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The PUBLIC ADMINISTRATION ISSUES journal has been published at the National Research University Higher School of Economics (HSE) in Moscow, Russian Federation since 2007.

The mission of the journal is to create a modern platform of full value for discussion, exchange of international and national experience and specific knowledge among professionals in the field of Public Administration; for working out and further correcting the development strategy of public and municipal administration.

The editorial policy is to provide a very clear emphasis on the specific subject along with a focus on the interconnection of the proper public administration problems with the relative economic, legal, political science and managerial problems, including the interaction of the state and civil society.

The following key issues are addressed:

- The theory and practices of the public administration;
- Legal aspects of the state and municipal administration;
- The analyses of experts;
- The discussions;
- Case Studies;
- The training and the improvement of specialists in public administration.

The journal is meant for analysts and researchers as well as workers in the public and municipal administration, for academic purposes and for a wider readership interested in current status and development of the system of public and municipal administration in the Russian Federation and abroad.

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Guest editors – Alexey G. Barabashev
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Our address:

National Research University
Higher School of Economics.
20 Myasnitskaya Str.,
Moscow 101000, Russian Federation
Tel./fax: +7 495 624-06-39
E-mail: vgmu@hse.ru
Web: <http://vgmu.hse.ru>

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INTRODUCTION OF GUEST EDITOR

Evaluation of the effectiveness of public administration is currently perhaps the most popular topic among authors who submit articles to the journal «Public Administration Issues», as well as the most attractive for its readers: evaluation articles occupy a great part of the Journal portfolio of articles in English, these articles are often cited in other publications, they are accessed regularly by readers on the Journal's website. The new challenges to public administration that have emerged in the context of the ongoing Covid pandemic are generating an expansion of assessment tools and areas that are based on modern public administration concepts: NPM, NPG, and the indicative approach.

This issue of the Journal presents the articles related to a number of different areas of performance assessment and subject fields of public administration in which this assessment is made:

- financial management (evaluation of the impact of external audit on fiscal transparency; evaluation of the influence of investment promotion policy and the level of economic freedom on the attraction of foreign direct investments; evaluation of the influence of financial local autonomy on the rural development);
- public-private partnership management, which potentially creates risks of non-transparent decision-making and ethical violations in obtaining municipal contracts for the provision of services (assessment using data obtained during a large-scale survey);
- local governance (assessed by the Provincial Governance and Public Administration Performance Index);
- e-Government (assessment of the impact of Internet literacy of the population on the development of electronic services and e-participation platforms);
- the effectiveness of international development institutions.

The peculiarity of all these articles is the use of specially selected indices, indicators used for the purpose of evaluation. Thus, modern mechanisms for assessing the effectiveness of public administration are primarily indicative, they rely on the use of specially aggregated data and inevitably lead to general conclusions and recommendations, to the construction of theories of how public administration should be arranged and managed.

The other part of the issue consists of two articles devoted to the analysis of country cases related to the development of the pension system in the country (for example, Egypt shows that due to the authoritarian nature of the state, the harsh and unpopular solutions to the modernization of the pension system become available) and to the study of the socio-cultural roots of corruption at the local level (the case of Georgia). Both articles show that a case study approach that avoids general inferences and schemas is an alternative to data-driven public administration research.

A wide representation of authors from different countries in this issue of the Journal – from Asia and Africa, to Eurasia and Europe, shows that the two trends in public administration analysis described above have international significance and reflect the deep processes of «dividing» public administration analytics into data-based and case study approaches. These two types of analytics, although they may coexist, pursue different goals and lead to different kinds of conclusions.

Special Issue Editor
Alrxey G. Barabashev

EXTERNAL AUDIT AND FISCAL TRANSPARENCY: AN EMPIRICAL ANALYSIS¹

Huseyin Guclu Cicek

Ph.D., Associate Professor, Suleyman Demirel University, Isparta, Turkey.
Address: Suleyman Demirel University, Çünür Mahallesi,
Süleyman Demirel Cd., 32260 Merkez / Isparta, Turkey.
E-mail: huseyincicek@sdu.edu.tr
0000-0003-2883-9468

Suleyman Dikmen

Ph.D., Assistant Professor, Suleyman Demirel University, Isparta, Turkey.
E-mail: suleymandikmen@sdu.edu.tr
0000-0002-5434-0532

Abstract

The aim of this study is to examine the socio-economic, institutional, and political factors affecting external audit, with the use of an international comparison. In addition, the effect of external audit on fiscal transparency was analyzed. Although many empirical studies in the literature handle the factors affecting fiscal transparency, there are only a few empirical studies that focus on the factors affecting external audit and the impact of external audits on fiscal transparency. However, there is not one study dealing with the factors affecting external audit through making use of international comparisons. In this study we attempt to discover the factors affecting external audit and examine, using an international comparison, the impact of external audits on fiscal transparency. The Open Budget Survey published by the International Budget Partnership in 2017 was used to measure external audits. In the study, consisting of 115 countries, the effect of democratization level, government debt level, government balance, gross domestic product (GDP) per capita, legislative budget oversight, the SAI's audit diversity and the effect of a judicial model of the SAI on external audit were investigated. The effect of external audit on fiscal transparency is tested for 115 countries using the Two-Stage Least Squares Method (2SLS). According to the analysis, it is determined that the level of democratization, gross domestic product (GDP) per capita, budget oversight of the legislature, audit diversity of supreme audit institution and judicial model of supreme audit institution have significant and positive effects on external audit. It is also determined that external audit has a significant and positive effect on fiscal transparency.

¹ This study is an enlarged and revised version of the paper presented at the 34th International Public Finance Conference (Antalya/Turkey) held between April 24–27, 2019.

Keywords: external audit; fiscal transparency; Supreme Audit Institution (SAI); Two-Stage Least Squares Method (2SLS).
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Introduction

The power to make decisions regarding the collection of public incomes and public expenses belongs to the citizens, thus, the existence of legislative bodies (Yılmaz & Biçer, 2010). In democratic societies, administrators are expected to account for citizens in terms of collecting public revenues and spending public money. The precondition for accountability is fiscal transparency. Fiscal transparency requires that information on the government's fiscal policy-making process be shared with the public, and reporting on public financial management must be inclusive, clear, reliable, timely, frequent and appropriate (International Monetary Fund (IMF), 2018). The mechanism to provide fiscal transparency and improve accountability is an independent external audit (Köse, 2007). The SAI detects whether the public resources are used in line with the laws, assures the effective management and use of public funds with performance audits, reports the audit outcomes to legislative bodies and announces those to the public, and as a result it contributes to the development of responsibility to accountability and fiscal transparency (Barun, Ekinci & Temizel, 2007).

Although many empirical studies in the literature deal with the factors affecting fiscal transparency (Alt & Lassen, 2006b; Benito & Bastida, 2009; Guillamón, Bastida & Benito, 2011; Wehner & de Renzio, 2013; Harrison & Sayogo, 2014; Cicatiello, De Simone & Gaeta, 2016; Ríos, Bastida & Benito, 2016; Arapis & Reitano, 2017), there are only a few empirical studies that focus on the factors affecting external audit and the impact of external audits on fiscal transparency. Moreover, there is not one study dealing with the factors affecting external audit by making an international comparison. In this study the factors affecting external audit and the impact of external audits on fiscal transparency are examined with the use of an international comparison.

In this context, the aim of this study is to examine the socio-economic, institutional, and political factors affecting external audit through an international comparison. The Open Budget Survey published by the International Budget Partnership in 2017 was used to measure external audit. In the study, consisting of 115 countries, the effect of democratization level, government debt level, government balance, gross domestic product (GDP) per capita, legislative budget oversight, the SAI's audit diversity and the effect of a judicial model of the SAI on external audit were investigated. In addition, the effect of external audit on fiscal transparency was analyzed.

In the study, the detailed literature on external audit and factors affecting external audits are included first. Next, the data set, variables, descriptive statistics, and economic model are mentioned. The study is concluded with the empirical literature and results.

Theoretical Framework and Literature Review

A SAI is the national institution in charge of auditing the government's income and expenses. Although they have many duties regulated under the legislation, their main duties are to audit the management of public resources and the quality and reliability of the government's financial data (Stapenhurst & Titsworth, 2001). SAIs are the institutional indicator of independent auditing in modern societies (Maher, 2004). An audit performed by the SAI is described as an external or supreme audit in the literature (Köse, 2007). An external audit is a form of external evaluation carried out by an independent institution outside the audited institution (Posner & Shahan, 2014). In considering the audits made, both members of the parliament and citizens ask for accountability by holding government members accountable in political elections, parliamentary talks and public debate areas (Bringselius, 2015). The main element that ensures the transparent execution of state administration is a reliable audit (Feyzioğlu, 1997). In other terms, fiscal transparency is a prerequisite to an efficient external audit (Morgner & Chêne, 2014). The government needs to be more transparent for a more effective external audit. Fiscal transparency also increases when the SAI carries out an effective external audit. Therefore, there is a bilateral relationship between fiscal transparency and external audit, and this situation is expressed in the literature (Santiso, 2006; 2007b; 2007a) as reverse causality.

The empirical literature on external audit is rather limited. The vast majority of the studies focus on the independence, organizational structure, accountability, and corruption of external audits. There are some studies on the economic and financial effects of external auditing. Talbot and Wiggan (2010) expressed that SAIs are important parts of democratic countries' institutional structure. SAIs contribute to the prevention and blocking of corruption by ensuring good governance, transparency and accountability in public financial management (Kayrak, 2008). SAIs, which provide impartial and independent information to citizens and members of parliament on how the government spends public money, are an indispensable element of the accountability process (Bringselius, 2014). Isaksson and Bigsten (2012) argue that external audit, a mechanism for monitoring the government and transmitting information to voters, is crucial to improving government transparency and accountability. Gonzalez, Lopez and Garcia (2008) also revealed that external audit has an important role in ensuring accountability of the executive body at local and national level.

Independency is a basic feature of audit activity (Gendron, Cooper & Townley, 2000) and it is meaningless to perform audits without independency (Power, 1997). Clark, Martinis and Krambia-Kapardis (2007) emphasize that external audit has an important role in providing accountability of the public institutions and that the independency of the SAI must be effective in order to increase audit quality. Isaksson and Bigsten (2012) revealed that in the Rwandan example, the capacity limitations have a negative impact on the development of the independency of external audits. Seyfried (2016) examined the factors effective in the election of the SAI chairpersons and revealed that the experience of chairperson candidates and voting rates of the current administration are the main factors.

The results obtained from the studies revealing the economic and financial impacts of external audit are as follows. Schelker and Eichenberger (2003) reached the outcome that strong audit bodies for Swiss local administrations caused low tax load and public expenses. Eichenberger and Schelker (2006) came up with the outcome that strong audit bodies led to low tax ratios. Torgler (2005) detected that increasing the authorization of SAIs empowered the tax ethics. Torgler and Schaltegger (2006) found that strong supervisory institutions are an important determinant of the level of political debate among the cantons of Switzerland. Olken (2007) revealed that the increase in audit activity in Indonesia reduced the cost of public spending. Ferraz and Finan (2008), on the other hand, found that the publication of audit results before local elections in Indonesia reduced the probability of re-election of the current administrator by 20%. In examining the effects of differences in organizational structures of SAIs on corruption, budget deficit, public expenditures and total factor productivity, Blume and Voigt (2011) found that SAIs in the judicial model are more exposed to corruption than SAIs in the board model, because in countries where the judicial model is adopted, judicial reports do not go to the legislative body and are not made public. This reduces fiscal transparency and increases corruption. Persson and Tabellini (2003) analyzed the impact of constitutional institutions on economic variables and revealed that external auditing led to a reduction in public spending and tax revenues.

Based on the theoretical framework, the basic hypotheses of the study were developed as follows:

Fiscal transparency: Santiso (2006; 2007b; 2007a) found that external audit has a positive relationship with fiscal transparency and that external audit has a significant impact on ensuring fiscal transparency. In addition, Santiso (2007a) concluded that external auditing is not as effective as it should be in ensuring fiscal transparency. Similarly, Schelker and Eichenberger (2010) found that auditing by SAIs increased fiscal transparency by eliminating the principal-proxy problem. Blume & Voigt (2011), on the other hand, found that the judicial reports are not presented to the legislative body and not disclosed to the public in judicial type SAIs. Morin (2016) observed in the French example that SAI's audit reports created a false sense of transparency and that citizens were given a false sense of trust that the accounts were actually audited.

H1: There is a positive and significant relationship between external audit and fiscal transparency.

Democracy: Democracy and external audit are closely related as a requirement of the historical process. Democratic developments played a leading role in the emergence of audit (Köse, 1999). A democratic management structure is important for the development and effectiveness of an audit (Köse, 2007). The Lima Declaration states that democracy and the rule of law are indispensable elements for truly independent state audits (International Organisation of Supreme Audit Institutions (INTOSAI), 1998). Harrison and Sayogo (2014) found that there is a significant relationship between democracy and public participation in external auditing. A similar conclusion came from Kim (2017) in his study of the South Korean example.

H2: There is a positive and significant relation between external audit and democratization level.

Economic level: Although developed countries have partially diverged from the traditional audit structure, developing countries have started to increasingly need to structure their control systems as part of their economic development policies and their structural features and functions have converged (Köse, 2007). The SAI oversees the accounts of public institutions to ensure that public money is spent effectively, economically, and efficiently. Auditing of the public sector has a significant impact on growth and per capita income (Blume & Voigt, 2011). Gustavson (2015) found that there is a positive and significant relationship between external audit and GDP per capita.

H3: There is a positive and significant relationship between external audit and GDP per capita.

