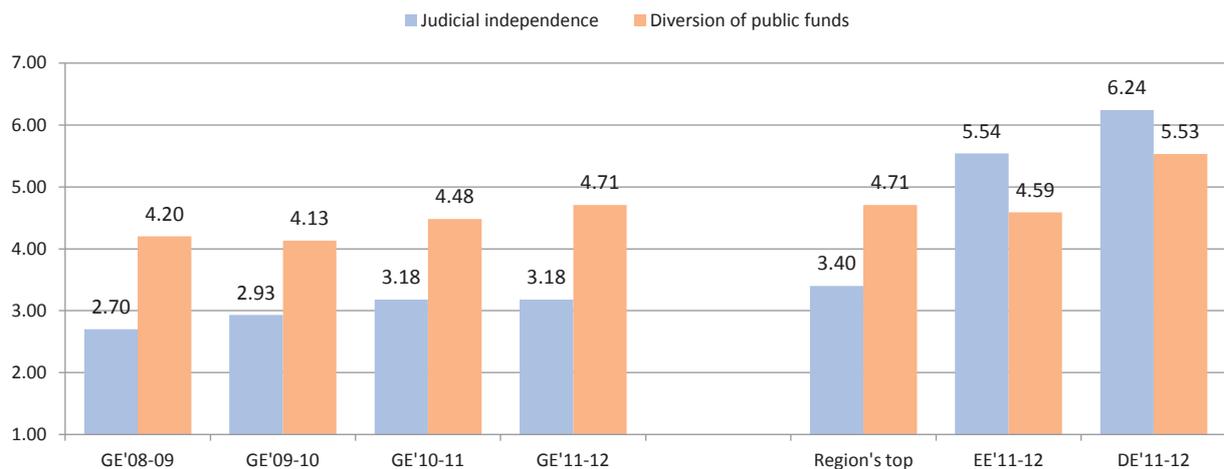
Shows extent, to which citizens are able to participate in the selection of their government, as well as freedom of expression, freedom of association, and freedom of media. Scale from -2.5 (worst) to 2.5 (best)

There were no important improvements in 2011-12 on accountability and freedom of expression. However, consultations between oppositional parties and the government brought about substantial changes in the electoral code and election environment. Those changes became effective and result in a peaceful transfer of power after the Parliamentary elections in October 1, 2012. Joint statement on October 2, 2012¹⁶ by the five most important international observers in Georgia – OSCE PA, OSCE ODIHR, NATO PA, CoE and EP, highlighted that “The parliamentary elections marked an important step in consolidating the conduct of democratic elections in line with OSCE and Council of Europe commitments”. At the same time, according to same document, “certain key issues remain to

be addressed”, such as an excessive use of administrative resource by the ruling party. It is important that during the elections “peaceful rallies have taken place” and there were no restrictions for the freedom of speech. However, authorities created some restraints to independent TV channels to broadcast countrywide. The active role played by civil society organizations forced the government to apply “must carry” principle in the final pre-election period, providing free access to distribution networks for the TV channels critical of the government. These positive developments will most probably be reflected in the next annual update of the WGI database.

16 <http://www.osce.org/odihr/94593>

C2: Judicial independence, C3: Diversion of public funds



C2: 1 – judiciary is heavily influenced by government, citizens or firms; 7 – judiciary is entirely independent
 C3: 1 – diversion of public funds due to corruption is very common; 7 – such diversion never occurs

An independent judiciary is an Achilles' heel of Georgia's otherwise positive performance in public administration reform. On different occasions, international organisations and partner governments, including the European Commission, US Department of State, the World Bank, Transparency International, Human Rights Watch and others have pointed to political influence on courts in Georgia. Impartiality and unrealistically high conviction rates force big number of citizens to apply for appellation to the European Court of Human Rights. Georgia has the highest per capita rate of the number of appeals brought to that institution.

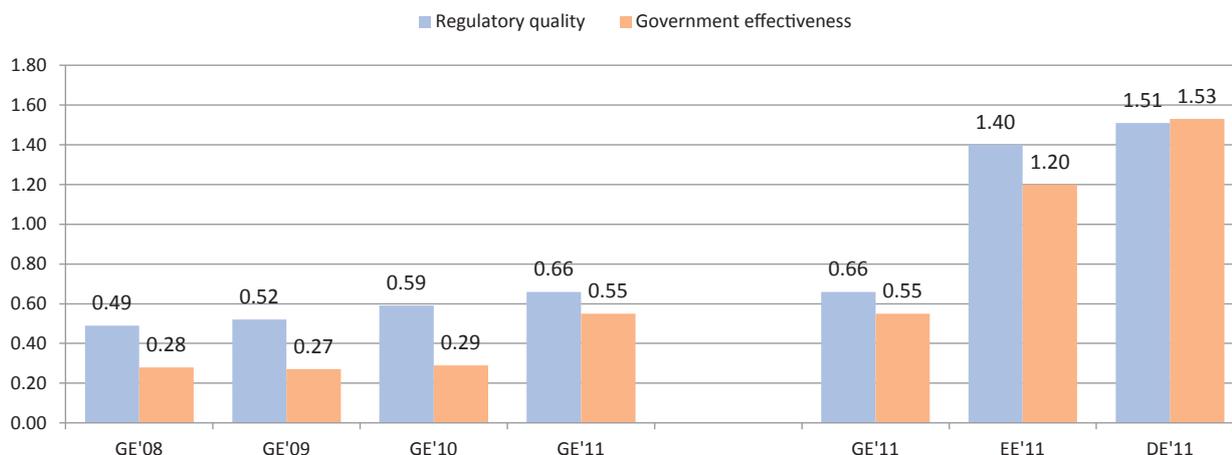
Georgia has a good record on ensuring proper use of the public funds, holding the regional leader position. This should be attributable to the adoption of new law on Chamber of Control and introduction of new standards of public finance management, including internal and external audit.

C4: Ease of doing business global rank 2013: Georgia – 9 (best score in the EaP region), Germany – 20, Estonia – 21

Georgia has impressively improved the doing business ranking and outscored all countries of Central and Eastern Europe as well as the vast majority of EU member states. This was achieved due to a number of reforms to simplify business start-ups, obtain licenses and permits (the number of which has been reduced by more than 90 per cent since the Rose Revolution in 2003). Procedure of property registering in Georgia is the easiest in the world. There are improvements in other components of the index. However, in some aspects the situation is far from being ideal, such as resolving insolvency. A quick market exit through insolvency would be essential for many enterprises, in particular SMEs, because in that case they could re-enter the market without big losses. The Doing business database ranks getting of credit in Georgia the 4th best in the world, obviously owing to easy procedures. However, some experts do not agree with this evaluation, because very high interest rates remain a powerful constraint to the access to credit from Georgian banks.

D: Public administration in Georgia: Efficiency and effectiveness

D1: Regulatory quality D2: Government effectiveness

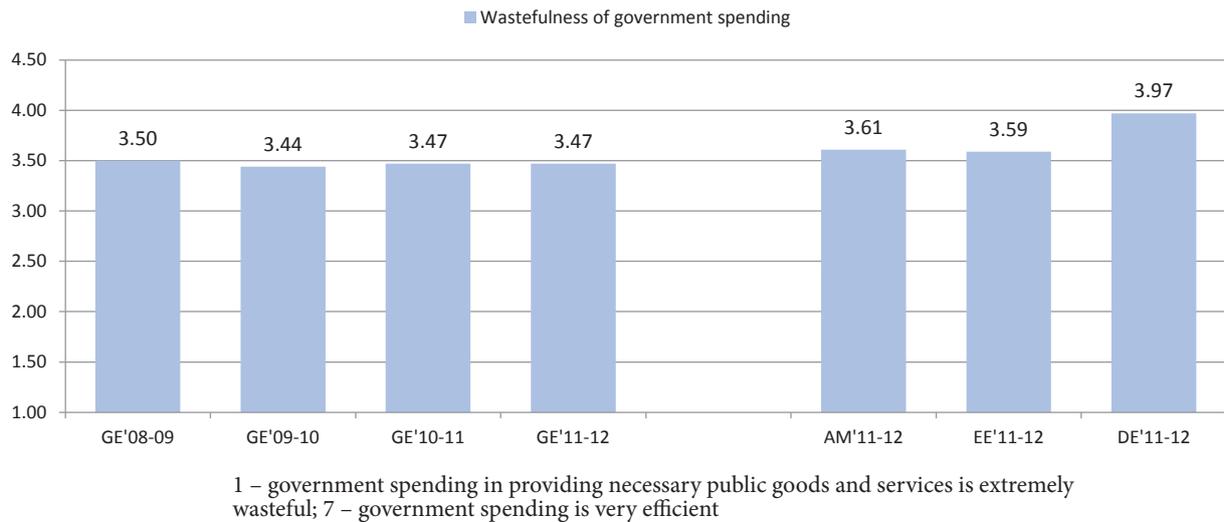


D1 shows perceptions of the government ability to formulate and implement sound policies that permit and promote private sector development; D2 captures the quality of public service and degree of its independence from political pressure, quality of policy formulation and implementation, and credibility of government commitments to such policies. Scale from -2.5 (worst) to 2.5 (best)

The policy of deregulation and the reigned notion of “minimum government” have not only reduced the regulatory burden, but even created areas fully free of any regulation. This can be said about fair competition, food safety, technical regulations and standards, building and construction, etc. Furthermore, regulatory basis is absent or non-operational in healthcare and insurance, education, energy and transport, and environment protection. On the other hand, authorities are prepared to build up an EU-conform regulatory framework, a minimum, which is necessary in the context of negotiations on the Deep and Comprehensive Free Trade Agreement

with the European Union. It is hoped that this development will have a positive impact on Georgia’s public institutions. The government has displayed credible commitment to its policies to provide public safety, develop infrastructure, and support tourism, and a national program for agricultural development has been adopted. On the other hand, many state institutions in support of private sector development – such as investment protection, support to SME, promotion of social dialogue, innovation and R&D encouragement – still require additional effort of the authorities.