Legislative budget oversight: The SAI audits government accounts in line with the mandate of the executive body and reports the results of the audit to the legislature. The legislature oversees government accounts (budget) in line with the report. Santiso (2005) states that increasing the capacity of the SAI and improving its relationship with the legislature positively affects the budget oversight. In addition, Santiso (2006) found that there is a greater correlation between external audit and the centralization of budgetary powers. Ríos et al. (2016) found a positive correlation between SAI's budget audits and the legislative budget oversight.

H4: There is a positive and significant relationship between external auditing and the legislative budget oversight.

Audit versatility of SAI: SAIs usually carry out three types of audit. These are financial auditing, performance auditing, and compliance auditing. In financial auditing, the auditor evaluates the accuracy and impartiality of an entity's financial statements (Stapenhurst & Titsworth, 2001). In performance auditing, the auditor oversees all activities of the management in terms of efficiency, effectiveness, and frugality (Mutluer, Öner & Coşkun, 2015). In the compliance audit, the auditor checks whether permits and authorizations are granted for the realization of public income and expenses (Stapenhurst & Titsworth, 2001). Increasing the diversity of audits performed by SAIs increases the effectiveness of the audits and effective audits support fiscal transparency (Dye & Stapenhurst, 1998).

H5: There is a positive and significant relationship between external audit and SAI audit diversity.

Countries with judicial model SAI: SAIs are shaped in three different institutional structures: judicial model, office model and board model. In the judicial model, the SAI is independent of the legislative and executive organs and has judicial and administrative authority. Being an integral part of the judicial system, the institution makes decisions regarding the compliance of the government with legislation and ensures that public resources are spent effectively (Stapenhurst & Titsworth, 2001). Stapenhurst (2014) and Stapenhurst and Titsworth (2001) stated that SAIs have wider powers in countries where the judicial model SAI is available. Blume and Voigt (2011), on the other hand, stated that in countries where judicial model SAIs are present, the audit reports are not sent to the legislative body and the audit is not effective.

H6: There is a positive and significant relationship between external audit and possession of judicial model SAI.

Government debt: The relationship between financial performance and external audit is demonstrated by two indicators: government debt and government balance. Yalçın (2017, 2018) concluded that independent external audit reduces government debt and contributes to the sustainability of government debt. In other words, it has detected a negative relationship between external audits and government debt. Schelker and Eichenberger (2010) revealed that audit reports prepared by the SAI reduce information costs and increase fiscal transparency by eliminating the principal proxy problem. He concluded that the increase in fiscal transparency weakened asymmetric information and reduced government debt.

H7: There is a negative and significant relationship between external audit and government debt.

Government balance: It is important that there is a budgetary deficit or surplus so that the SAI can perform a more effective budget audit. Blume and Voigt (2011) revealed that there is a positive relationship between the external audit performed by the SAI and the budget balance.

H8: There is a positive and significant relationship between external audit and government balance.

Data Set, Variables and Descriptive Statistics

The main purpose of this study is, within the framework of an international comparison, to identify the socio-economic, institutional and political factors affecting the external audit performed by the SAI. The Open Budget Survey of the International Budget Partnership for 2017 was used to measure external audit and fiscal transparency. Open Budget Survey questions in the external audit (*external.audit*) variable are presented in Appendix 2. Covering 115 countries, the survey is the world's only independent and comparative measure of fiscal transparency. Since the survey data for 2017 were collected in 2016, the data for the other variables in the study also belong to 2016. The number of samples decreased from 115 to 107 due to insufficient data in other variables. The countries in the sample are located in different geographical regions and have different income levels, political regimes, financial structures and democratic development levels.

In the study, factors affecting external audit are grouped into two categories and independent variables are also classified under this classification. According to this grouping, factors affecting an external audit are (i) socio-economic factors and (ii) political and institutional factors. The socio-economic factors affecting external audits are economic development level (*gdppc*), government debt (*debt*), government balance (*government.balance*) and democratization level (*democracy*). The institutional and political factors are the budget oversight degree (*legislative.oversight*), the countries with the judicial model of SAI (*judicial.model.SAI*) and diversity of inspections (*audit.diversity*).

Table 1 contains the methods for calculating dependent and independent variables and data sources. Analyses were made using the Stata 13 package program. While creating a data set related to variables, the different methods of calculation of each institution prevented healthy and consistent results from being obtained, and data from reliable and internationally accepted institutions were used.

Table 1

Definition of Variables

	Note	Calculation Method	Source
<i>Dependent Variables</i>			
external.audit	External audit	$\text{external.audit} = \sum_{i=1}^6 (\text{external.audit}_i) / 6$	It was compiled by us using the 2017 Open Budget Survey data.
fiscal.transparency	Fiscal transparency	OBI: 0: little or no information; 100: detailed information	International Budget Partnership (IBP)
<i>Independent Variables: Institutional and Political Factors</i>			
anglo.saxon	Legal system type	1: Anglo-Saxon legal system, 0: Civil law	Central Intelligence Agency (CIA) database
legislative.oversight	Budget oversight of the legislature	$\text{legislative.oversight} = \sum_{i=1}^{12} (\text{legislative.oversight}_i) / 12$	It was compiled by us using the 2017 Open Budget Survey data.
political.competition	Political competition	Number of seats of the ruling party in the legislature (% of total seats)	World Bank's Political Institution database
presidency	Type of government system	1: Presidency, 0: Parliamentary System	World Bank's Political Institution database
audit.diversity	Number of audit types of SAI	0: Weak control, 3: Strong control	It was compiled by us using the 2017 Open Budget Survey data.
judicial.model.SAI	Countries with judicial model SAI	1: Judicial model SAIs, 0: Others	INTOSAI Working Group on the Value and Benefits of SAIs (WGVBS)
<i>Independent Variables: Socio-economic Factors</i>			
gdppc	Economic level	GDP per capita (natural logarithm)	World Bank (WB)
democracy	Democratization level	Policy 2 index: -10 strong autocracy; +10 strong democracy	Policy IV project database
debt	Government debt	Public debt (% of GDP)	International Monetary Fund (IMF)
government.balance	Government balance	General government net borrowing / lending (% of GDP)	International Monetary Fund (IMF)
free.press	Freedom of the press	0: No freedom of the press, 100: Full of freedom of the press	Freedom House

Sources: Compiled by the authors.

Descriptive statistics regarding the variables used in the model are given in Table 2. The countries with the highest external audit degree of the SAI, created by using the Open Budget Survey, are Australia and South Africa with 100 points. It is 94.5 in Bosnia Herzegovina, Germany, Hungary, Poland, Sweden and the United States. The countries with the lowest external audit score are Equatorial Guinea with 0 points and Qatar with 5.5 points. The country with the highest fiscal transparency is New Zealand with 89.33 out of 100 points. Other countries with a fiscal transparency index score of over 80 points, respectively, South Africa, Sweden, Norway and Georgia. Equatorial Guinea, Lesotho, Qatar and Yemen are the countries with the lowest score – 0 fiscal transparency score. These countries do not share their budget information with the public.

Table 2

Descriptive Statistics*

Variable	Number of Observations (n)	Average	Median	Minimum	Maximum	Standard Deviation
<i>Dependent Variables</i>						
external.audit	115	63,008	72,167	0	100	23,486
fiscal.transparency	115	41,854	45,266	0	89,330	24,788
<i>Independent Variables: Institutional and Political Factors</i>						
anglo.saxon	106	0,245	0	0	1	0,432
presidency	112	0,634	1	0	1	0,489
legislative.oversight	115	48,275	47,083	0	91,75	20,330
political.competition	110	51,010	49,797	6,962	100	22,099
audit.diversity	115	1,965	3	0	3	1,249
judicial.model.SAI	115	0,209	0	0	1	0,408
<i>Independent Variables: Socio-economic Factors</i>						
gdppc	112	8,277	8,272	5,655	11,168	1,376
democracy	113	4,929	7	-10	10	5,341
debt	112	54,119	45,65	8	239,3	31,668
government.balance	114	-4,678	-3,7	-23,1	3,1	4,647
free.press	115	47,843	48	9	91	20,143

* It was created using the Stata 13 package program.

Sources: Compiled according to the calculations of the authors.

From the sample, 26 of the countries have an Anglo-Saxon legal system and 80 have a Civil Law system. In addition, 41 of the countries are governed by a parliamentary system and 71 by a presidential system. The countries where the legislature has the highest budget oversights are Norway, France, Ukraine, South Korea, Indonesia and Germany respectively, while the countries with the lowest

budget oversight are Qatar and Saudi Arabia with zero points. When the data are evaluated in terms of the political competition representing the number of seats in the legislature of the ruling party, it is seen that the ruling party constitutes the entire legislative body in China, Qatar, Saudi Arabia, Somalia and Yemen. When the number of audits performed by each SAI is analyzed, it is seen that there are no financial audits, compliance audits and performance audits in 28 countries, one in 7 countries, two in 21 countries, and three types in 59 countries. In addition, 24 countries have a judicial model SAI and 91 countries have an Office and Board model SAI.

Considering the data per capita GDP, Burundi is the country with the lowest income and Norway with the highest income. When the countries are evaluated in terms of democratization level, it is seen that 19 countries have 10 full points, which is the most democratic country score, while Qatar and Saudi Arabia, which have -10 points, are the least democratic countries. The country with the highest government debt to GDP ratio is Japan, and the ratio of government debt to GDP is 239.3%. In terms of government balance, 12 countries have a budget surplus and 102 countries have a budget deficit. Norway is the country with the highest budget surplus (3.1%), while South Sudan is the country with the highest budget deficit (23.1%). The country with the lowest freedom of press is Equatorial Guinea with 9 points, while the country with the highest freedom is Norway with 91 points.

The correlation relationship between the variables is shown in Appendix 1. The correlation relationship confirms the theoretical expectations between the variables.

Econometric Model

The theoretical literature shows that there is a problem of endogeneity between external audit and fiscal transparency. Many variables are mutually affected in economic, political and social life. It is a fact that an ordinary least squares (OLS) estimation method has been developed for one-way causality relationships and ignoring the mutual relationship between the variables can cause inconsistent and biased results (Gujarati, 2009). To solve this problem, first of all, the Two-Stage Least Squares (2SLS) estimation method, which takes into account the mutual relationship between the variables, is used. The 2SLS estimation method has been developed for the prediction of over-determined models and it is applied to fully determined models (Tari, 2012). This method is to estimate the equation to be examined twice with the OLS method (equation 1).

$$\begin{aligned} Y_t &= \alpha_0 + \alpha_1 X_t + \alpha_2 Z_t + u_{t1} \\ X_t &= \alpha_0 + \alpha_1 Y_t + \alpha_2 K_t + u_{t2} \end{aligned} \quad (1)$$

In the first stage, the regression of the internal variables is obtained by finding the regression on all external variables in the model for each internal variable in the structural equation to be estimated (equation 2.):

$$\begin{aligned}
 Y_t &= \Pi_{10} + \Pi_{11}Z_t + \Pi_{12}K_t + V_1 \\
 X_t &= \Pi_{20} + \Pi_{21}Z_t + \Pi_{22}K_t + V_2
 \end{aligned}
 \tag{2}$$

By applying the OLS method to the obtained equations, the estimated values (\hat{Y}_t, \hat{X}_t) of the internal variables in the equations are found.

In the second stage (equation 3.), the parameters of the equation are estimated by using the OLS method by substituting the regression values for the internal variables to the right of the structural equation to be estimated (Gujarati, 2009; Tari, 2012).

$$\begin{aligned}
 Y_t &= \alpha_0 + \alpha_1\hat{X}_t + \alpha_2Z_t + e_{t1} \\
 X_t &= \alpha_0 + \alpha_1\hat{Y}_t + \alpha_2K_t + e_{t2}
 \end{aligned}
 \tag{3}$$

In this context, first of all, the factors affecting the external audit will be analyzed and then the factors affecting the fiscal transparency will be analyzed. However, in the second regression, the factors affecting the external audit will be accepted as a tool variable and the 2SLS estimation method will be used. Accordingly, equation (4.) was used to determine the factors affecting external audit.

$$\begin{aligned}
 \text{external.audit}_i &= \alpha + \beta_1 \text{debt}_{1i} + \beta_2 \text{democracy}_{2i} + \beta_3 \text{gdppc}_{3i} + \\
 &+ \beta_4 \text{legislative.oversight}_{4i} + \beta_5 \text{audit.diversity}_{5i} + \\
 &+ \beta_6 \text{judicial.model.SAI}_{6i} + \beta_7 \text{government.balance}_{7i} + \varepsilon_i
 \end{aligned}
 \tag{4}$$

In the model, i index ($i = 1, 2, \dots, 115$) states countries, α constant term, β_{ji} parameters to be estimated, ε error term.

A second equation (5.) has been added to the model to check the reverse causality relationship due to the endogeneity problem between external audit and fiscal transparency.

$$\begin{aligned}
 \text{fiscal.transparency}_i &= \alpha + \gamma_1 \text{external.audit}_{1i} + \gamma_2 \text{free.press}_{2i} + \\
 &+ \gamma_3 \text{government.balance}_{3i} + \gamma_4 \text{presidency}_{4i} + \\
 &+ \gamma_5 \text{political.competition}_{5i} + \gamma_6 \text{gdppc}_{6i} + \gamma_7 \text{anglo.saxon}_{7i} + \varepsilon_i
 \end{aligned}
 \tag{5}$$

In the model, i index ($i = 1, 2, \dots, 115$) states countries, α constant term, γ_{ji} parameters to be estimated, ε error term.

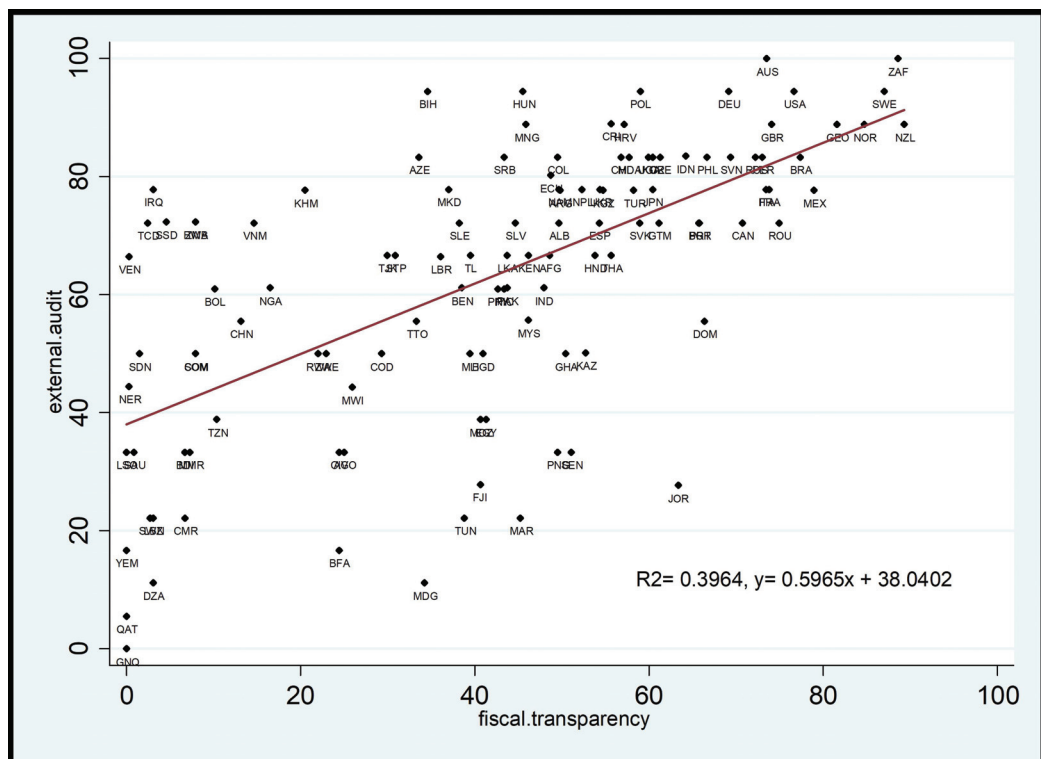
In the study, factors affecting fiscal transparency were determined by considering the variables used by Alt & Lassen (2006a) and Ríos et al. (2016). Accordingly, institutional and political factors affecting fiscal transparency are the legal system type (*anglo.saxon*), political competition (*political.competition*) and presidency system, while socio-economic factors are economic development level (*gdppc*), democratization level (*democracy*), press freedom (*free.press*) and government balance (*government.balance*). Also included in the model is the external variable (*external.audit*), which is the internal variable as the explanatory variable of fiscal transparency.

The OLS method, which is used when determining the factors affecting the external audit, is the method that estimates the average relationship between the dependent and independent variables in the most accurate way if certain assumptions are provided, and there are certain assumptions about the variables and the error term (Tari, 2012). Variance Inflation Factors [VIF] were calculated to test for multiple linear linkage problems. In order to test for variance problems, the White test and Breusch-Pagan/Cook-Weisberg variance tests were performed. In addition, the Sargan over-determination test was performed for the 2SLS estimation methods in the context of endogeneity testing.

Empirical Results

Chart 1 shows the relationship between external audit and fiscal transparency. According to the scatter chart, there is a positive relationship between the two variables. The relationship in question supports the literature (Santiso, 2006, 2007a, 2007b).

Chart 1: The Relationship between External Audit and Fiscal Transparency



Regression results related to institutional, political and socio-economic factors affecting external audit (Least Squares Estimation Method) are shown in Table 3. The total number of observations in the regression is 107. Variable names are included in the first column. The second column presents the regression results for

external audit and the White (χ^2) variance test. The changing variance problem encountered in regression was eliminated with the robust standard errors method.

Table 3

Factors Affecting External Audit

	External Audit (OLS, robust)
democracy	1.01*** (0.40)
gdppc	2.58* (1.47)
legislative.oversight	0.41*** (0.95)
audit.diversity	3.09** (1.63)
judicial.model.SAI	7.01** (3.68)
debt	-0.05 (0.05)
government.balance	0.78 (0.57)
Constant Term	14.12 (12.81)
R²	0.57
Number of Observations (n)	107
Highest VIF Value	1.59
White Test (χ^2)	8.81 (p= 0.0030)

Notes: External Audit (OLS, robust): Ordinary least squares method (OLS) estimation results. Coefficients and standard errors (in parentheses). Significance levels: ***p<0.01, **p<0.05, *p<0.1.

Sources: Compiled according to the calculations of the authors.

It is concluded that democracy (*democracy*) has a positive and significant effect on external audit. The findings obtained support the literature (Harrison & Sayogo, 2014; Kim, 2017). As stated by INTOSAI in the Lima Declaration, democracy is a prerequisite for independent state supervision (International Organisation of Supreme Audit Institutions (INTOSAI), 1998).

A positive and significant relationship was found between GDP per capita (*gdppc*) and external audit. The findings are in line with the literature (Gustavson, 2015). External control is more effective in economically developed countries.

A positive and significant relationship has been determined between the budget oversight (*legislative.oversight*) performed by the legislature and external audit. The results obtained are similar to the literature (Santiso, 2005, 2006; Ríos, Bastida & Benito, 2016). The legislature and SAI work in coordination in the execution of the external audit. The Public Accounts Commission or equivalent institution plays an important role in ensuring coordination between them (van Zyl, Ramkumar & de Renzio, 2009).

A significant and positive relationship was found between the audit diversity (*audit.diversity*) performed by the SAI and external audit. Increasing the number of audit types increases the effectiveness of external auditing. This finding is compatible with Dye and Stapenhurst (1998).

The fact that a country has a judicial model SAI (*judicial.model.SAI*) has a positive and significant effect on external audit. The findings obtained are in a similar direction to Stapenhurst (2014) and Stapenhurst and Titsworth (2001). In countries where the judicial model SAI is available, the SAI is equipped with broader powers. However, the finding is different with Blume and Voigt (2011). Blume and Voigt (2011) states that the failure of reports to go to the legislature reduces the effectiveness of the audit in countries where the judicial model SAI is available.

There were no significant results between financial performance indicators and external audit. Although there is no significant effect between government debt (*debt*) and external audit; the coefficient sign is compatible with the literature. Similarly, no meaningful relationship was found between the budget balance (*government.balance*) and external audit, but the coefficient sign obtained is in accordance with the literature.

The 2SLS estimation method was applied to determine the effect of external audit on fiscal transparency. To test whether there is a problem of endogeneity between external audits and fiscal transparency, the Over-identification (Sargan) Test was conducted. As a result of the test, the effect of external audit on fiscal transparency was analyzed with 2SLS since the problem of endogeneity was encountered. The result of the analysis is shown in Table 4.

Table 4

Factors Affecting Fiscal Transparency

	Fiscal Transparency (2SLS)
external.audit	0.76*** (0.15)
gdppc	2.29 (1.68)
government.balance	0.83** (0.44)
anglo.saxon	0.57 (4.02)
political.competition	-0.07 (0.10)
free.press	0.27** (0.11)
presidency	6.88* (4.03)
Constant Term	-34.10** (14.34)
Number of Observations (n)	98
R²	0.52
Over-identification (Sargan) Test χ^2	0.83 (p = 0.6611)

Notes: 2SLS (two stage least squares) estimation. Coefficients and standard errors (in parentheses). Significance levels: ***p<0.01, **p<0.05, *p<0.1.

Sources: Compiled according to the calculations of the authors.

As a result of the analysis, it was found that besides the budget balance (*government.balance*), press freedom (*free.press*) and presidency system, one of the determinants of fiscal transparency is external audit (*external.audit*). The effective

external audit of the SAI has a positive effect on fiscal transparency. The findings obtained support the literature (Santiso, 2006, 2007b, 2007a; Schelker & Eichenberger, 2010).

There are many benefits to improving fiscal transparency, an important component of public financial management. If fiscal transparency increases, financial performance increases (Alt & Lassen, 2006b, 2006a), public foreign borrowing costs decrease (Glennerster & Shin, 2008), corruption is prevented (Reinikka & Svensson, 2004), economic stability is maintained and the functioning of the government is streamlined (Heald, 2003). There is also a positive relationship between fiscal transparency and external audit. This was also expressed by many international institutions and organizations (INTOSAI, 1998; 2013; OECD, 2011; International Budget Partnership (IBP), 2017).

Conclusion

It is an indispensable condition for representative democracies that the legislative bodies, which have the power to decide on the amount and composition of public revenues and expenditures, account for citizens. In order to ensure accountability, fiscal transparency must be provided first. External audit is the main mechanism that ensures fiscal transparency and accountability. Therefore, there is an important relationship between an effective external audit and fiscal transparency and accountability. Based on this relationship, the study aims to analyze the factors affecting external audit and the effect of external audit on fiscal transparency. In line with this purpose, the factors affecting external audits were determined by the OLS estimation method and then the effect of the external audits on fiscal transparency was determined by the 2SLS estimation method. The Open Budget Survey published by the International Budget Partnership in 2017 was used to measure external audit and fiscal transparency.

In the study consisting of 115 countries, factors affecting external audit are grouped as institutional and political factors and socio-economic factors. It is determined that legislative oversight, which is one of the institutional and political factors, has a positive and significant effect on external audit. This finding is important for the quality of external audit. The legislative body and SAI work in coordination during the budget process. The audit reports of the SAI are discussed by the legislative body and decisions are given accordingly by the legislative body. Discussing the reports in the legislative body requires that the SAI work more carefully and meticulously with regard to the reports. It has been determined that the SAI's audit diversity has a positive and significant effect on external audit. This finding shows that the high number of inspection instruments available by an SAI increases the effectiveness of external auditing. In addition, having a judicial type SAI has been found to have a positive and significant effect on external audit. This determination is important in terms of revealing the relationship between the width and effectiveness of the SAI's field of activity.

It is determined that democracy, which is one of the socio-economic factors, has a positive and significant effect on external audit. Increasing the level of democratization is very important for the effectiveness of external audit.

The public's decision-making position facilitates and speeds up the functioning of the accountability mechanism. In addition to the democratization level, the level of economic development has been found to have a positive and significant effect on external audit. This finding shows that the level of democratic and economic development should be developed for effective external audit.

After determining the factors affecting the external audit, the effect of external audit on fiscal transparency was examined in the study. For this purpose, the 2SLS estimation method is used. It has been determined that external audit has a positive and significant effect on fiscal transparency. SAIs, along with fiscal transparency, are indispensable elements of the accountability mechanism in democratic parliamentary systems. The SAI conducts independent audits on the performance of the executive body. An effective external audit also positively affects fiscal transparency. In addition, apart from external auditing, government balance, freedom of the press and the presidential system have been found to have a positive and significant impact on fiscal transparency.

Since the survey data used are limited, the cross-section data set was used in this study. Since there will be a rich data set over time, examining the relationship between external audit and fiscal transparency using the panel data set will make important contributions to the literature in future studies. In addition, using survey data from other international organizations will provide an opportunity to address the issue from a broad and different perspective.

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APPENDIX 1

Correlation Relationship between Variables*

	external.audit	fiscal.transparency	anglo.saxon	legislative.oversight	political.competition	audit.diversity	judicial.model.SAI	gdppc	democracy	debt	government.balance	free.press	presidency
external.audit	1.0000												
fiscal.transparency	0.6296***	1.0000											
anglo.saxon	-0.0553	-0.0594	1.0000										
legislative.oversight	0.6169***	0.6548***	-0.1737*	1.0000									
political.competition	-0.3442***	-0.3999***	0.0052	-0.3824***	1.0000								
audit.diversity	0.5083***	0.6649***	0.0000	0.4699***	-0.2831***	1.0000							
judicial.model.SAI	0.2401***	0.2352**	-0.0755	0.1754*	0.0864	0.1520	1.0000						
gdppc	0.4040***	0.5046***	-0.1251	0.3675***	-0.0286	0.3388***	0.2006**	1.0000					
democracy	0.5195***	0.5182***	0.0813	0.4203***	-0.5659***	0.4302***	0.1127	0.2369**	1.0000				
debt	0.0366	0.1454	-0.0328	0.0470	-0.0016	0.1142	0.0452	0.2464***	0.1846*	1.0000			
government.balance	0.3014***	0.4862***	-0.1024	0.3366***	-0.2313*	0.4283***	0.0817	0.2121**	0.2250**	-0.0411	1.0000		
free.press	0.4459***	0.6006***	0.0943	0.4569***	-0.4130***	0.4136***	0.0776	0.4832***	0.7637***	0.2592***	0.2707***	1.0000	
presidency	-0.3085***	-0.2804***	-0.1614	-0.1298	0.0884	-0.2469***	-0.1904**	-0.4549***	-0.2713***	-0.2507***	-0.2917***	-0.3690***	1.0000

Significance levels: ***p = %1, **p = %5, *p = %10.

Notes: * It was created using the Stata 13 package program.

Sources: Compiled according to the calculations of the authors.

APPENDIX 2

Open Budget Survey Questions in the *external.audit* Variable

Open Budget Survey questions included in the <i>external.audit</i> variable	
1.	(Question 119) Was the process of appointing (or re-appointing) the current head of the SAI carried out in a way that ensures his or her independence?
2.	(Question 120) Must a branch of government other than the executive (such as the legislature or the judiciary) give final consent before the head of the Supreme Audit Institution (SAI) can be removed from office?
3.	(Question 121) Who determines the budget of the Supreme Audit Institution (SAI)?
4.	(Question 122) Does the Supreme Audit Institution (SAI) have the discretion in law to undertake those audits it may wish to?
5.	(Question 123) Are the audit processes of the Supreme Audit Institution (SAI) reviewed by an independent agency?
6.	(Question 124) In the past 12 months, how frequently did the head or a senior staff member of the Supreme Audit Institution (SAI) take part and testify in hearings of a committee of the legislature?