D3: Wastefulness of government spending

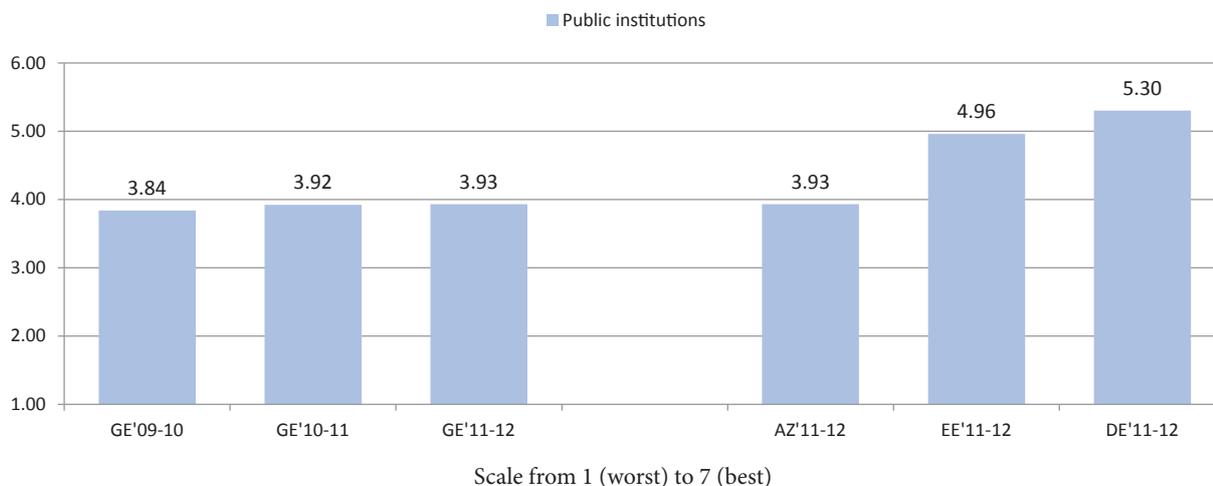


Government spending during 2011-12 was concentrated on growing social assistance programs, increasing pensions, big infrastructural projects, especially in urban development and tourism supportive infrastructure throughout the country. The spending have also been directed in further supporting the natural gas supplies to the population in the mountainous regions and improving the water supply and sanitation of provinces. But authorities' efforts in this regard still cannot meet fully the

public demand. Economically inefficient projects, like Anaklia touristic complex, or huge "houses of justice", especially in the same district of Anaklia, deserved public criticism, as they missed the actual demand for public services in the region. The same can be said about the economically highly arguable project of building a completely new city on the Black sea coast.

E: Public administration in Georgia: consolidating indicator

E1: Public institutions



Overall, on public institutions, Georgia is one of the best performing countries in the EaP region. Its performance is quite compatible with that of the Central and Eastern European EU member states. In such areas as fight against corruption, including bribes, transparency, accountability and many others, Georgian public administration is operating efficiently, while problems persist in the areas of impartial judiciary and rule of law in general, regulatory reform and effectiveness of the government policy. There are also positive trends in the e-governance.

Synopsis

Georgia kept up its leading position among the EaP countries in reforms in general and making its public administration more European in particular. Commendable progress was achieved in such areas as fight against corruption, including bribes, enhancing transparency, accountability and many others. International observers praised the 2012 parliamentary elections for adherence to the democratic principles; however, the near future will show how effective the new policy structures can operate. At the same time excessive use of force toward unsanctioned public gatherings, as well as cases of mistreatment of detainees by law enforcement bodies highlighted the persisting problems the areas of the rule of law and impartial judiciary. Authorities should also invest more efforts in regulatory reform and raising efficiency of government policies.

EUROPEAN PRINCIPLES OF PUBLIC ADMINISTRATION IN MOLDOVA

A: Public administration in Moldova: Reliability and predictability

A1: Rule of law



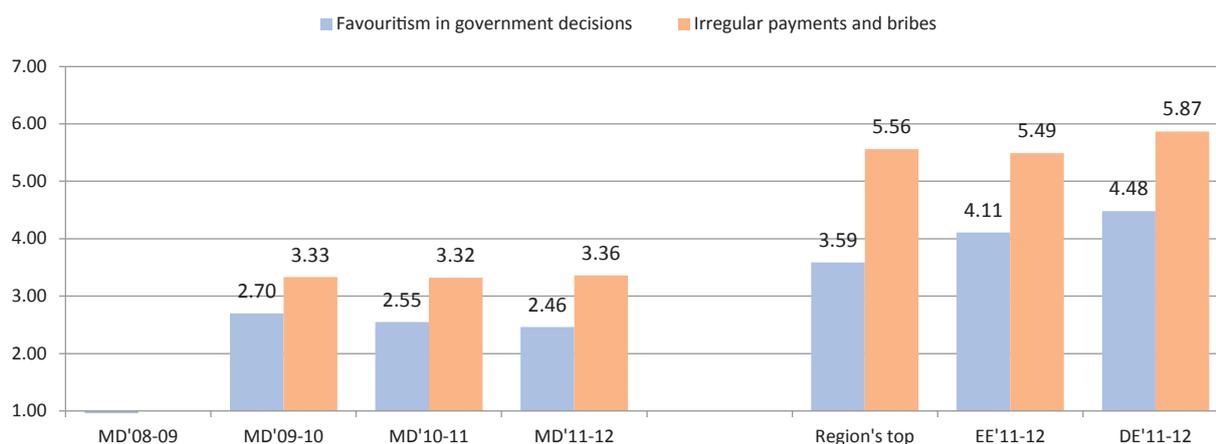
Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Scale from -2.5 (worst) to 2.5 (best)

Since 2009, improvements on the rule of law in Moldova have been continuous, albeit hesitant. Traces of a deep domestic political crisis are still visible in Moldovan politics. Whilst the accession of the Alliance for European Integration (AEI) to power in the second half of 2009 had been accompanied by a dramatic increase of confidence in state institutions, the Public Opinion Barometer registered in autumn 2011 an unprecedented public disappointment¹⁷. This trend was explained by the fact that AEI took time to settle internal conflicts, which was accompanied by caused a series of political and corrup-

tion scandals accompanied by mutual accusations of the leaders of the alliance. Nevertheless, the country managed to put an end to political uncertainty with the election of President in March 2012. The Moldovan government has continued to work with the EU towards integration, notably taking steps towards visa liberalization. A series of reform measures was approved, but generally the implementation remains weak. Reconciliation with the breakaway region of Transnistria remains stagnant despite the resumption of the “5+2” talks.

17 The Public Policy Institute, Barometer of Public Opinion: Republic of Moldova, November 2011, http://www.ipp.md/public/files/Barometru/2011/BOP_11.2011-nou.pdf

A2: Favouritism in government decisions A3: Irregular payments and bribes



A2: To what extent do government officials in your country show favouritism to well-connected firms and individuals when deciding upon policies and contracts? 1 – always; 7 – never

A3: How common is it for firms to make undocumented extra payments or bribes connected with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licenses; (e) obtaining favourable judicial decisions? 1 – irregular payments are very common; 7 – irregular payments never occur