THE ROLE OF INVESTMENT PROMOTION POLICY IN ATTRACTING FOREIGN DIRECT INVESTMENT: THE CASE OF SLOVAKIA

Aneta Bobenič Hintošová

Dr., Ph.D., Associate Professor, Department of Management,
Faculty of Business Economics with seat in Košice,
University of Economics in Bratislava.
Address: 13 Tajovského, 041 30 Košice, Slovak Republic.
E-mail: aneta.bobenichintosova@euba.sk
(corresponding author)

Terézia Barlašová

Ph.D. Student, Department of Management,
Faculty of Business Economics with seat in Košice,
University of Economics in Bratislava.
Address: 13 Tajovského, 041 30 Košice, Slovak Republic.
E-mail: terezia.barlasova@euba.sk

Abstract

Foreign direct investment (FDI) is generally considered as an important driver of economic growth and employment opportunities. In particular, countries in transition are adopting their investment promotion policies to attract FDI and direct it to the required sectors and regions. Public financial support in the form of investment incentives is used as one of the direct tools of investment promotion policy. However, this financial support is only considered effective in attracting FDI if the country attains the minimum threshold of quality of the business environment. The aim of the present study is to evaluate development of investment promotion policy, especially the provision of financial and fiscal investment incentives, as well as the level of economic freedom with regard to attracting FDI in Slovakia. The findings indicate that the preference of particular forms of investment incentives by the Slovak government has changed over time. The results of the regression analysis further show that while financial incentives have a positive statistically significant effect on FDI inflows, in the case of fiscal stimuli this effect is surprisingly negative. Based on our results, the overall level of economic freedom seems to not have a statistically significant effect on attracting FDI in Slovakia. The study contributes to the literature by providing a rationale for investment promotion policy reform and by offering some implications for governments seeking to attract targeted FDI.

Keywords: investment promotion policy; investment incentives; financial aid; fiscal aid; economic freedom; foreign direct investment; Slovakia.

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Introduction

In an effort to attract a higher volume of foreign direct investment (FDI) and target it to particular sectors and regions, countries usually implement various investment promotion policies. According to Kartasheva (2012), the government's investment promotion policies consist of drafting rules for the selection of infrastructure projects, procurement procedures, support and legal regulations. Financial support in the form of public subsidies is one of the most used instruments of investment policy in terms of fostering capital openness (Pradhan et al., 2019), especially for transition countries, which have become attractive investment locations due to the changing direction of cross-border capital flows (Afanasiev & Shash, 2019). This support usually takes the form of investment incentives within which are typically distinguished (based on OECD, 2003):

1. *Regulatory incentives* that attract foreign investors through exemptions from national laws and rules, such as reduction of the social, environmental or labor related requirements imposed on investors;
2. *Fiscal incentives* that are typically granted in the form of reduced corporate income tax rates, tax holidays, tax reliefs on profits reinvested in the host country, reduction of tax costs for cross-border activities, reductions of value added tax, etc.; and
3. *Financial incentives* that besides infrastructure subsidies are available in the form of incentives connected with the labor force, such as subsidies for temporary wage coverage or job training subsidies. In the group of financial incentives, various grants in the form of cost participation (investment cost subsidy) can also be included.

The preference for a particular form of investment incentive depends on several factors including the disposition of a certain amount of public resources, goals of investment promotion policy, nature of potentially supported investments, etc. However, in the case of large investments, it is common practice to offer to an investor a comprehensive incentive package comprising, to a certain extent, more forms of incentives.

Since the attraction of particular foreign investment, especially a lucrative one, can be subject to the efforts of more countries, investment promotion tools, such as investment incentives, can play a critical role in this regard. Competition among Central European countries within the politics of investment attraction and promotion of particular investors has previously been highlighted,

e.g., by Drahokoupil (2008). Hence, the setting of investment promotion policy is an important FDI location determinant which is often unique and according to a review study by Jain et al. (2016) can also be considered to be country specific.

At the same time, each country should evaluate the effectiveness of the investment promotion policy with regard to achievement of its goals. The topic of effective allocation of public sources in the form of investment incentives is even more crucial in the current pandemic situation and beyond, since there is huge pressure on public budgets due to necessary social and economic measures. Hence, every public expenditure should be considered very carefully with respect to the accompanying future benefits.

This paper focuses on the analysis of the development of investment promotion policy and its current setting with regard to attracting FDI under the conditions of the Slovak Republic within the period 2002–2018. In the observed period, the country received a total FDI inflow of USD 42 billion in absolute terms, which is the lowest volume within the Central European countries, but in the relative terms (in relation to population) it is the second largest volume after the Czech Republic. Many significant foreign direct investment projects in this region were supported by a package of investment incentives. However, there is a lack of analytical studies that would evaluate the role that the investment incentives played in attracting foreign direct investment that the country received. Existing studies have a rather descriptive nature (e.g. Fabuš & Csabay, 2018), generally concluding that investment incentives are still an essential instrument for fostering foreign investing activities in Slovakia.

At the same time, according to several studies, it is important to distinguish forms of investment incentives or aid since the structure of aid matters (e.g. Selaya & Sunesen, 2012). Moreover, several authors (e.g. Ruane, 2008) argue that investment incentives should be supplemented by friendly overall policy settings and a business environment that reduces costs of doing business in the host country, as only in this case do investment incentives seem to bring about visible effects. Hence, the aim of this paper is to evaluate if the frequent changes in the Slovakian legislation regulating the provision of investment incentives and changes of preference of the particular forms of incentives have led to an increase in FDI inflows or if these flows can be rather attributed to the overall investment environment and freedom in this country. As a research methodology the analysis of legal documents and reports accompanied by quantitative analysis based on correlation and linear regression analysis is used.

The rest of the paper is organized as follows. The first section presents a literature review related to the relation between FDI and investment incentives as well as the business environment conducted especially under the conditions of transforming countries; the second section is an analysis of the development of the legal environment regulating provision of the investment incentives in Slovakia; the third section examines the impact of investment incentives and economic freedom on attracting FDI, within which the research methodology is explained, followed by a presentation of our own empirical findings together with their discussion; the fourth section presents the concluding notes.

Literature Review

The effectiveness of investment incentives is usually evaluated according to their ability to attract FDI, since there are further expectations of positive direct and spill-over effects associated with FDI inflows. According to Yanikkaya and Karaboga (2017) the context is logical: boosting the volume of investments is directly associated with the accumulation of capital that leads to productivity enhancements and the creation of new job opportunities resulting in economic growth and prosperity.

A number of studies have evaluated the effect of investment incentives on foreign direct investment flows in various countries, with rather ambiguous results. In the study by Šimelytė and Liučvaitienė (2012) it was pointed out that diverse policies pursued by the governments toward FDI remain a focal driver in attracting inward FDI to the country. However, the comparison of Visegrad and Baltic countries in this regard showed that the results in attracting FDI are superior for Visegrad countries, since they offer fiscal incentives together with financial incentives.

There have also been some single-country specific studies conducted, e.g., in conditions of the Czech Republic by Cedidlová (2013) who analyzed effectiveness of investment incentives from the government as their provider point of view. She generally concluded that the provision of investment incentives is effective in most cases. Another study conducted exclusively in the Czech environment by Hlaváček and Janáček (2019) showed that the policy of supporting inflows of foreign direct investment through investment incentives is positively associated with the development of the regions in the Czech Republic.

These positive findings can be explained by the common rationale for provision of investment incentives, namely the existence of a gap in performance between multinational and domestic firms when it is more effective to attract FDI through incentives than to support the development of local firms (Lundan, 2016). Moreover, investment incentives remain a popular policy instrument since there are many examples that they attracted a considerable amount of FDI inflows into particular countries.

On the other hand, Havránek and Iršová (2010) indicate that host countries' governments use investment incentives as a compensation tool addressed to foreign investors due to the existence of high employment costs burden and/or insufficient labor productivity in the host country. Thus, investment incentives per se do not appear to be effective in attracting FDI. In a similar sense, Ruane (2008) argues that investment incentives should be supplemented by friendly overall policy settings that create political and economic stability, provide human, physical and institutional infrastructure and reduce the cost of doing business in the targeted country; only in this case do investment incentives seem to have a visible effect.

When distinguishing particular forms of investment incentives, it is generally stated that developed and transition countries favor financial incentives, while developing countries, which cannot afford a direct outflow of sources from public budgets, rather apply less attractive fiscal measures (OECD, 2003), which, in addition, are linked to the fulfilment of specific performance requirements (De Schutter, 2013). However, this is also a relative assumption since Šimelytė and

Liučvaitienė (2012) pointed out that Visegrad and Baltic countries that are often considered as transition countries, focus mostly on fiscal incentives, such as taxes.

The preference of individual forms of investment incentives also appears to be different from the point of view of the government as their provider, as well as from the point of view of their recipient. In this regard, Burger et al. (2012) explain that host countries tend to favor fiscal incentives over financial ones because financial incentives generate direct expenditures from the public budgets, while fiscal incentives form only the abandonment of possible budgetary revenues. On the other hand, investors are expected to admire financial incentives, notably grants and subsidies, because these are usually granted during the investment process or at the beginning of business activities. However, the benefits associated with fiscal incentives can only be used by the investor if the investment to which they are tied is successful and generates profits. Rosenboim et al. (2008) also point out that the amount of the financial subsidy is indifferent of future situations, whereas the value of a fiscal incentives in the form of tax relief depends on future profits. These aspects are also important for managers' preferences regarding the types of incentives required.

The effectiveness of specific forms of investment incentives in attracting FDI has also been assessed empirically, but the results are far from conclusive. Fiscal incentives, especially taxes, receive much more attention in the available literature. In this regard, we can mention a study by Ślusarczyk (2018) who investigated tax incentives and stated that tax incentives granted by the Polish government form an essential factor influencing foreign investors' decision to allocate their investment in Poland. A review study by Munongo et al. (2017) on the other hand found that most of the empirical studies explored by them concluded that although tax incentives might be important in attracting FDI, they are more effective when combined with other non-tax factors. Macroeconomic conditions, transparent institutions and infrastructure were found to be important non-tax factors that improve the attractiveness of the host country toward inward FDI.

There are also studies (e.g. Sarkar, 2012; Di Corato, 2016) that simultaneously evaluate the effectiveness of financial and fiscal incentives. In this regard it is worth mentioning a recent work by Tian (2018) who examined the two policies for attracting FDI, namely the government's immediate and certain lump-sum cost of the subsidy against the future random flow of tax rate reduction. He concluded that the optimal policy depends on the growth rate, the volatility of the profit and the discount rate, but in the case of insufficient information of the local government regarding the investment, a combination of investment cost subsidy and tax rate reduction may be optimal.

Based on a meta-analytic review conducted by Bailey (2018), it can be concluded that "good government" attracts FDI. However, governments that successfully attract foreign direct investment provide, in addition to various forms of investment incentives, at least a stable political environment with reliable and predictable public institutions that allow foreign investors to enjoy country-specific benefits. Thus, investment incentives are important only in cases where the business environment of the host country is considered satisfactory. In this context, there are also works evaluating success in attracting FDI according to the quality of the

business environment measured by various indicators. High popularity possesses specific composite indicators, such as the *Ease of Doing Business Indicator* of the World Bank (used e.g. in: Corcoran & Gillanders, 2015; Jovanovic & Jovanovic, 2018) or the *Index of Economic Freedom* of the Heritage Foundation (used e.g. in: Sambharya & Rasheed, 2015). In both cases it was proved that the significance of the overall index in attracting FDI is mostly driven by only some of the dimensions.

Based on the literature review, we hypothesize that the investment promotion policy plays an important role in attracting FDI, however we assume that the magnitude and strength of relationship of particular forms of investment incentives to FDI inflows is different. At the same time, we hypothesize that there is a relationship between the quality of the overall economic environment and freedom in the country and the success in attracting FDI.

Research Methodology

In the first step of our research, our aim is to evaluate the development of key legislation regulating the provision of investment incentives under the conditions of Slovakia and to provide an overview of the granted investment incentives in the period 2002–2018. It is in our particular interest to compare the provision of different types of investment incentives. For this purpose, we use a database of entities to which investment incentives have been provided, published by the Ministry of Economy of the Slovak Republic.

In the second step of our research, our aim is to examine the impact of fiscal and financial investment incentives, as well as overall level of economic freedom in the country on the inward foreign direct investment in the Slovak republic in the period 2002–2018. It is in our interest to answer the research question, if and to what extent the particular forms of investment incentives and the level of economic freedom contribute to attracting foreign investors to Slovakia. As the dependent variable foreign direct investment inflow (*FDI*) expressed as a percentage of GDP is used, data on FDI inflow were taken from the World bank database.

As key independent variables, the total volume of fiscal investment incentives (*FisAID*) as well as financial investment incentives (*FinAID*) provided in individual years are used. Data on provided investment aid in the structure of fiscal and financial aid were calculated on the basis of data given in the above-mentioned list of entities to which investment aid have been granted. In addition, the quality of the overall economic environment in the country is measured through the Index of Economic Freedom (*IEF*). When using the index, higher values are associated with a higher level of economic freedom. Data on the Index of Economic Freedom were taken from the Heritage Foundation.

Before we introduce the regression model and analyze the empirical results of the model, we present the summary statistics of all the variables (Table 1). The average inflow of FDI in the observed period is 3.7% of GDP. Based on the value of skewness, the dependent variable is approximately symmetric and platykurtic. The volumes of forms of investment aid are expressed in absolute terms in thousands of euros. The average volume of fiscal investment aid is €55,286 thousand and the distribution of this independent variable is skewed to the right side and

leptokurtic. The average volume of financial investment aid is €61,532 thousand and its distribution is skewed to the right side and leptokurtic. The average value of the Index of Economic freedom is 66.9. It is skewed to the left side and leptokurtic.