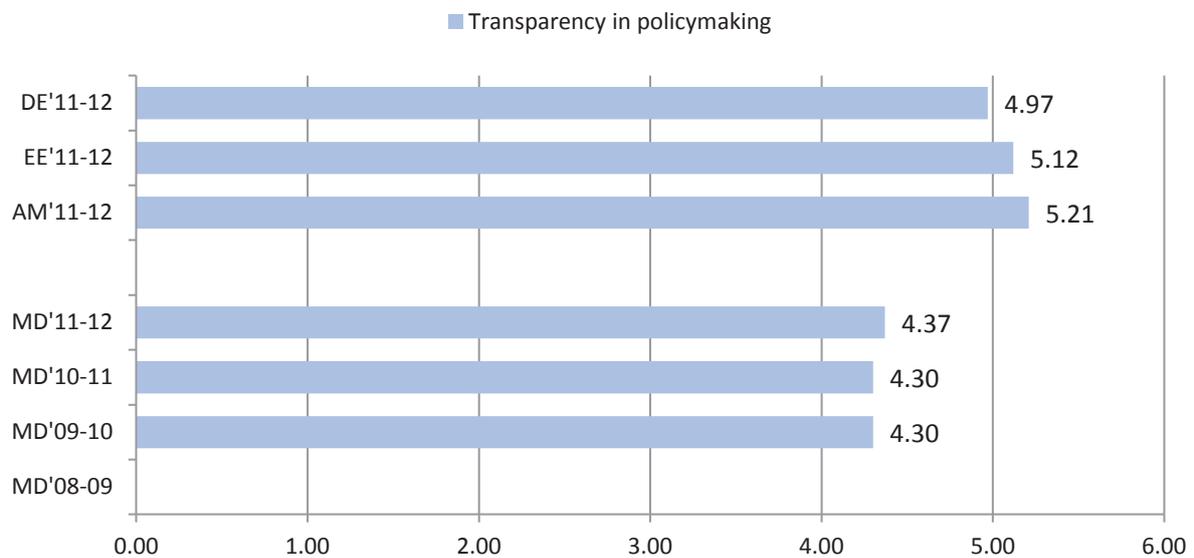
The numbers indicate a gradual growth of favouritism in government decisions in Moldova over the recent three years. Staff appointments are widely considered to be the result of the agreements between various groups belonging to the ruling alliance. In addition to positions that normally would be distributed on the basis of political affiliation, the agreement of the Alliance claims for itself also the position of the Prosecutor General, Head of the Centre for Combating Economic Crimes and Corruption (CCECC), Chairmen of the Court of Accounts, Central Electoral Commission, National Bank and Information and Security Service. Favouritism and nepotism are also well established in the relations between central and local governments. The recent elections, of June 2011 and March 2012, so far, have not resulted in dismantling of this practice.

According to the Freedom House *Nations in Transit Report*¹⁸ during the year, lack of progress in adequately addressing bribery and fraud in the governmental sphere and wider society left the country's corruption rating (6.00) unchanged since 2006. On both indicators, Moldova demonstrates negative or broadly stagnant development, still lagging far behind the EaP regional top performers as well as the levels of Estonia and Germany.

18 <http://www.freedomhouse.org/report/nations-transit/2012/moldova>

B: Public administration in Moldova: Openness and transparency

B1: Transparency in policymaking

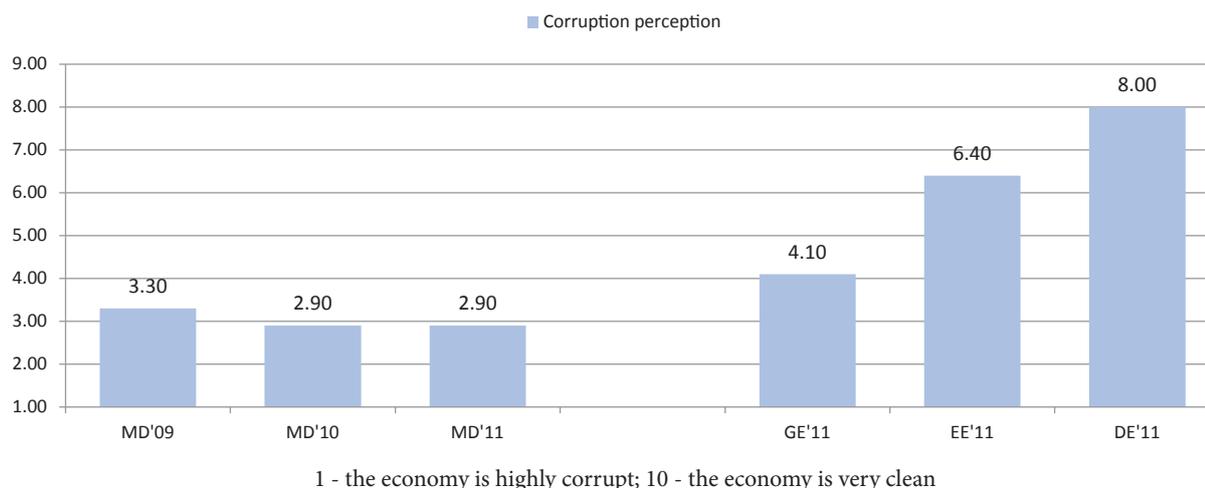


How easy is it for businesses in your country to obtain information about changes in government policies and regulations affecting their activities? 1 – impossible; 7 – extremely easy

On this indicator, Moldova has improved its performance recently, but stayed behind of EaP leader Armenia, as well as Estonia and Germany. Many government authorities are present online, which largely conforms to the provisions of the regulatory framework. However, the content of web pages is often insufficient and incomplete, omitting important pieces of information or containing obsolete data on the activity of the respective public authority. This refers for example to data on budget plan and its execution by the government institutions in charge; there is often lack of information about

the procedure of filing complaints; the information on public acquisitions is set to minimum; the public authorities usually do not place results of internal or external audit on the web. Obtaining information about anti-corruption activities is likewise constrained: data about the responsible public officials, anti-corruption measures and reports or press releases about any policy results are normally missing. Similarly, authorities do not always publicise the data about programs projects of technical assistance they receive or implement.

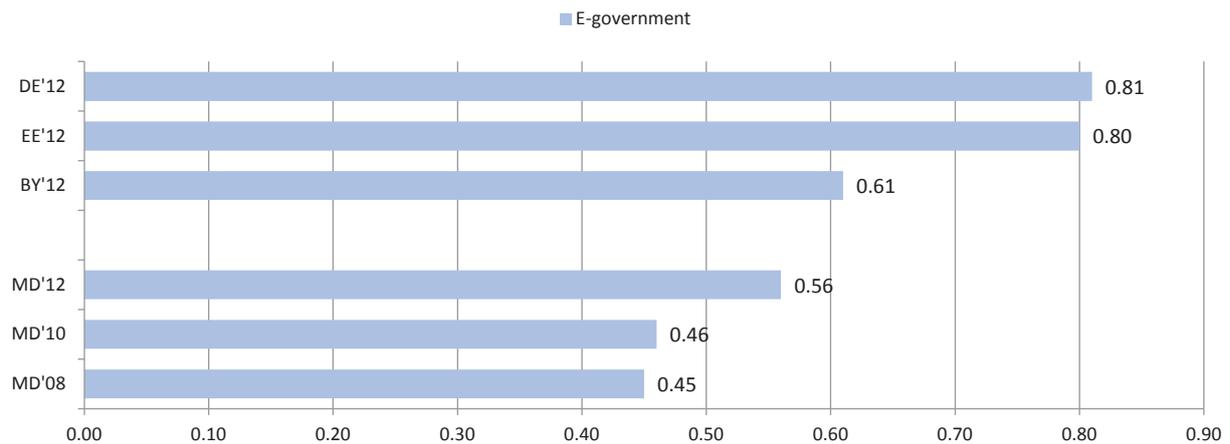
B2: Corruption perception



Moldova shows second-best performance – albeit uneven in time – on corruption perception among the 6 EAP countries, legs however, far behind Germany and Estonia and the region's leader Georgia. Corruption has become systemic in numerous areas of economic activity. Typical difficulties in the statehood building, as the necessary regulations and instruments to ward off corruption risks were at first neglected, unstable social safety nets, widespread

state capture by various interest groups, and a large shadow economy has created an environment for corrupt practices. The Global Competitiveness Report 2010-11 identifies corruption as one of the most problematic issues for doing business in Moldova: out of the total number of respondents, 13% consider that corruption is the strongest negative determinant for the economic activity in Moldova.

B3: E-government



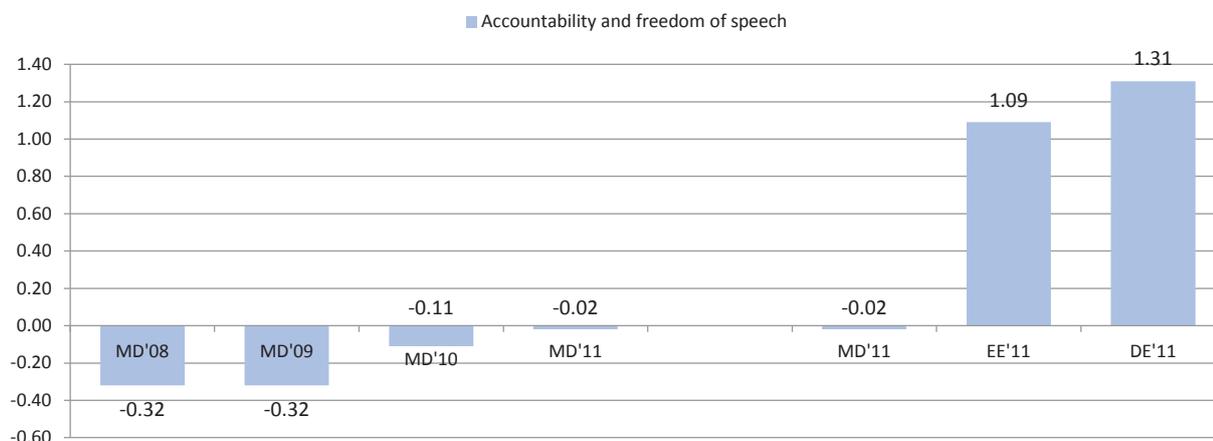
Availability of e-services, e-readiness based on website assessment, human resource endowment, index of the telecommunication and index of e-participation. Scale from 0 (worst) to 1 (best)

According to the UN E-Government Survey 2012, Moldova has improved its position among 193 economies by 11 points to rank 69th on E-Government Development Index. The highest value was recorded in the human capital component (0.8129), which is explained by the high level of ICT skills in the country. In contrast, Moldova displayed its lowest value on the telecommunication infrastructure component (0.3586), indicating the need for development of ICT infrastructure, especially with regard to broadband Internet access. In September

2011 the Government approved the Strategic Program of Technological Modernization of Governance (e-Transformation). The program implements the provisions of the National Strategy for Information Society “Electronic Moldova” and the concept of e-government. The biggest challenge related to e-government is the internet access in rural areas including by local administrative units, where e-government is still rudimentary.

C: Public administration in Moldova: Accountability

C1: Accountability and freedom of speech



Shows extent, to which citizens are able to participate in the selection of their government, as well as freedom of expression, freedom of association, and freedom of media. Scale from -2.5 (worst) to 2.5 (best)

Moldova has reached the leading position in the EaP region on the important indicator. International observations of the election process as well as the observance of human rights indicate the movement to more democracy, even if with some “pains of growth”. Local elections of June 2011 were marked by active participation of the population, tight competition and relatively good organization of the elections by the electoral authorities. Some irregularities occurred with regard to a late announcement of the election date and untimely adoption of amendments to the Electoral Code. Promo-Lex observers¹⁹ registered two cases of impossibility of exercising the electoral rights in the territorial administrative units Bender and Transnistria region, owing to the lack of

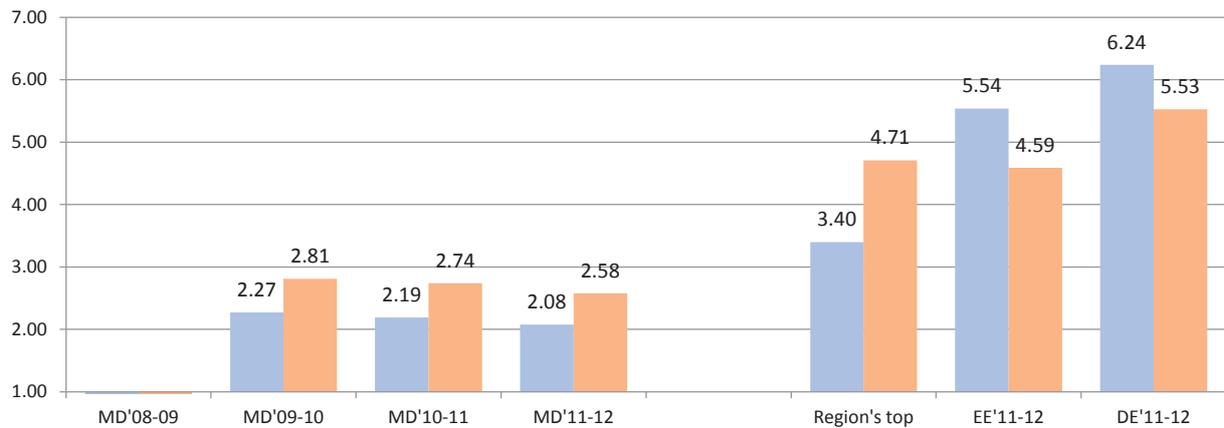
electoral bodies and respective legal mechanisms.

Growing access to a variety of opinions in the media and efforts to improve public media and journalistic ethics have had a significant impact on improving media quality and pluralism, raising Moldova’s Freedom House rating for independent media from 5.50 to 5.00 in 2011.²⁰ However, in 2012 the political influence over the media remained a serious concern. There have also been positive developments in ensuring freedom of belief and religion, and the right of assembly. In 2011, the first Islamic organization, Islamic League, was formally registered after a period of more than six years of failed attempts of registration.

19 http://www.promolex.md/upload/publications/ro/doc_1314693764.pdf

20 Freedom House: Nations in Transit Ratings and Averaged Scores.

C2: Judicial independence C3: Diversion of public funds



C2: 1 – judiciary is heavily influenced by government, citizens or firms; 7 – judiciary is entirely independent
 C3: 1 – diversion of public funds due to corruption is very common; 7 – such diversion never occurs

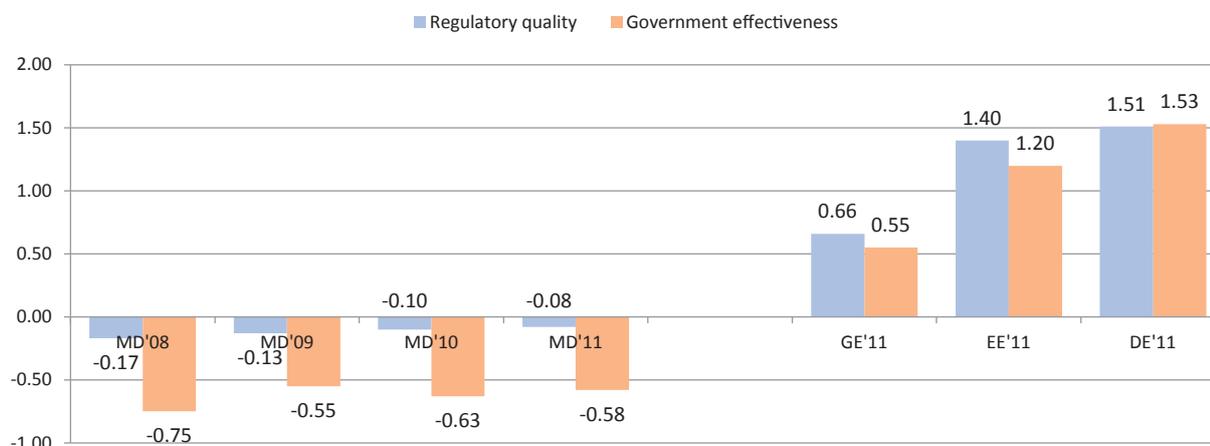
Authorities' efforts in 2011-12 were focused on developing and promoting a Judicial Reform Strategy as well as on upgrading the legislative framework in the field of justice and related fields. The effect of the legal reforms, however, lags in time, as perceived by the public opinion. Confidence in judiciary bodies continued to decline, as did the independence of judiciary. Fraudulent takeover bids known as "raider attacks" made headlines throughout the year, drawing attention to the susceptibility of courts to outside influence. The perceived political nature of some judicial appointments and dismissals also raised concern regarding the politicization of the justice system. In spite of the increased number of cases of disciplinary proceedings against judges, their examination efficiency reduced, the volume of penalty decisions being rather low (about 25% of the instituted procedures). Embezzlement of public funds continues to be a scourge for Moldovan society. Representatives of civil society and opposition have expressed serious concerns about transparency and accountability of the use of funds granted by the international donor community. Moldova still has to revert the negative trend on both indicators (which outweighs progress on C1 described above), to make its public administration more accountable.

C4: Ease of doing business global rank 2013: Moldova – 93, Georgia – 9, Germany – 20, Estonia – 21

Moldova gained 3 points in 2013 doing business rating to become 83rd among 184 economies. This was reached due to improvements in investor protection. Many other elements of the business climate developed slightly negatively, while slippages were most pronounced with regard to business start-up. Registering property and market exit through insolvency showed marginal improvements.

D: Public administration in Moldova: Efficiency and effectiveness

D1: Regulatory quality D2: Government effectiveness

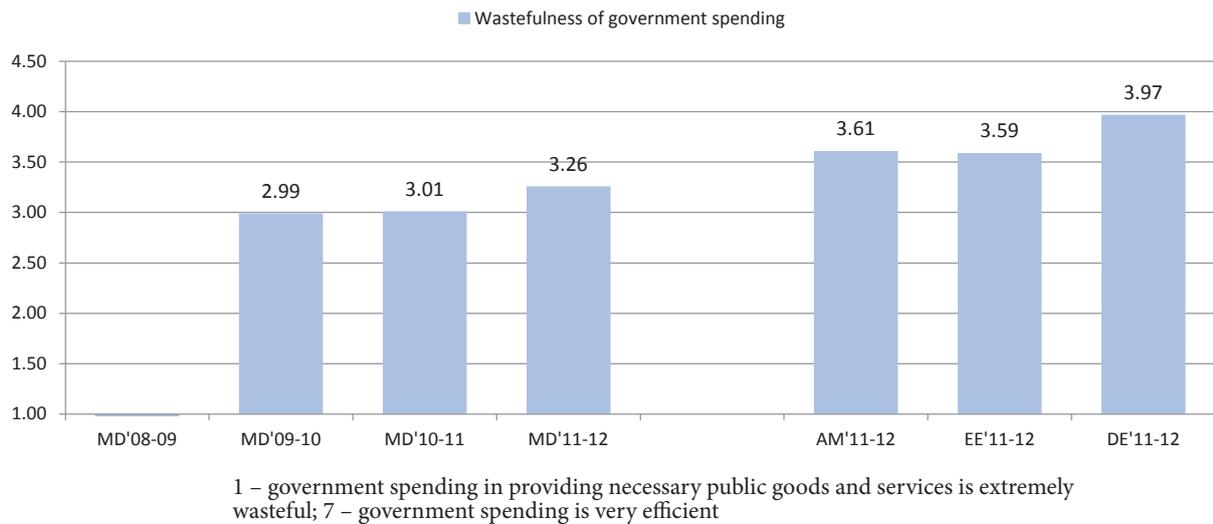


D1 shows perceptions of the government ability to formulate and implement sound policies that permit and promote private sector development; D2 captures the quality of public service and degree of its independence from political pressure, quality of policy formulation and implementation, and credibility of government commitments to such policies. Scale from -2.5 (worst) to 2.5 (best)

The overall performance of the government in carrying out macroeconomic management and strengthening business climate in 2011-12 was uneven. Long-lasting political instability led, among others, to a fragmented, non-sustainable fiscal policy. Widespread corruption is perceived to dominate bureaucracy. Moldova has taken steps to reform the burdensome regulatory framework, but entry of private companies to the market and, generally,

business operations remain heavily constrained by a burden of bureaucracy and lack of transparency. In order to advance rapidly in DCFTA negotiations with the EU, the country needs to credibly improve intellectual property protection, adjust to the EU SPS standards and raise the effectiveness of anti-monopoly policy.