Table 1

Summary statistics of the variables

Variable	Mean	Median	Min.	Max.	St. dev.	Skewness	Kurtosis
FDI	3.742	3.426	-0.359	8.063	2.446	0.146	-1.118
FisAID	55,286	33,067	0.000	206,95	5.340	1.515	2.015
FinAID	61,532	34,894	0.000	241,03	7.075	1.224	0.533
IEF	66.862	67.100	59.000	70.000	3.360	-1.290	0.754

Source: Own processing of the data.

The correlation matrix of all used variables is represented in Table 2. Based on correlation coefficients, there is a positive relation between financial investment aid and the inflow of FDI. On the other hand, fiscal investment aid as well as the Index of Economic Freedom seem to be only weakly and negatively associated with FDI inflows. However, the correlation coefficient is not statistically significant in both cases.

Table 2

Correlation matrix

	FDI	FisAID	FinAID	IEF
FDI	1	-0.110	0.547 **	-0.217
FisAID		1	0.307	0.271
FinAID			1	-0.096
IEF				1

Note: The asterisks denote the statistical significance of coefficients at a level of 10% (*), 5% (**), and 1% (***).

Source: Own processing of the data.

To study the effect of the individual forms of investment aid as well as level of the economic freedom on attracting FDI, the following regression model is proposed:

$$FDI_t = \beta_0 + \beta_1 \ln FisAID_{t-1} + \beta_2 \ln FinAID_{t-1} + \beta_3 IEF_{t-1} + \varepsilon_t \quad (1)$$

In the model, all the independent variables are used with a one-year lag (similarly as in the study e.g. by Bevan & Estrin (2004)), since we expect a delay in the effect of independent variables on attracting foreign investors. Since volumes

of investment aid are in absolute numbers and based on summary statistics are skewed to the right side, we follow the suggestion of Osborne (2002) and apply logarithmic transformation of these data. β_0 represents a constant, $\beta_1, \beta_2, \beta_3$ represent the coefficients to be estimated by regression analysis, ε represents the residuals of the model and t denotes time subscript.

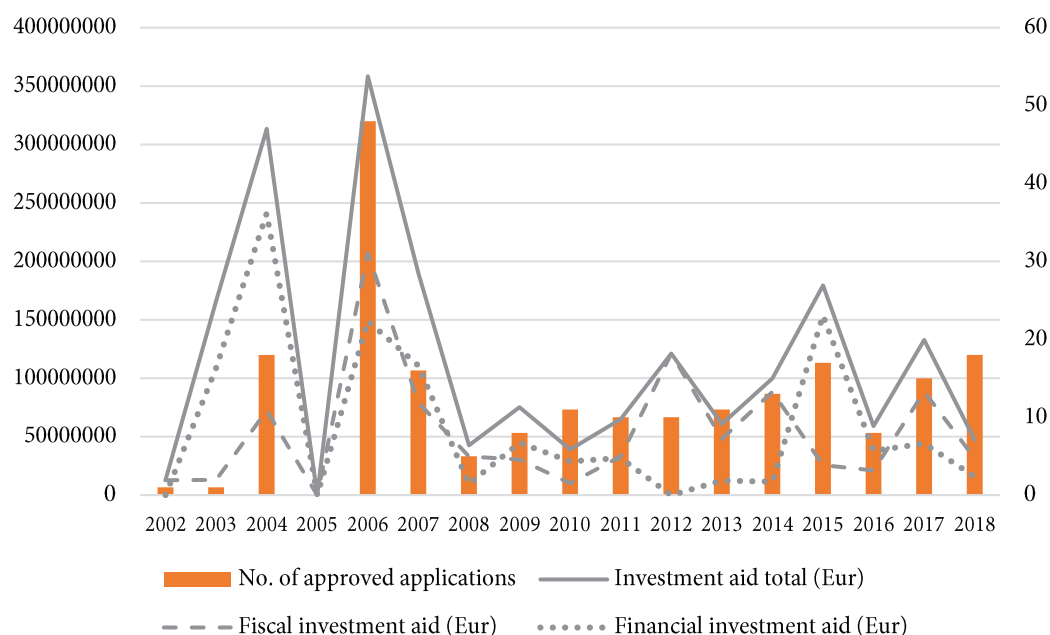
Legal Framework for Provision of Investment Incentives

The first law that regulated the provision of investment incentives under the conditions of Slovakia was Act No. 565/2001 Coll. on Investment Incentives and on Amendments to Certain Acts, effective from January 1, 2002 until December 31, 2007. This law allowed one to apply for only one form of fiscal incentive, namely corporate income tax relief, and initially two forms of financial incentives, namely contribution for newly-created jobs and an allowance for the retraining of staff recruited to the new jobs created. Later, subsidies for acquired long-term tangible assets and long-term intangible assets were introduced. This initial law regulated only the basic conditions for the provision of investment incentives without differentiating the sectors or regions to which the investment incentive was to be directed. In the first period (2002–2007), a total of 84 applications for investment incentives to the total amount of €1,040 million were approved. Almost 60% of this amount was provided in the form of financial incentives and the rest as corporate income tax relief.

When new European legislation was adopted, namely Commission Regulation (EC) No. 1628/2006 on the application of Articles 87 and 88 of the Treaty to national regional investment aid, it was necessary to adopt a comprehensive national state aid program in regions where state aid could be granted. These efforts were reflected in the adoption of the Act No. 561/2007 on Investment Aid and on Amendments to Certain Acts, which was also intended to make the process of providing investment incentives more efficient. At the same time, this law modified the terminology, namely introducing the concept of investment aid instead of the designation of investment incentive and adjusting in detail differentiated conditions for the provision of investment aid in individual areas / sectors and regions. This law was effective from January 1, 2008 to March 31, 2018. In this period, a total of 127 applications for investment aid to the total amount of almost €923 million were approved. Compared to the previous period, more projects were supported, but the total amount of investment aid provided was lower, which means that smaller investment projects were supported, especially in marginalized regions. In terms of the structure of investment aid provided, the ratio between financial and fiscal stimuli had changed significantly compared to the previous period. The government began to prefer fiscal incentives with less immediate impact on the state budget, which was reflected in the share of fiscal incentives in the total investment aid provided of almost 58%.

The development of provided investment aid in the whole monitored period from 2002 to 2018, including its structure as well as the number of approved applications is shown in Figure 1. The figure also reflects the changes in preference of the particular forms of investment aid.

Figure 1: Volume of investment aid and number of approved projects



Source: Own processing based on data from the Ministry of Economy of the Slovak Republic

The legal regulation has further been adapted to significant changes not only in the Slovak but also in the international environment and the key law no. 561/2007 was amended a total of 11 times during the ten years of its effectiveness. As a consequence of frequent changes, the new legislation, namely Act No. 57/2018 Coll. on Regional Investment Aid and on Amendments to Certain Acts was adopted. This reflects changes in the needs of the Slovak Republic in the field of investment support, changes in the strategic intentions and attitudes of investors as well as changes in European legislation that required direct application. The new act is thus in compliance with European legislation, namely Commission Regulation (EU) No. 651/2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, as amended. Detailed conditions for the provision of investment aid are regulated within other by-laws, such as guidelines, government regulation and decree of the Ministry of Economy. The potentially supported projects shall fall into one of the defined categories, namely an industrial production, a technology center, a combination of industrial production and a technology center, and a business services center. The investment aid can be provided in the following four forms:

1. a grant for tangible fixed assets and intangible fixed assets;
2. a contribution for new job creation;
3. corporate income tax relief; and
4. the transfer or rental of real estate for a value lower than a value of real estate or a rental value of real estate determined by an expert opinion.

The preference of the particular form of the investment aid is not clearly defined in the legislation. However, there are precise conditions that need to be fulfilled for the provision of the particular forms of incentives. In practice, the majority of investment projects (53%) received a package of investment incentives, consisting of at least two forms, combining fiscal and financial incentives.

Impact of Investment Incentives and Economic Freedom on Attracting FDI

Since there were changes in the preference of the particular forms of investment incentives provided to the investors in the observed period of 2002–2018, it is in our interest to investigate in more detail the impact of the particular forms of investment aid on attracting FDI. In addition, our analysis also takes into account changes in the country's level of economic freedom, which basically reflects the degree of freedom of movement of the labor force, capital and goods. At the same time, the economic freedom is expected to have broader strong effects not only on economic welfare and poverty reduction but also on the development of democracy and citizens, cleanliness of the environment and the health of society. Thus, level of economic freedom can generally be considered as a potentially significant determinant of FDI inflows.

The empirical results of the model (1) based on the ordinary least squares (OLS) estimation are shown in the Table 3. This model can explain 52% of the dependent variable variance based on R-squared. The White's test for heteroscedasticity does not show a heteroscedasticity problem, and residuals seem to be normally distributed. The independent variables show no indication of a collinearity problem.

Table 3

Empirical results of the model (1)

Variable	Coefficient	Std. Error	t-ratio	p-value	VIF
The constant	24.717**	10.240	2.414	0.033	–
lnFisAID	-0.435***	0.130	-3.370	0.006	1.406
lnFinAID	0.211**	0.084	2.511	0.027	1.541
IEF	-0.252	0.153	-1.648	0.125	1.114

Notes: the asterisks denote statistical significance – * on a level of 10%, ** on a level of 5%, and *** on a level of 1%. The VIF value above 10.00 may indicate a collinearity problem.

R-squared	0.525	Adjusted R-squared	0.406
F-statistic (3, 12)	4.421	With p-value	0.026
White's test for heteroskedasticity	7.010	With p-value	0.636
LM test for autocorrelation	0.426	With p-value	0.859
Chi-squared	0.409	With p-value	0.815

Source: Own processing of the data.

Except for the constant, the statistically significant positive effect on the dependent variable was found only in the case of the variable financial investment aid. Fiscal investment aid seems to be surprisingly negative and level of economic freedom has no statistically significant impact on FDI inflows. Thus, while financial investment aid granted in one year seems to have a small positive effect on inflows of FDI in the next year, in the case of the fiscal investment aid the effect is rather opposite.

Our results are to some extent similar to those detected by Šimelytė and Liučvaitienė (2012), since we have also not found fiscal incentives to play a significant role in attracting FDI. Rather the opposite seems to be true in the conditions of Slovakia. Moreover, there are plenty of risks associated with fiscal incentives such as possible tax evasion (Androniceanu, 2019), since companies may in some instances move income from taxable activities to those subject to tax incentives, thus avoiding tax liability. Moreover, Munongo et al. (2017) highlight other problems associated with tax incentives, such as misallocation of resources, difficulties associated with administration of tax incentives and potential corruption. On the other hand, our results show that FDI inflow is positively and significantly associated with financial incentives granted in the previous year. Thus, we can agree with Burger et al. (2012) that investors prefer financial incentives, especially in the form of grants and subsidies. Moreover, as stated by Šestáková (2008), one of their advantages compared to the fiscal ones is the possibility of greater influence on the aid recipient and the related monitoring of the specific strategic goals of the incentive provider. They also make it possible to compensate investors differently in the case of structural disadvantages and risks.

With regard to the nation's overall environment evaluated by the Index of Economic Freedom, we did not find significant evidence of its impact on FDI inflows. However, we used the values of the overall composite index without distinguishing particular dimensions. Based on previous studies (such as Sambharya & Rasheed, 2015), it is reasonable to assume that some of the dimensions are significant determinants of FDI inflows, which should be investigated in more detail within our future research.

Our results at the same time indicate and to some extent confirm the findings of Szent-Iványi (2017) that investment promotion policy in Visegrad countries including Slovakia is lagging behind and a number of essential changes are needed in this regard. In particular, in addition to attracting further more targeted foreign investments, active post-stimulus cooperation with investors already active in the country accompanied by provision of various aftercare services to encourage reinvestment and productivity spill-overs, would be appropriate.

Conclusion

Descriptive analysis of provided investment aid in Slovakia showed that the preference for particular forms of investment aid has changed over time. While until 2007 more financial incentives were provided, attracting mainly large foreign investments, after a significant modification of the legislation, this trend has changed. More targeted conditions for the provision of investment aid have also made it possible for smaller entities to apply for it. With the growing num-

ber of business entities to which investment aid was provided, the ratio between financial and fiscal incentives has been changed too. The Slovak government has begun to prefer fiscal incentives in the form of corporate income tax relief with an indirect impact on the public budget. However, in the majority of cases, the investors were granted a whole package of incentives consisting to some extent of financial as well as fiscal incentives.

Our subsequent analysis was therefore focused on evaluating the effects of these individual forms of investment incentives on the inflow of foreign direct investment to Slovakia in order to examine the role of the investment promotion policy in attracting FDI. The results of regression analysis proved positive statistically significant impact on inward FDI only in the case of financial investment aid. Thus, direct financial subsidies, in the form of grants for tangible fixed assets and intangible fixed assets and/or contribution for newly-created jobs, are attracting foreign investors to allocate their investment in Slovakia. Surprisingly, fiscal incentives are not a motivating factor for inward foreign direct investment, probably due to foreign investors' possibilities of other means of optimization of the tax base at the international level. Although these results are limited to the conditions of Slovakia, the study provides an important contribution to the literature regarding the effect of individual forms of investment incentives in attracting FDI.

In addition, we also tested the effect of the overall economic freedom in the country on the FDI inflows; however, no statistically significant results were detected, possibly due to the fact that values of overall index were taken into account. It is reasonable to believe that foreign investors rather evaluate individual partial aspects of economic freedom when placing an investment in a certain country, which we consider is something important to examine in future research.