D3: Wastefulness of government spending

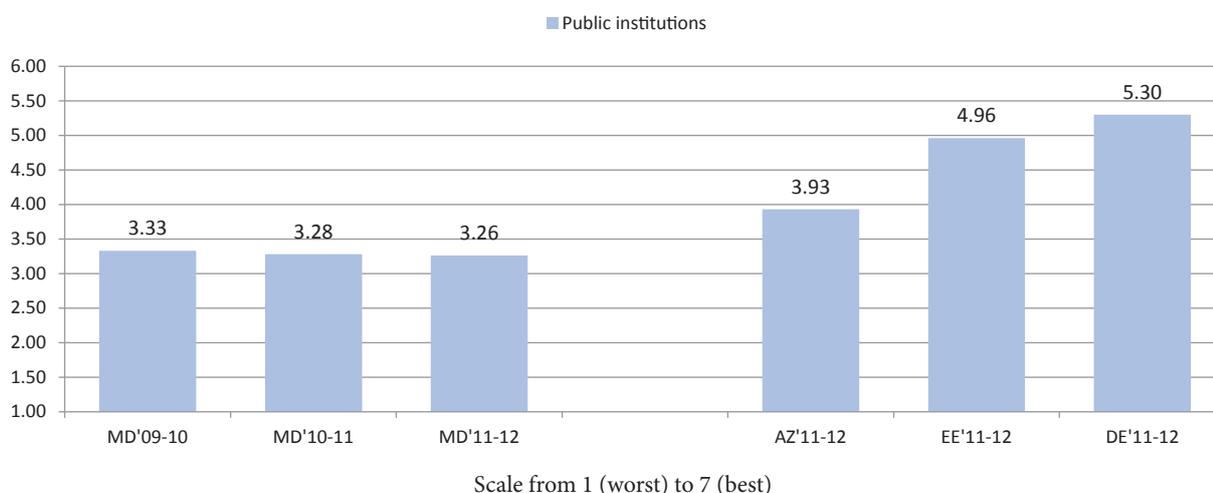


The positive trend on this indicator is determined largely by the efforts made within the agreement with the IMF, including the rationalization of public expenditure. At the same time, the Court of Accounts' report on state budget execution in 2011 pointed to insufficient capacities of executive units to capitalize the ceilings of budgetary allocations for the full realization of their objectives as well as

realistically assess the needs for resources. Likewise, utilisation of the government Reserve Funds often misses the targeted objectives. In 2011, Transparency International Moldova mentioned a dramatic increase in the number of publications in mass-media about mismanagement of state-owned enterprises.

E: Public administration in Moldova: consolidating indicator

E1: Public institutions



Synopsis

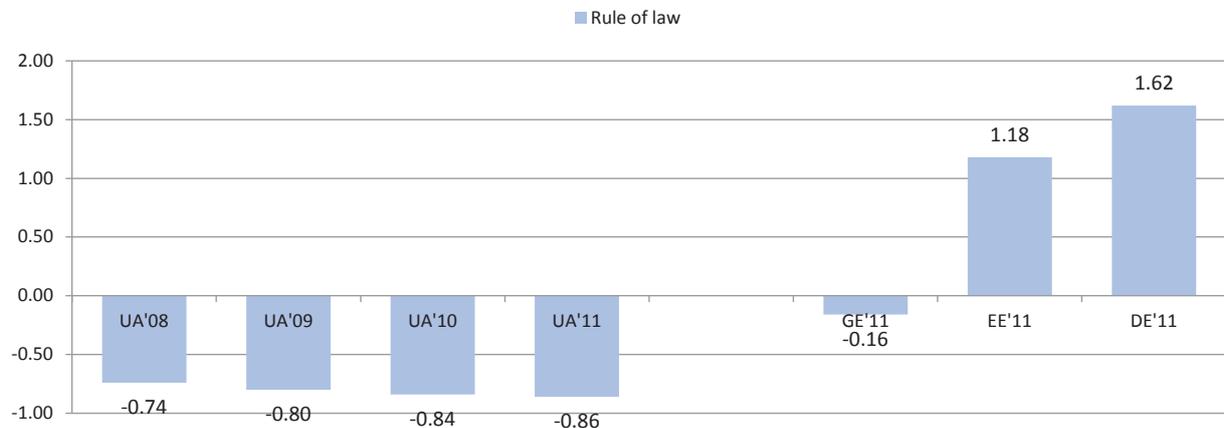
Statistically, international databases do not yet reflect Moldova's latest accomplishments in European integration. The country's efforts to develop a more reliable and transparent public administration have not brought visible results so far, even if those efforts are being predominantly perceived as pro-European. With regard to accountability, dependent judiciary and wide practice of diversion of public funds, coupled with muddling-through in improving business conditions, outweigh positive trends

in the observance of main human rights and freedoms, where the country became the regional leader in 2012. No significant progress has been registered since 2008 in making the public administration more efficient and effective. Many negative trends seem still to originate from the deep and lengthy domestic political crisis of 2008-12. The country clearly requires time and strong political will to overcome its consequences and catch up with EaP top performance.

EUROPEAN PRINCIPLES OF PUBLIC ADMINISTRATION IN UKRAINE

A: Public administration in Ukraine: Reliability and predictability

A1: Rule of law

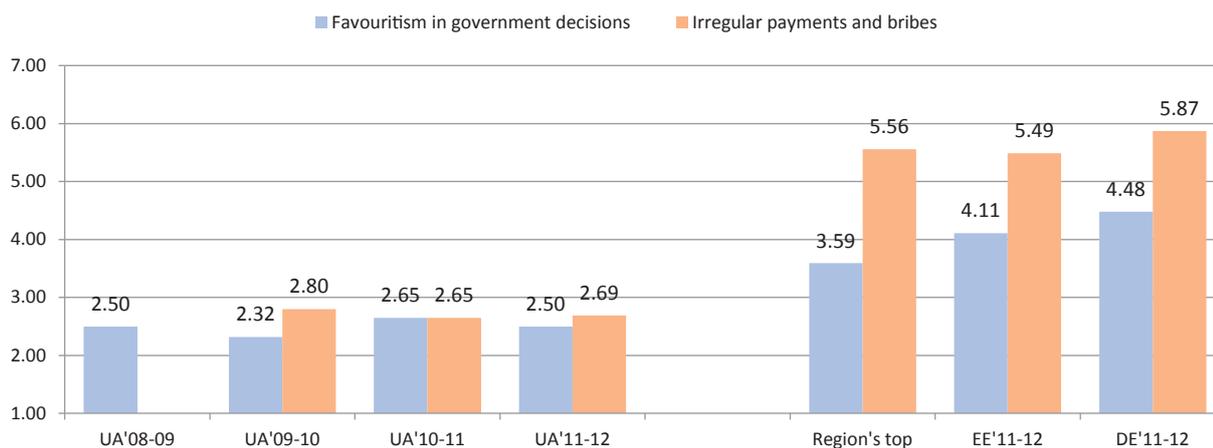


Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Scale from -2.5 (worst) to 2.5 (best)

A continuously negative trend with regard to the rule of law in Ukraine certainly does not come as a surprise, should one recall the disgraceful interference of the executive in the judiciary to build up a politically motivated persecution of the opposition leader. Exposed to the pressure from the EU on that case, Ukraine's president said he would be prepared, in exchange to certain concessions, to amend retroactively (!) the national criminal legislation, which would allow the release of the opposi-

tion leader from imprisonment. Both the weakness of the prosecution and the light-hearted hypocrisy, demonstrated ex-post by the president, signify that Ukraine has been drifting away from the European principle of the rule of law in the recent four to five years. In addition, private companies operating in the country continue to complain about dominating arbitrary way of operation of security, tax and customs administration, which erodes any basis for civilised contract enforcement.