Based on our results, it is recommended for the investment promotion policy setting to change the priority tool of this policy in favor of financial incentives. A good example of this change can be the experience of countries that, based on an evaluation of the effectiveness of tax incentives, have decided to abolish them. Financial incentives, if linked to the fulfilment of specific strategic goals in the longer term and combined with other post-incentive benefits that would bind the investor intensively to the given host country, could have a more significant impact on attracting FDI. At the same time, we consider it important to create and implement a scheme for evaluating the effectiveness of investment incentives provided, since this scheme is still missing under the conditions of Slovakia.

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FINANCIAL AUTONOMY AND RURAL DEVELOPMENT IN OGUN STATE, NIGERIA: A STAKEHOLDER'S PERSPECTIVE

Ben-Caleb, Egbide

Ph.D., Lecturer, Department of Accounting and Finance,
College of Business and Social Sciences, Landmark University.
Address: P.M.B 1001, Omu-Aran, Kwara State, Nigeria.
E-mail: ben-caleb.egbide@lmu.edu.ng

Madugba, Joseph Ugochukwu

Ph.D., Lecturer, Department of Accounting and Finance,
College of Business and Social Sciences, Landmark University.
Address: P.M.B.1001, Omu-Aran, Kwara State, Nigeria.
E-mail: madugba.joseph@lmu.edu.ng

Ajibode, Olabode Olusegun

M.Sc., Federal Polytechnic.
Address: P.M.B, 1011, Ilaro, Ogun State, Nigeria.
E-mail: ajibode@gmail.com

Ben-Caleb, Jane Ogochukwu

M.Sc., Student Industrial Work Experience Scheme Unit, Landmark University.
Address: P.M.B 1001, Omu-Aran, Kwara State, Nigeria.
E-mail: ben-caleb.jane@lmu.edu.ng

Abstract

The issue of financial autonomy has always generated a lot of interest amongst stakeholders and it continues to do so. However, opinions on the association between financial autonomy and rural development are diverse. Hence, this study is fixated on investigating the perspectives of stakeholders regarding the nexus between Financial Autonomy and Rural Development in selected local governments in Ogun State. The study adopted a cross-sectional survey research design method. Data were obtained through the administration of 400 copies of a 5-point Likert scale questionnaire in three-selected local councils in Ogun State, Nigeria. Descriptive statistics as well as the Kruskal-Wallis H test were the analytical techniques adopted. The study reveals a consensus in the different occupation/workgroups, i.e. that financial autonomy accelerates rural development in Ogun State Local Governments. The result suggests that local councils will be better positioned to contribute to the national economy if their resources are managed with little or no interference from the state government. The paper recommends the enactment of legislation that will give autonomy to local governments to generate and manage their financial resources without undue meddling by other tiers of government, and hence, engender better service delivery and rural development.

Keywords: Financial Autonomy; Budget Discipline; Rural Development; Local Government Areas; Nigeria.

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Introduction

Development is a necessary aspect of every society and hence is the desire of every nation, state and community of people, whether living in urban or rural areas. Rural development can be viewed as the increase in social amenities and economic activities of rural areas, leading to a reduction in poverty, increased employment, low inequality, increase in health standards, low infant mortality rates and the overall upgrading in the eminence of life of rural inhabitants (Kamar, Lawal, Babangida & Jahun 2014). In Nigeria, rural development constitutes a fundamental problem (Eteng, 2005). It has been observed that the emphasis and priority given to rural development by successive governments since independence in 1960 have been mostly rhetoric and lip service, hence it has not yielded the desired dividends, thus creating a dangerous gap between urban development and rural development in almost all development indices – economic, political, social and infrastructural (Ibenegbu, 2018).

Among the factors identified as contributory to the rustic progress misery in Nigeria is the lack or absence of financial/fiscal self-government of local government areas. A symbol of which is the third-tier system, and the level of governments that is closest to the over 70 percent of the country's inhabitants that live in the rustic areas. They are thus, in a better position than any other governments to appreciate the real problems of the people and serve as the most effective agents for mobilizing the people for the positive socio-economic and political development of the country (Adeyemo, 2005; Ezeani, 2006; Egbe, 2014).

The very essence of the third tier was to facilitate fitting performance receptive to local requirements by assigning them to local representative bodies (Ibietan, 2010). Constitutionally, local governments have the central function of bringing about meaningful development in rural areas (Federal Republic of Nigeria, 1999).

Unfortunately, lack of financial autonomy at the local government level has strangled these objectives and has made the third tier a ceremonial government in Nigeria, leaving rural development at the clemency of the federal and state government. Financial autonomy permits the third tier to spawn revenue within its ambits, determine the use of its funds and approve its budgets without undue influence from any other tier (Okafor, 2010). It aims essentially at shielding the local government from superfluous intrusion from any other tier of control, thereby allowing it to contribute effectively to the national development process. The place of financial autonomy was recognized in the local government reforms of 1976, which granted autonomy to local government as the third-tier of Nigerian federalism (Obikeze & Nwade, 2010, Imhanlahimi, 2011).

However, despite all the local government reforms in 1976, 1979, 1989 and 1999, and their attempts to achieve the robust local government of rural development and the injection of huge resources into the Local Government administration over the years, the infrastructural development on the ground appeared unfulfilled, from the north to the south (Emeh, Eluwa & Ukah, 2012). There is a disconnection between resources and efficient rural development. A closer look at the operations of Nigerian Local Government administration reveals deep-rooted constraints arising from, amongst other factors, the inability of the Local Government functionaries to implement the internal financial control mechanisms, and the overbearing interference and financial influence by other tiers. The state administration has hijacked local government allocation and this has resulted in a lack of practical advancement in all 774 LGAs in Nigeria. Currently, there is no proof of the third tier in Nigeria.

Suffice to say that the joint account system empowered the governors to influence local government funds and through this means strangled local government development agendas. Yet, only scant studies had explored the functional relationship between financial autonomy and rural development in Nigeria. This study is conceptualised in order to fill this lacuna in regards to selected LGAs in Ogun State. The proposition of this paper, therefore, is to investigate whether there is a significant difference in the perception of stakeholders regarding the central query of this study, which is that “financial autonomy does not accelerate rural development.”

The paper is organized into five sections namely: introduction, review of extant literature, methodology, data analysis/discussion, and conclusion.

Literature Review

Roles and Functions of Local Government in Rural Development

Local government councils have been recognised as the third tier of governmental organization in Nigeria since 1976. Consequently, their functions and roles in economic management are well defined and stated in the 1999 constitution of the Federal Republic of Nigeria. These roles and functions include the construction and maintenance of roads, streets, etc., as may be prescribed from time to time by the house of assembly of the state (Constitution of the Federal Republic of Nigeria, 1999). Besides this, it is the role of LGAs to establish slaughterhouses, slaughter slabs, market, motor parks and public convenience.

Given the above responsibilities and functions, it is only natural to be given commensurate authority and enhanced financial capacity to operate, and it is common knowledge in the corporate world that ‘authority should be commensurate with the responsibility’. Before delving into the contextual and theoretical nexus of financial autonomy and rural development, it is worth discussing briefly the sources of revenue for the local government.

Sources of Local Government Finance in Nigeria

The major sources of revenue available to local governments in Nigeria are internal and external revenues (Alo, 2012 (cited in Agba), Stephen & Nnamani, 2014).

Internally generated revenue is revenue that the local government accrues from within its environs, such as community and poll taxes or tenement rates. They also build stores and shopping malls, renting LG properties such as reception halls, chairs, canopies, tables etc. Ajayi (2000). Suffice to say that this type of revenue is the major avenue for financing local government projects, though the quantity of it is a function of revenue will and size of the LGA and of course the nature of operations in such LGA (Agba et. al, 2014; Atakpa, Ocheni & Nwankwo, 2012; Olaoye, 2008).

External sources of revenue for LGAs include funds obtained not within the LGAs. To be precise, Section 7 (6a-b) of the 1999 Constitution of the Federal Government of Nigeria permits allocation to the LGAs and currently this serves as a major avenue to LGAs in Nigeria. Based on the 1979 allocation, the formula specifically stated 10%, whereas 1991 was 15%, 1992 was 20%, and since 2004 it has been 20.6% (Onuigbo & Eme, 2015).

Although it has been argued that the revenue allocations to LGAs in Nigeria are grossly inadequate, even the meagre amounts are in most cases hijacked by the states, thus crippling the development endeavours of the local councils.

The Concept of Local Financial Autonomy

Local government, by the principles of its creation, is expected to exercise both political and financial autonomy. Local Government financial autonomy implies financial freedom, void of the slightest interference from any other tier of government in the management of the affairs of the local council (Osakwe, 1999; Agunyai, Ebiri & Odeyemi, 2013; Davey, 1991; Tukur, 2007; Ogunna, 1996 as cited in Ebiziem et al., 2015).

Why local Government Financial Autonomy is a necessity in Nigeria

As identified in the previous sections, financial autonomy includes the power to generate financial resources, manage them, and allocate them to the major needs of the local council.

- Avoidance of unelected leaders: If a local council is granted financial autonomy, the use of caretaker committee members who are more or less ceremonial leaders will be eliminated and this will promote accountability (Agunyai, Ebirim & Odeyemi, 2013).
- Rural transformation: Suffice to say that local council is a grass-roots government and if its allocation from the federal government is released without the interference of the state, it will lead to the rapid transformation of the rural community since they are closest to rural dwellers (Oates, 1999). Another major reason for overwhelming support for local autonomy was put forward by the classical theory of fiscal federalism under the label “advantages of local autonomy” (Oates, 1999; King, 1984 & Broadway, 2001; Agnieszka, 2017). They maintained that local autonomy should be adopted on the following basis:
 - 1) Local autonomy caters to varying needs and preferences: In the real sense of it, local governments are closer to the citizens and this closeness allows them to identify their needs. However, if they are permitted to act autonomously, they are likely to provide goods and services whose qual-

ity and quantity vary across the local government areas following the varying needs of the citizens.

- 2) Local autonomy brings responsibility and cost-efficiency: This implies that careful consideration of the costs and benefits of local programmes are inevitable whenever local expenditure programmes are financed from own-source revenue. The local politicians have a self-evident interest in managing the funds properly. Thus, goods and services whose production costs are borne by the local constituency are more likely to be provided cost-efficiently.
- 3) Local autonomy improves citizens' participation and democratic control: Local government is a means through which citizens can influence and control the decisions that affect them collectively. However, effective citizen participation and democratic control are conditional upon the genuine interest of citizens in local affairs. This encourages the expression of individual preferences in critical issues such as local tax and budgeting.
- 4) Local autonomy promotes experimentation and innovation: Experimentation and innovation on a small scale allow policymakers to try out new policy strategies and instruments without imposing undue risk on society. Consequently, the federal government will not have to bear the cost of the failure of a local government.

Reviewing the four benefits of local autonomy discussed above, local autonomy appears to lead to enhancing allocation, productivity and efficiency. Since decision-makers are closer to the electorate, they are better informed about their needs and preferences, thus they are likely to offer exactly those public services that citizens need, at the lowest possible cost.

Theoretical Framework

The Development school

The development school is the underpinning theory of this study. The development school argues that Local Government in developing nations can and should have the function of helping to reduce the congestion at the centre. This can be achieved by being involved in implementing socio-economic programmes that attempt to reconstruct the infrastructure necessary for an improved way of life such as achieving a reasonable level of economic development and political integration in culturally plural societies; in many cases, cultural diffusion is one of the major interests of developing nations.

Specifically, the development functions of the local government include nation-building plus social, economic and manpower resource development. For one thing, the local government transforms centrally generated revenue allocated to them into infrastructural development. Such infrastructures will, in turn, assist in the mobilization of the local people to do more themselves and for their communities. Thus, local governments serve as veritable partners with the states and national government in national development issues as units of development by which national development efforts, resources and benefits percolate to the grassroots (Olowu et al., 1991 as cited in Chukwuemeka, ugwuanyi, Ndubuisi-okolo and Onuoha, 2014).

Empirical Review on Local Government Autonomy and Rural Development

Osakede, Ijimakinwa and Adesanya (2016) found that the lack of an efficient and effective service delivery to rural dwellers is a manifestation of the influence of the state government at local councils which has also introduced corruption among the officials of the local governments. Hence, it is agitated that full autonomy should be granted to the local councils for effective governance.

Ishola, et.al. (2014) found that inefficiencies and under-development experiences in the local government are primarily a function of godfatherism necessitated by the excess influence of the state government.

Awofeso (2004) quoting Nwabueze asserts that each government enjoys a separate existence and independence from the control of other governments. It is autonomy which requires not just the legal and physical existence of an apparatus of government like a legislative assembly, governor, courts, etc., but that each government must exist, not as an appendage of another government, but an autonomous entity in the sense of being able to exercise its own will in the conduct of its affairs, free from direction of another government (Osakeke, Ijimakinwa & Adesanya, 2016; Olowu, 1988; Adeyeye, 2005, Fatile & Adejuwon, 2014; Adeyeye, 2005).

Asani (2011) discovered that improved service delivery can be attained only through local government autonomy; the paper also presents problems of sustaining local government autonomy in Nigeria and concluded that the development of Nigeria as a country depends on the effective and functional local government system.

Imhanlahimi (2001) found that inadequate handling of autonomy issues limited the developmental efforts of LGAs. The paper suggested that full autonomy should be given to LGAs as it will encourage hard work amongst them and bring about even development.

In sampling 645 newspapers, Imahanlahimi and Ikeanyibe (2009) found that local governments have been criticized for unacceptable development efforts in their areas/localities due to domineering relationships between the local governments and the higher level of government, financial and personnel interest, godfatherism etc., which has brought about dimmed autonomy and unconstitutional abrogation of local government from time to time.