A2: Favouritism in government decisions A3: Irregular payments and bribes



A2: To what extent do government officials in your country show favouritism to well-connected firms and individuals when deciding upon policies and contracts? 1 – always; 7 – never

A3: How common is it for firms to make undocumented extra payments or bribes connected with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licenses; (e) obtaining favourable judicial decisions? 1 – irregular payments are very common; 7 – irregular payments never occur

Ukraine's reforms to reduce favouritism and prevent irregular payments have been stagnant in the recent years. Evidence from the economy confirms unequivocally that government decisions, such as on awarding procurement contracts, are taken mostly in favour of companies controlled by the ruling party and their associates. Very common are cases of tax evasion by big state-controlled enterprises, particularly in metallurgy, chemistry and food industry, achieved through minimisation of taxable profit by overstating expenses and illicit transfer of part of earnings abroad. This practice is treated with lenience by tax administration but creates serious risk to balanced public finance. During Article IV consultations with

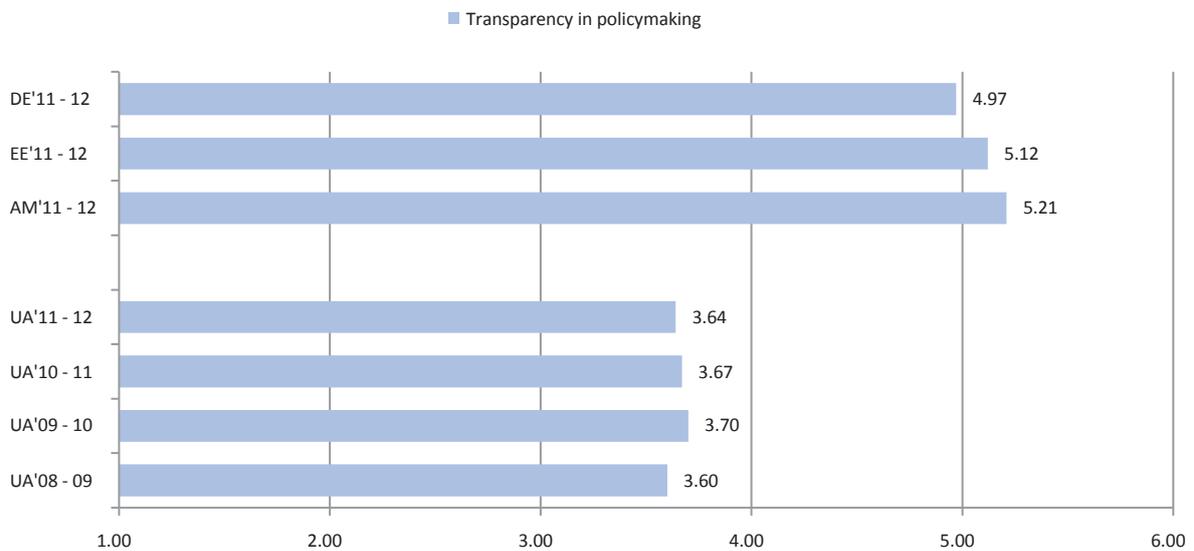
Ukraine in June 2012, the IMF urged authorities to take contingency measures to meet the yearly fiscal target and, in addition, invest efforts to strengthen public revenue in the medium run.

Wide use of irregular payments and bribes encouraged independent journalists to study the national Register of court decisions and identify the *proven* scope of "facilitation payments" for concluding employment contracts.²¹ According to the source, bribes range from the equivalent of 900 US-\$ for nurse in a local hospital to 200 000 US-\$ for chief environment inspector at oblast level. Obviously, the practice exists owing to the expectation that working on the mentioned positions would pay off the mentioned "entry fees".

21 See <http://finance.bigmir.net/career/17545-Nazvany-samy-gromkie-vzjatki-Ukrainy-za-trudoustrojstvo> (accessed 31.10.2012).

B: Public administration in Ukraine: Openness and transparency

B1: Transparency in policymaking



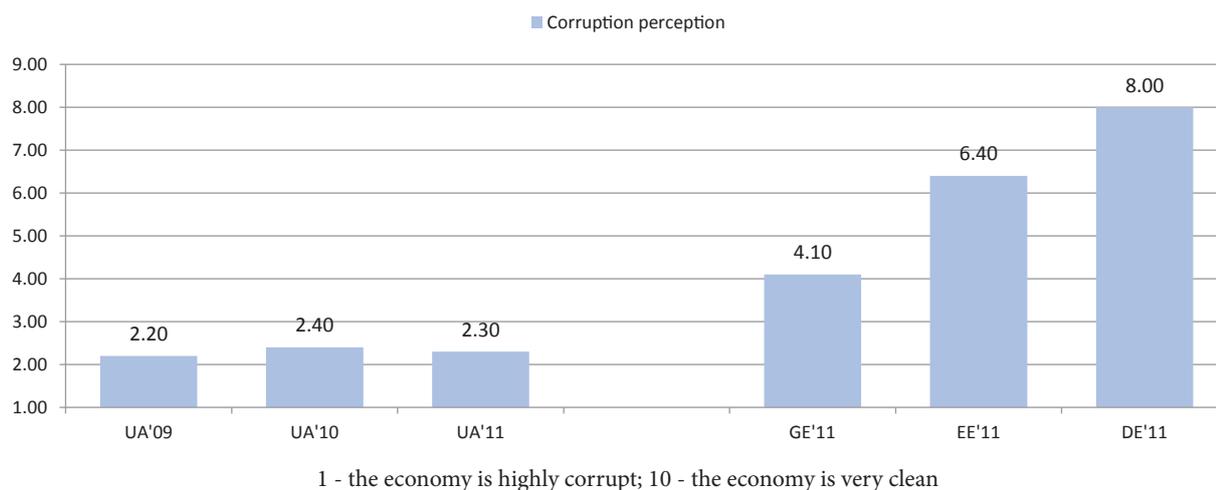
How easy is it for businesses in your country to obtain information about changes in government policies and regulations affecting their activities? 1 – impossible; 7 – extremely easy

Data show that Ukraine failed to make public access to government decisions easier. Despite the existence of the national online legislative database, which covers all decision-making levels and types, acts may be changed retroactively, causing all possible confusions for users. Transparency International, in the framework of the “Open government partnership project”, attested Ukraine as one of the worst

performers among Eastern European countries.²² It costs five times more money and time to open an internet portal in Ukraine than in other countries, which would exhaustively present and timely update financial data about activities of a government institution, so the experts.

²² See: Transparency International: В Украине наихудший уровень прозрачности работы правительства среди стран бывшего СССР, <http://www.rbc.ua/rus/top/show/transparency-international-ukraina---odna-iz-hudshih-na-postsovet-skom-20092012191100> (accessed 31.10.2012).

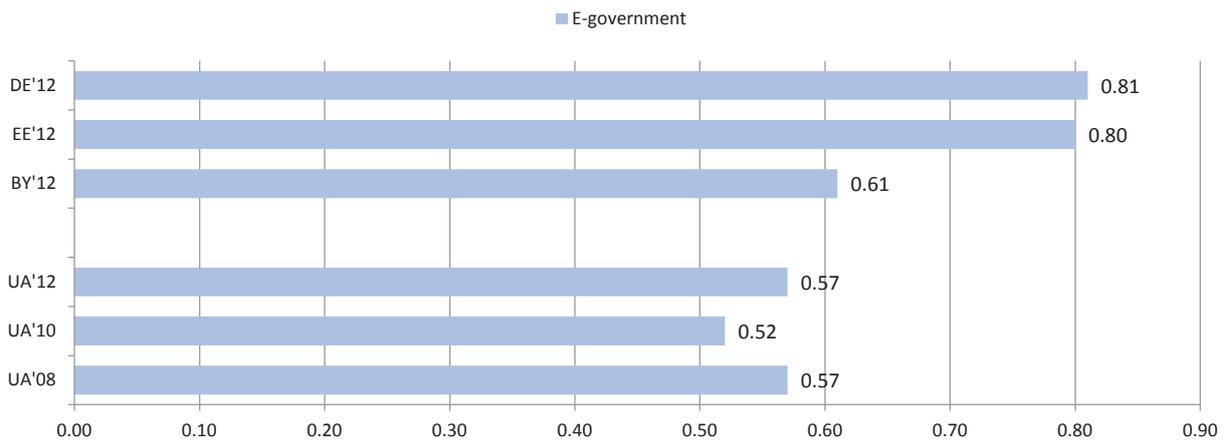
B2: Corruption perception



Evidence from the economy hardly underpins an improvement of the index in 2010 year on year. In May 2011, OECD made public its conclusions that Ukraine has effectively failed in implementing the anti-corruption action plan adopted in Istanbul in 2003. The new package of anti-corruption legislation signed by the President in April 2011 is expected to be inefficient as it contains – apparently in line with the dominant political interest – many opportunities for non-performance. For example, the new Law

on Principles of Prevention and Combating Corruptions omits the obligation of close relatives of MPs and high-ranking government officials to publicly declare income. Ukrainian expert community is unanimous in considering political corruption a systemic element of public administration and the most efficient lever of public governance. Overall, on corruption perception and especially transparency, Ukraine lags far behind other EaP countries.

B3: E-government



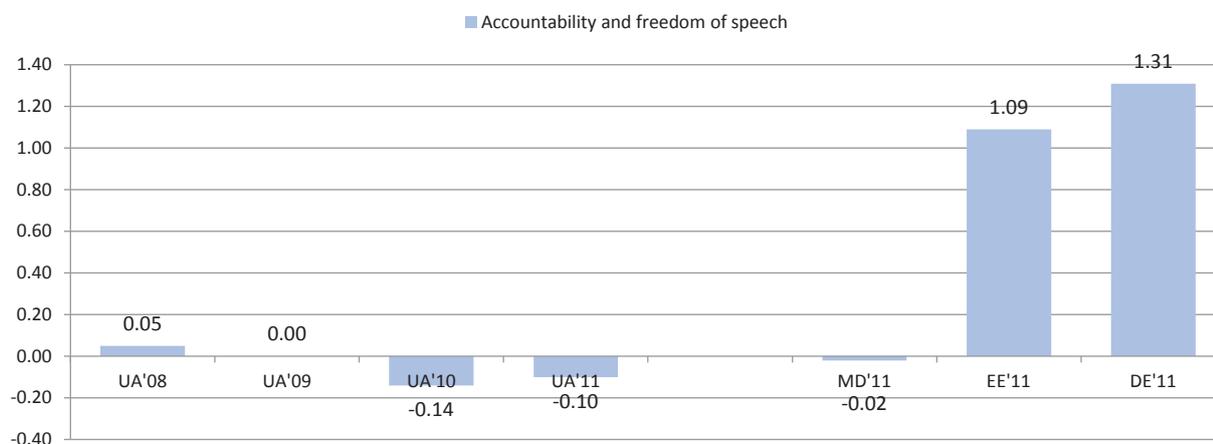
Availability of e-services, e-readiness based on website assessment, human resource endowment, index of the telecommunication and index of e-participation. Scale from 0 (worst) to 1 (best)

Like all EaP countries, Ukraine improved provision of e-government services compared with 2010 but yielded its regional best performer status to Belarus. The government is planning to make all public services available online by 2014, for which a special state program shall be adopted, as per presidential decree, by the end of 2012. Given the complexity of the undertaking, and the likeliness of ministerial

resistance to going online, program implementers should learn lessons from the implementation of the “National program of informatisation” of 2008-11. Recent audit of that program revealed serious losses of public financing originating from ill coordination of activities among government institutions and incompetence of the key officials in charge.

C: Public administration in Ukraine: Accountability

C1: Accountability and freedom of speech



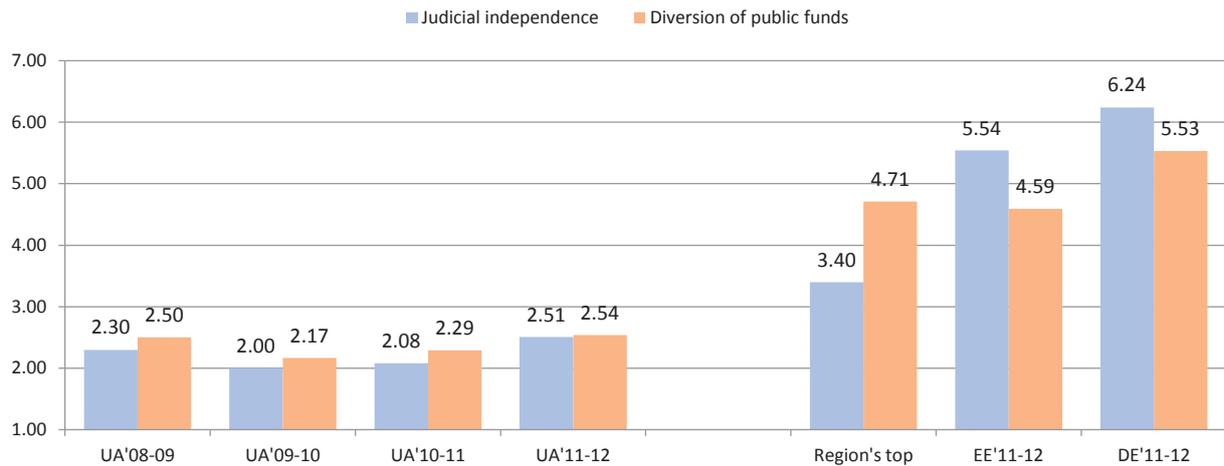
Shows extent, to which citizens are able to participate in the selection of their government, as well as freedom of expression, freedom of association, and freedom of media. Scale from -2.5 (worst) to 2.5 (best)

International observers criticised Ukraine's parliamentary elections of October 2012 for "the lack of a level playing field, caused primarily by the abuse of administrative resources, lack of transparency of campaign and party financing, and lack of balanced media coverage. Certain aspects of the pre-election period constituted a step backwards compared with recent national elections".²³

This criticism is likely to complicate further the country's relations with the EU, where the political process has slowed down following the politically motivated sentencing of the former prime minister and former minister of interior. The elections eroded the political basis for signing the Association Agreement with the EU, which Ukraine was the first Eastern Partner to negotiate.

23 <http://www.osce.org/odihr/elections/96675> (accessed 31.10.20120).

C2: Judicial independence C3: Diversion of public funds



C2: 1 – judiciary is heavily influenced by government, citizens or firms; 7 – judiciary is entirely independent
 C3: 1 – diversion of public funds due to corruption is very common; 7 – such diversion never occurs

Indicators show a statistical improvement in the recent years with regard to judicial independence and a more effective use of public funds. On the latter, Ukraine's Accounting Chamber criticised the government for procedural violations and respective losses in expenditures on government procurement, but generally made more positive conclusions than one year before.²⁴ In contrast, the indication of changes for more independent judiciary hardly matches the evidence from the economy and public life in the country, especially against the background of political persecution of the opposition leaders. A conference "Monitoring independence of judges 2011" held in November 2011 jointly by Ukraine's Council of Judges and Swiss Development and Cooperation Agency concluded that judges in Ukraine generally became more dependent with the adoption of the new Law on Judicial System and Status of Judges in 2010.²⁵ According to a statement of Supreme Court's representative, the most practiced types of influence exerted by the executive on courts were administrative interference, financial pressure, personnel decisions related to either the appointment of judges as a whole or court composition in the given cases.

24 Rahunkova palata Ukraïny. Vysnovky shchodo vykonannya derzhavnogo byudzhetu Ukraïny za 2011 rik. (Accounting chamber of Ukraine. Conclusions about execution of state budget of Ukraine in 2011). http://www.ac-rada.gov.ua/img/files/Buletyn_vykon_budg_2011.pdf (accessed on 31.10.2012).

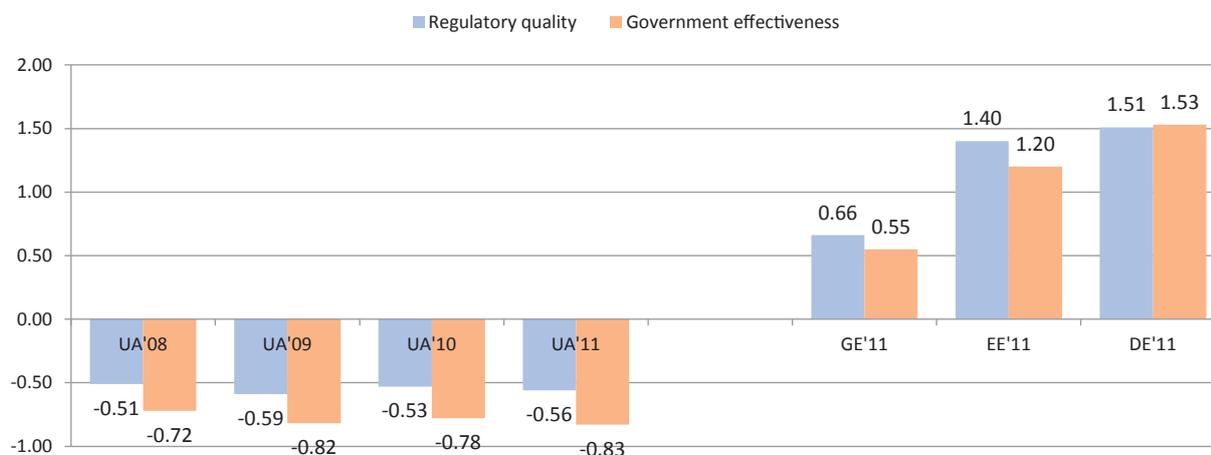
25 <http://pravo.ua/news.php?id=0028715> (accessed on 31.10.2012).

C4: Ease of doing business global rank 2012: Ukraine – 137, Germany – 20, Estonia – 21

The country managed to improve its doing business rating by moving up from 152nd position in 2012 to 137th in 2013, but stayed in the rear of business-friendly economies in the world. The better rank was attributable mainly to an easier business start-up, where Ukraine introduced amendments (in force since 7 June 2011) to a number of regulatory acts drastically reducing the number of procedures, documentation and time needed to register a company. This measure is reportedly an attempt of authorities to compensate for unpopular toughening of taxation legislation, which had caused massive protests of private entrepreneurs in 2010. Taxation rules and regulations – together with those on registering property, cross-border trade and market exit – remain among the most cumbersome in the world.