Materials and Method

Data for this study were garnered from a structured five-point Likert scale questionnaire, administered to a cross-section of 400 respondents in three selected Local Government councils in Ogun State. Based on the projected population estimate in 2016, the three selected local government areas have a population of 1,358,100 distributed as thus: Abeokuta North 276,500; Abeokuta South 348,200; and Ado-Odo/Ota 733,400 (City Population, 2017). With the total population of the whole state estimated at 5,217,700 the three LGAs constitute around 26% of the state population. Consequently, a sample of 400 respondents was drawn from the population of the three LGAs applying the Slovin's sampling estimation formula given as $n = N / (1 + N e^2)$ with an error-tolerant of 5% (Deviant, 2018).

The data collected were analysed using a combination of descriptive statistics and inferential statistics. We first describe the attributes of the data by determin-

ing their Minimum, Maximum, Mean, and Standard Deviation. We tested the data for reliability, normality, and outliers as precursors for conducting inferential statistics. The Kolmogorov-Smirnov Test and the histogram were utilised in testing the normality while the box-plot was adopted for testing for outliers.

The questionnaires used contained 14 questions divided into two sections. Section A consisted of 4 questions relating to the bio-data of the respondents. Section B contained 10 questions relating to the attributes of the two constructs under consideration – Financial Autonomy and Rural Development – which were transformed into one variable to address the question of whether or not *financial autonomy accelerates rural development*. Before the transformation, the test of reliability was conducted to ensure that the questions “hung together” and were all measuring the construct intended. The Cronbach Alpha Coefficient was utilised in gauging the internal consistency of the questions since it is the most commonly used indicator of consistency (Pollant, 2011). Table 1 shows the Cronbach Alpha Coefficient of 0.695 which is approximately 0.7, indicating that our scale meets the reliability benchmark.

Table 1

Reliability Statistics

Cronbach's Alpha	N of Items
.695	10

Source: Authors’ computation from SPSS result, 2020 (- hereafter, unless otherwise stated).

The Kruskal Wallis H Test was the inferential statistic used to determine the difference in the opinions/perceptions of stakeholders. Stakeholders in this paper were proxied by the occupational affiliation of the respondents, divided into Civil/public servants, Farmers, Students, Self Employed and Others. The Kruskal Wallis test was preferred since the data collection method was through a survey, hence, may not pass the stringent test for parametric analysis. The Kruskal Wallis test compares the mean rank of three or more groups (Factor variable) on one continuous variable.

Data Presentation and Analysis

Descriptive Statistics for Bio-data of the Respondents

Table 2 shows the descriptive Statistics for the bio-data of the respondents. As contained in the table, 96 of the total respondents are male and this represents about 52.5% of the total responses received, while 87 of the respondents representing 47.5% are females. A total number of 64 of the respondents are civil/public servants. This represents about 35% of the entire respondents. Farmers numbered 29, representing 15.8% of the responses received. The total number of Students was 32 and this represents 17.5%, Self-employed numbered 41 representing 22.4%, and Others numbered 17 representing about 9.3% of the responses received. Based on the educational qualification of the respondents, OND holders numbered 21 which represents about 11.5%, BSC/HND numbered 87 representing 47.5%, MSC/MBA numbe-

red 30 representing 16.4%, PhD numbered 19 and this represents 10.4%, while Others numbered 26 which represents about 14.2% of the responses received. Abeokuta North is shown to have 51 respondents which represents 27.9% of the responses, Ado-odo/Ota local Government is shown to have 59 representing 32.2%, while Abeokuta South has 73 accounting for 39.9% of the total responses in the study.

Table 2

Descriptive statistics Bio-data of respondents

Bio Data		Frequency	Percentage
Number (N)		183	100
Gender	Male	96	52.5
	Female	87	47.5
Occupation	Civil/Public servants	64	35
	Farmers	29	15.8
	Students	32	17.5
	Self-employed	41	22.4
	Others	17	9.3
Educational qualification	OND	21	11.5
	BSC/HND	87	47.5
	MSC/MBA	30	16.4
	PHD	19	10.4
	OTHERS	26	14.2
LOCAL GOVT.	Abeokuta North Local Govt.	51	27.9
	Ado-odo/Ota local Govt.	59	32.2
	Abeokuta South Local Govt.	73	39.9

Descriptive Statistics for Responses

Evidence from Table 3 shows a minimum and maximum value of 1 and 5 respectively for all the questionnaires distributed. This is based on the five-point Likert scale used with a minimum value of 1 and maximum value of 5. The State-Local Government joint account impeding rural development indicated a mean value of 3.44 indicating that the majority of the respondents agree that a joint account impedes rural development in Nigeria. The standard deviation of 1.361 was also shown.

Again, a mean value of 3.39 implies that a greater number of the total respondents agreed that the state government is taking over the work of the local government as enshrined in the 1999 constitution of Nigeria. The standard deviation value of 1.059 was also recorded for the same questionnaire.

The mean value of 3.39 implies that a greater number of the total respondents agreed that financial autonomy will make local governments have direct access to their fiancés, and a standard deviation of 1.346 was also recorded.

As per Table 3, a mean of 3.33 was indicated implying that the preponderance number of the total respondents agreed that Federal and State Government allocation should be directly disbursed to the Local Governments and the standard deviation value is 1.434.

Table 3 showed a mean value of 3.60. This means that the best number of respondents agreed that there is a relationship between fiscal autonomy and rural development. This is with a standard deviation of 1.162.

Evidence from Table 2 indicated a mean value of 3.63, meaning that the best number of total respondents also agreed that provision of the road will lead to the provision of agricultural produce. The standard deviation of 1.163 was also indicated for this.

As contained in Table 3, the mean value of 3.64 was indicated, meaning that the mainstream number of total respondents also agreed that financial autonomy will bring about electrification in the local government with a standard deviation of 1.254.

A mean of 3.60 validated that a good number of the total respondents in our study agreed that the provision of portable water can be made possible through financial autonomy and this was also with a standard deviation of 1.196.

Table 3 also indicated a mean value of 3.79, implying that the majority of our respondents in this study agreed that electricity will lead to rural development in Ogun state. The standard deviation of 1.0096 and 1.126 was recorded for questionnaire Numbers 8 and 9.

Table 2 also indicated a mean value of 3.71, meaning that the majority of the total respondents agreed that financial autonomy will lead to the provision of adequate health facilities and this was with a standard deviation of 1.176.

All the attributes have been transformed into one composite variable (FAARURDEV) which showed a mean value of 3.5647. This means that the majority of respondents agreed that financial autonomy will accelerate rural development. This is with a standard deviation of 0.70455.

Table 3

Descriptive statistics for attributes of financial autonomy

Variable		Minimum	Maximum	Mean	Standard deviation
JARD		1	5	3.44	1.361
FINADAT		1	5	3.39	1.346
DIRALSD		1	5	3.33	1.434
REFARD		1	5	3.60	1.162
ACTAUT		1	5	3.67	1.192
FARD		1	5	3.63	1.163
FAREL		1	5	3.64	1.254
FAWAT		1	5	3.60	1.196
FAGINFR		1	5	3.79	1.182
FAHEALT		1	5	3.71	1.176
FAARURDEV				3.5647	0.70455

Test of Normality

A normality test was conducted using the Kolmogorov-Smirnov test and histogram. As shown in Table 4, the test statistic showed a p-value of 0.200, which is higher than the 0.05 indicating that the data is normally distributed. This is corroborated by the histogram which is relatively belled shaped indicating that the data is relatively normally distributed (see Fig. 1)

Table 4

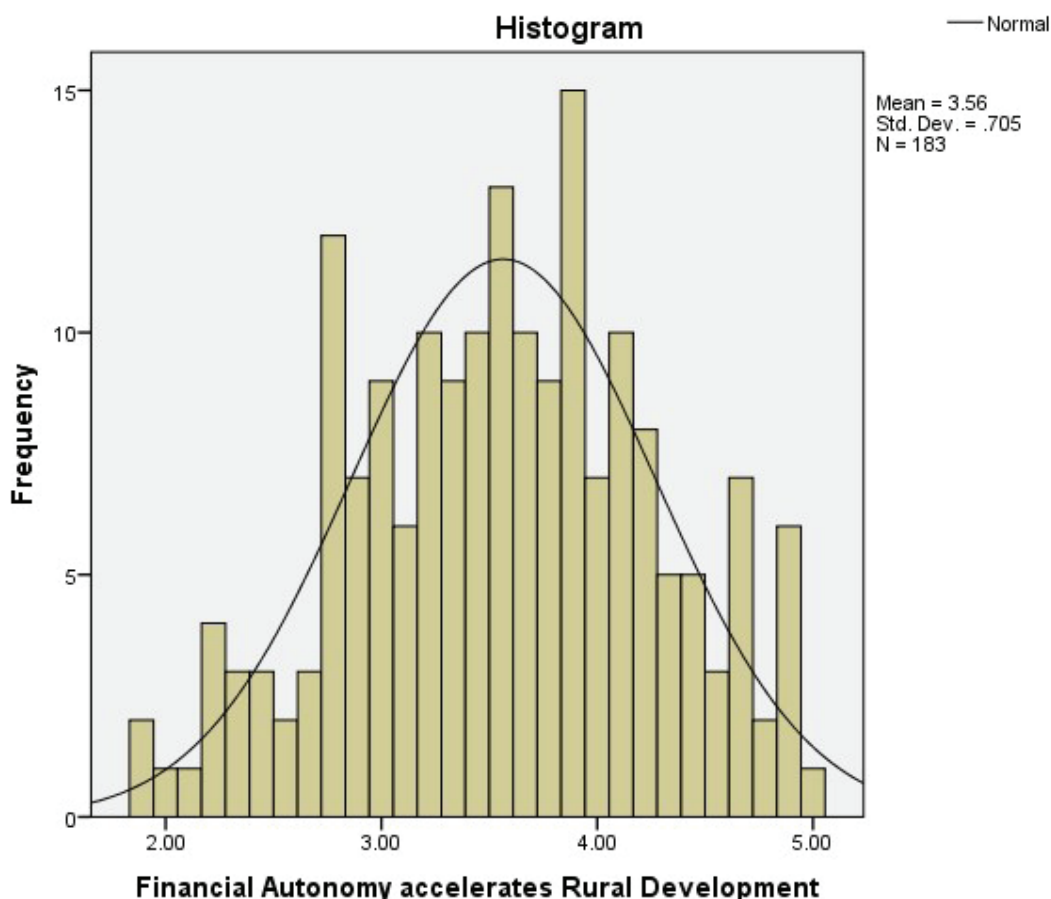
Kolmogorov-Smirnov Test

	Kolmogorov-Smirnov ^a		
	Statistic	df	Sig.
Financial Autonomy accelerates Rural Development	.054	183	.200*

Notes: ^a Lilliefors Significance Correction.

* This is a lower bound of the true significance.

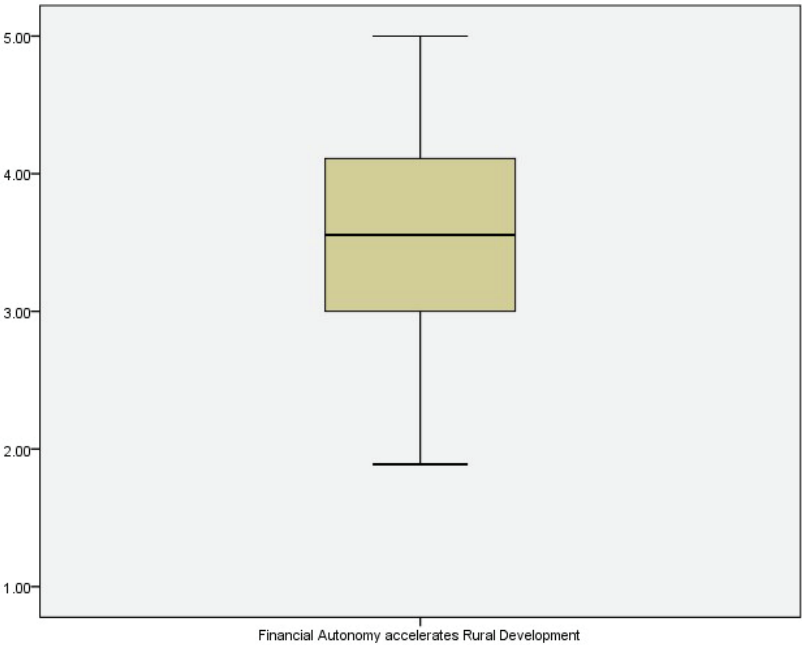
Figure 1: Normality test for financial autonomy accelerates rural development



Test for Outliers

The test for outliers was also conducted by using a box-plot and Figure 2 showed that the box-plot has no data outside the box indicating an absence of outliers in the data.

Figure 2: Box-plot for outliers test



Kruskal-Wallis Test

This study employed the Kruskal-Wallis Test, since it allows us to compare the mean rank between the perceptions of more than two groups. In this study, the perceptions of different occupations of the respondents were gauged.

Table 5

Kruskal-Wallis Test

Rank					
Financial autonomy accelerates rural development	Occupation of respondents	N	Mean Rank	Test Statistics	
	Civil/Public servants	64	92.38	Chi-square	8.271
	Farmers	29	89.29		
	Students	32	80.36	df	4
	Self-employed	41	88.85		
	Others	17	124.71	Asymp.sig	0.082
	Total	183			

Discussion of Result

The Kruskal-Wallis test showed a chi-square of 8.271 with a degree of freedom (df) of 4 and an asymptotic significance of 0.082. This implies that there is a consensus agreement of the stakeholders (civil/public servants, farmer, students, self-employed and others) for the relationship between financial autonomy and rural development.

In other words, the stakeholders' responses are in the affirmative on the issue that financial autonomy engenders rural development in Nigeria. The mean score of 3.5647 from Table 2 supports this position. From the mean rank, respondents under the Others occupation category reported the highest mean rank of 124.71. However, their number may have influenced the mean rank of Others since they have the least number of 17.