D: Public administration in Ukraine: Efficiency and effectiveness

D1: Regulatory quality D2: Government effectiveness



D1 shows perceptions of the government ability to formulate and implement sound policies that permit and promote private sector development; D2 captures the quality of public service and degree of its independence from political pressure, quality of policy formulation and implementation, and credibility of government commitments to such policies. Scale from -2.5 (worst) to 2.5 (best)

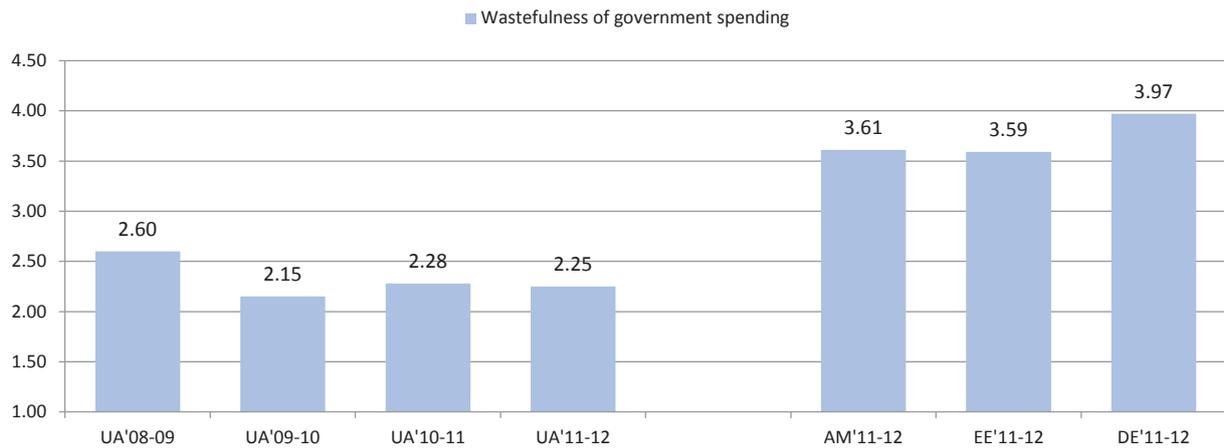
Ukraine's performance on the two indicators has been stagnant to negative since 2008. A retrospective of government decisions affecting private business shows that those decisions have been incoherent and contradictory, leading to an overall uncertainty of business operators – multiplied, in addition, by arbitrary interpretation of legislation. Another attribute of the regulatory policy in Ukraine is that it favours big businesses affiliated to public officials and interests groups. This sheds more light on the conclusion of the OSCE/ODIHR observers of the parliamentary elections of October 2012 that “powerful economic groups influenced the political environment to the detriment of the electoral process”.²⁶

Public service continues to dependent on political pressure, despite efforts to introduce EU standards and practices to the civil service. A government resolution No 334 of 2 March 2010 introduced an annual mechanism of creation of the so-called policy analysis groups in central executive bodies, so that public servants develop their skills to analyse different policy options and assess possible regulatory impact. According to the Centre of adaptation of civil service of Ukraine to European standards,²⁷ in 2011 none of the central executive bodies put forward a proposal to create such policy analysis group for 2012. Lack of interest in policy analysis is certainly detrimental to the quality of policy formulation and implementation.

26 See OSCE ODIHR report at <http://www.osce.org/odihr/elections/96675>

27 Cf. <http://www.center.gov.ua/storinki-gap/grupi-analizu-politiki.html> (accessed on 28.10.2012).

D3: Wastefulness of government spending



D3: 1 – government spending in providing necessary public goods and services is extremely wasteful; 7 – government spending is very efficient

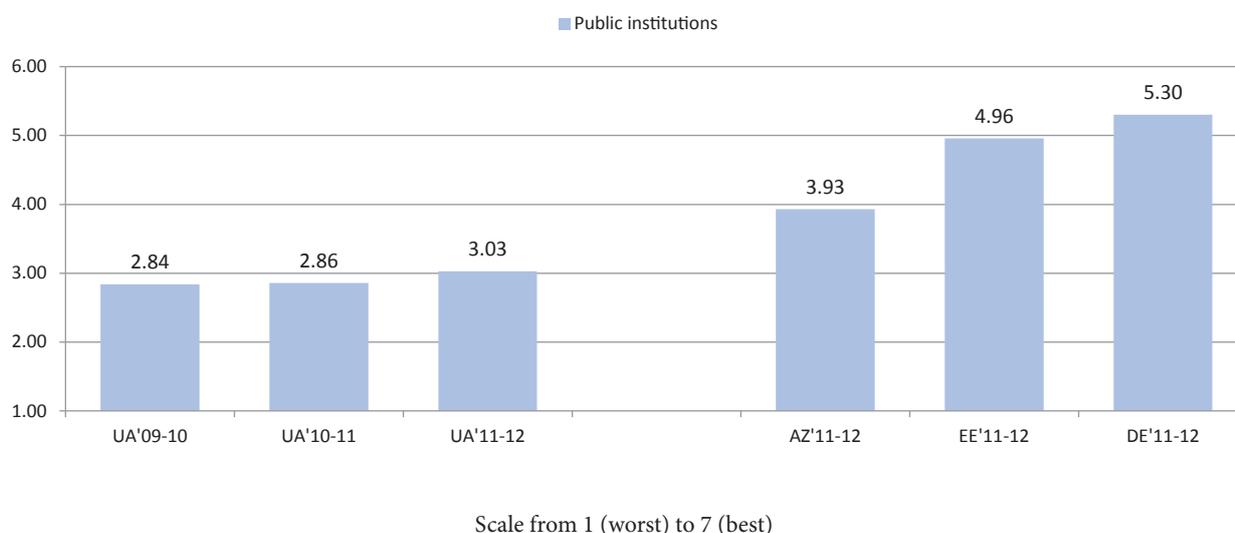
Ukraine's government spending continues to be exceptionally wasteful, which puts the country at the rear in the regional comparison. Budget revenue shortfall, originating from the mentioned practice of minimisation of taxable profit by overstating expenses and illicit transfer of part of earnings abroad, is estimated at 7 to 10 per cent GDP.²⁸ In fiscal year 2011, Ukrainian parliament wrote off tax debts of fuel and energy companies, including privately owned, adding up to around US-\$800mn.

In summer 2012 authorities used 908mn UAH (around €90mn) state budget funds to finance the electoral campaign of the ruling "Party of regions" in Southern Ukraine, where the support of voters was expected to be the highest, and booked the amount as the expenses of the State Reserve Fund. Public procurement remains one of the main channels of wasteful spending: the annual losses owing to irregularities, e.g. overstatement of prices, are estimated at €3bn.

28 Byudzhetna polityyka: Ukraïni potribna nova stratehiya (Budget policy: Ukraine needs a new strategy), in: Dzerkalo tyzhnya, 7.09.2012.

E: Public administration in Ukraine: consolidating indicator

E1: Public institutions



Synopsis

Ukraine has shown a disappointing performance against the European principles of public administration. Brutal rule of law violations, political pressure on judiciary and media, inefficient and wasteful budgeting, further increasing favouritism in government decisions outweighed critically all the modest improvements in e-government and dismantling of formal administrative barriers to business start-up. The overall trend in the public administration

reform has been, for the second consecutive year, rather against than toward a more reliable, transparent, accountable and efficient public administration. Parliamentary elections of October 2012, held in an uneven playing field and with active influence of powerful oligarchic groups on voting, were a decisive element to further delay the signing of an Association Agreement between Ukraine and EU for the unidentifiable future.



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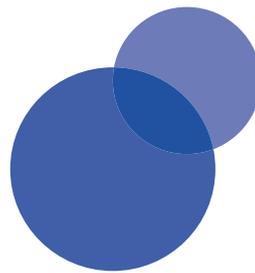
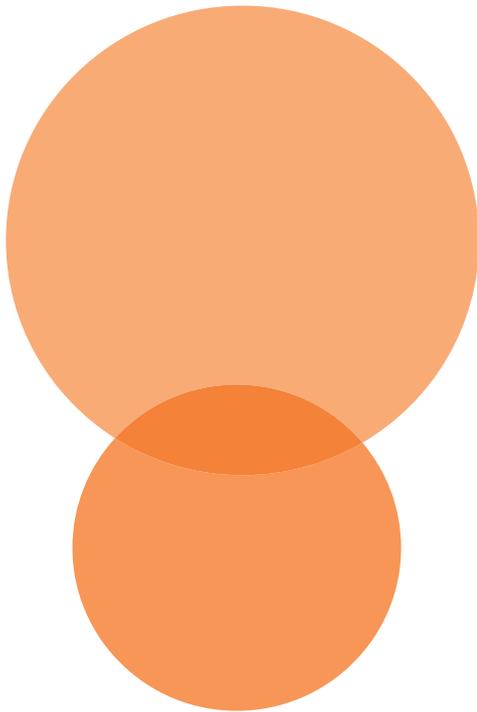
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