From the above result, it was not safe to retain the null hypothesis; it was therefore rejected in favour of the alternative. We, therefore, conclude that it is a dominant opinion of stakeholders that granting financial *autonomy will engender rural development in Nigeria*. Our finding is in tandem with prior studies including the study of Ibietan (2010).

Conclusion

This paper set out to investigate financial autonomy as an accelerator of rural development in selected Local Government councils in Ogun State, Nigeria. We used the stakeholders' approach in carrying out this study. We adopted the survey method to elicit the perspective of the different occupational groups as a factor variable.

Based on the findings of this study, it is a dominant opinion of stakeholders that granting financial autonomy to local government areas will engender rural development. Hence, the study recommends that:

- a. Governments should, as a matter of urgency, grant financial autonomy to local Government as this will encourage rural development in Nigeria since they are closest to the people and understand their needs better than the central and state governments and can easily modify these needs.
- b. That joint account should be discouraged and the Local Government should have autonomy for their financial operations and full responsibility to initiate and execute programmes and projects that satisfy the yearnings of the people at the grassroots level. However, a control mechanism should be put in place to ensure budget discipline and avoid financial wrongdoing. Future research may expand the scope and methodology of the study.
- c. Political parties could also enshrine the agenda of financial autonomy in their party manifestos when seeking election.

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ETHICAL RISKS IN PUBLIC-PRIVATE PARTNERSHIPS: THE CASE OF LAHORE WASTE MANAGEMENT COMPANY

Syed Sohaib Zubair

Assistant Professor of Department of Administrative Sciences, University of the Punjab,
Address: Grand Trunk Road, Jhelum,
Punjab, Pakistan
Email: sohaib.iqtm@pu.edu.pk

Mukaram Ali Khan

PhD Scholar at the Institute of Administrative Sciences (IAS), University of the Punjab
Address: Canal Rd, Quaid-i-Azam Campus,
Lahore, Punjab, Pakistan
Email: mukaramali@ias.edu.pk
** Corresponding Author*

Aamir Saeed

Assistant Professor at the Institute of Administrative Sciences (IAS), University of the Punjab,
Address: Canal Rd, Quaid-i-Azam Campus,
Lahore, Punjab, Pakistan
Email: aamir.ias@pu.edu.pk

Abstract

The world is coming up with new solutions to old problems in order to improve efficiency and effectiveness in public service delivery. Public-Private Partnership (PPP) is a relatively new form of participatory governance. This approach is linked with New Public Management (NPM) and, since its inception, the private sector has taken over the entire world despite incongruence and incompatibility in indigenous values and cultures. PPP is also claimed to be the best solution in terms of service delivery; however, its effectiveness is yet to be achieved. The purpose of this study is to find the effectiveness of the PPP mode of governance. This study is qualitative in nature and has taken one entity based on PPP as a case, i.e. Lahore Waste Management Company (LWMC), in order to study the impact of this solution to all, the ills of public service delivery. Fourteen officials were interviewed in this study of LWMC (a quasi-governmental institution) and its private partners. Findings suggest that this PPP mode has major ethical risks in the form of lack of transparency in awarding contracts, equity-efficiency trade-off, overall conflict of philosophy of public and private sector, low professionalism, value for money (compromise on cost and quality), and weak accountability mechanisms.

Keywords: Public-Private Partnership; New Public Management; Participatory Governance; Ethical dilemmas; Quasi-Governmental Institution.

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Introduction

Various strategies have been used for service delivery, ranging from the public sector to private sector, including the current trend of intermingling both sectors in the form of Public-Private Partnerships (PPPs). To begin with, traditional public administration is mostly associated with Woodrow Wilson's article "The study of Administration" published in 1887. Public Administration has deep roots in the United States (Adams, 1992). Adams discussed public administration in the context of 'Modernity'. He further examined the need for 'technical rationality' along with 'professionalism' under 'Modernity'. It is further stated that the conviction arrangement of 'technical rationality' represents the steady 'atemporality' of sociology generally and public administration specifically.

Over the years, traditional public administration has evolved into market based principles termed as New Public Management (NPM). NPM claimed to achieve the transformation of traditional governance structures into results-oriented governance structures that aimed to ensure efficiency and effectiveness through deregulation and privatization. It also focuses on "results, not process", "steering, not rowing", and "collaboration, not conflict". Moreover, features like professionalism, managerialism and instrumental rationality are the core of NPM (Noordhoek & Saner, 2005). Its proponents project it as a one-size-fits-all recipe to deal with the problems of contemporary society. Most countries in the world are under the influence of NPM and Pakistan is no exception in the name of international modern practices. The NPM reforms in Pakistan started in the early 90s with privatization in different sectors.

However, several researchers have challenged the effectiveness of NPM claims and termed them as misleading as results in the form of efficiency and effectiveness have not been achieved (Haque, 1999). As both traditional administration and NPM have failed to answer the issues of the public at large, a third form of governance has evolved, i.e. New Public Governance (NPG), which believes more in partnerships and public values management (O'Flynn, 2007).

In this context, PPPs have been promoted by the United Nations (UN) due to the claimed output in the form of high efficiency and effectiveness. This idea of bringing the public and private sector together has its roots in the "United Nations Conference on Environment and Development (UNCED)" in 1992. The underlying assumption behind PPPs is that in the era of wicked contemporary challenges, it is not possible for the public sector to come up with basic capacities and skills to provide all public services, therefore, it is mandatory to approach the private sector in order to develop better managerial skills and expertise to cope

with the public sector service delivery challenges. However, the question remains whether this solution is really compatible with the problems of developing countries, as the NPM idea has Western origins and has been employed in other regions regardless of the difference in values and virtues (Maesschalck, 2004). This has resulted in different ethical dilemmas due to its unintended consequences.

Several countries stand on the principles of cultural ideals i.e. instrumentalism and political liberalism, as is the case of NPM. A study conducted in Netherland concluded that NPM reforms had been seriously questioned by different stakeholders as they could not achieve desired objectives (Noordhoek & Saner, 2005). Various African countries have also either tried to copy the democratic values of others or have been part of enforced global changes and, meanwhile, have compromised on traditional values which has resulted in poverty, hunger, lack of education and political instability (Sindane, 2011). According to Haque (1996), ethical issues have more serious consequences in developing countries due to the imposition of administrative values from Western society to the local context. On the contrary, the public administrators and policymakers who are suggesting ethical frameworks as the universal solution are following “Eurocentric” ethical assumptions by undermining indigenous ethical values. It is further argued that this lack of indigenous focus has given birth to the ethical dilemmas in most of the Asian, African, and Latin American countries. Even OECD members and non-member states have suffered in terms of inequality, hunger and poverty (Lynch & Lynch, 2011). Referring to Eurodad (2018), the audit report published by European Union (EU) on PPPs in several EU countries, Xavier Sol, Counter Balance’s director stated;

“This critical report comes as a reality check: a more cautious approach towards PPPs is needed as they are not a silver bullet. It raises doubts about the blind focus on PPPs promoted by the European Commission and its financial arm the European Investment Bank”.

Hence, the purpose of this study is to deduce the ethical risks and challenges related to the transition of governance paradigms towards a participatory governance model and to explore whether transition towards NPM and NPG in the context of PPPs has delivered anything in developing countries, specifically Pakistan. In light of the above discussion, the following objectives have been developed by the researcher.

The objectives of the study include exploring the objectives for implementing PPPs. Moreover, it also intends to find out whether PPPs have achieved claimed output in the form of efficiency. Lastly, ethical risks associated with PPPs in developing countries have also been identified.

Background of the study

PPPs have been promoted as a solution to financial pitfalls in order to achieve Sustainable Development Goals (SDGs) by improving economic conditions through investments in infrastructure such as airports, roads, ports and railways and services including clean water, waste management, electricity, education and health. This has been done through the World Bank and “Multilateral Development Banks” (MDBs). However, PPPs in developing countries are not new as one can trace their roots to the early 1990s. Prior to this was the NPM era which was started in the late 70s. Adminis-

trative reforms in the shape of PPPs have their roots in Western nations which developing countries have used as a cookie-cutter approach in the post-colonial era, such as British colonial policies in Pakistan, India and Bangladesh, the American pattern in the Philippines and Dutch reflection in Indonesia. These countries also adopted PPPs in the late 20th century and the results of these partnerships have been under a question mark ever since (World Bank, 1997).

According to Haque (2004), recent global trends have placed a normative shift in developing countries from the neutrality principles. As this region along with the West has never been neutral in public administration due to considerable political influence, over the past few years this neutrality norm has been under serious pressure after the merger of the private sector with the public sector in the name of PPPs, which has been strongly advocated in developing countries, and this has resulted in downsizing, job insecurity, and contract-based appointments instead of permanent positions along with transparency and accountability issues. PPPs have not been the answer to the problems as it fails to address the contextual issues associated with it.

According to the report published by Eurodad (2018) on PPPs in most of the developing countries, it was concluded that all ten PPPs projects ended up in high costs for all of the governments with least efficiency and effectiveness along with high level of risks involved, 50% of the PPPs significantly negatively affected the poor by further increasing the divide between poor and rich. 30% of the PPPs negatively affected social and environmental conditions, 90% of the projects had transparency and accountability issues resulting in poor performance for the betterment of citizens, and three projects contacts were called off in the latter stages.

In this context, Pakistan is no exception and has invested a lot in PPPs. According to the PPP Knowledge Lab (2019), Pakistan has invested \$23,866 million in a total of 85 projects since 1990 and the results of these partnerships have been under question. One such example is the power generation sector, which produced adequate amounts of electricity but at such a high cost that it became unaffordable for many people in the country. Similar is the case with clean water projects, where fixed costs were increasing rapidly but the availability of clean drinking water was still a dream. The case of the 56 companies (PPPs) involved is a hot debate in Pakistan. According to Qadir (2019), the corruption in these 56 companies amounted to upwards of 80 billion rupees (PKR). Moreover, it has been observed that there had been a serious lapse in meritocracy while hiring the individuals on a political basis and placing them on high salaries slabs. According to the Auditor General of Pakistan (AGP) report, it was stated that the newspaper advertisement for the position of Chief Commercial Officer in Lahore Knowledge Park Company required an MBA (Marketing) with ten years of related experience, but the person who was politically-hired was a BA holder with a PKR 900,000 monthly salary along with other attractive perks. This shows that there are a high number of ethical risks involved in PPPs in Pakistan. In light of the background and objectives, the following research questions were developed; 1) What are the objectives of implementing PPP? 2) What are the ethical risks associated with it? 3) How effective have PPPs been in terms of service delivery?

The significance of this study can be gauged as advocates of PPPs believe in the introduction of diverse solutions to the issue associated with service delivery and argue that PPPs can play a vital role in the better performance of the economy. However, this is not true in the case of developing countries as developing countries performance is still under question even after the implementation of this so-called participative governance model (Haque, 2001). This study helps to explore whether a one-size-fits-all approach might be applicable in developing countries, particularly in Pakistan. Therefore, this research has immense importance in discovering the indigenous challenges pertaining to ethical dilemmas in the context of developing countries, specifically Pakistan. Owing to the expansion of PPPs, it is pertinent to study its likely consequences. Furthermore, this study has focused on the New Public Management (NPM), New Public Governance (NPG) and cultural ideals in the local set-ups and attempted to find out whether these recipes can really provide the solution as propagated by the developed world.

Literature Review

Before going into the detailed discussion of governance models, one needs to look into the ways in which society has shaped itself. The pillars of society are based on established cultural ideals. Bishop (2007) has discussed cultural ideals under the umbrella of instrumental perspective. The author is of the view that most of the happenings around us are basically due to the principle of a means-ends approach which is termed as *instrumental*. This approach has been explained with the help of utilitarian ethics and cost benefit analysis. However, there can be more personal intentions which can turn instrumentalism from more of an agent manipulation into the system of cause-effect events as displayed in an 'instrumental picture of action'. It is further suggested that instrumental actions are supposed to be in congruence with science but this might not be the case as far as social sciences are concerned.

Social sciences' fundamental principle is to produce instrumental knowledge which is supposed to be value neutral, but 'agents' cannot be detached from the object or social reality and can develop some personal interests that introduce subjectivity. In this context, agents also gain autonomy over the period of time and focus more on personal gains. Autonomy has deep roots in the Enlightenment era when, in the dark ages, there were strong issues with liberalization concepts. This shows the agent's power to exercise authority of self-control and self-government (Jun & Sherwood, 2006). Similarly, with reference to NPM, Tholen (2011) has labeled managerialism pursued individuals as "homo economicus" which means that humans act as agents who are full of self-interests and focus on a means-ends approach by compromising ethical values. As far as PPPs are concerned, they often get challenged due to high centralized power to the state as public officials may affect the whole operation through self-interest mechanisms (Zamir & Sulitzeanu-Kenan, 2018).

Bishop (2007) discussed political liberalism as a further extension of the context of cultural ideals and linked this liberalism concept with Western culture. Bishop is of the view that individualism has its strong connotations with the West as lib-

eralism has its main roots in the United States. According to political liberalism, the state should not tilt to any specific view. However, this may be true at face value, but it is not possible for social sciences to be neutral all the time, as is evident in the case of NPM, which has been followed by several nations (Haque, 1999).

Based on these cultural ideals, the governance models have seen tremendous transition from one paradigm to another over the years. Garofalo (2011) is of the view that a one-size-fits-all approach to governance has raised many cultural and capacity issues in different parts of the world. Moreover, traditional administration is based on Weberian bureaucracy whereas NPM is based on managerialism, efficiency and effectiveness principles. Many issues such as differences in means-ends, self-interests, sovereignty, contracts deficiencies and private-oriented benefits have been raised in the transition. PPPs have also been challenged due to high centralized power exercised through self-interests (Zamir & Sulitzeanu-Kenan, 2018).

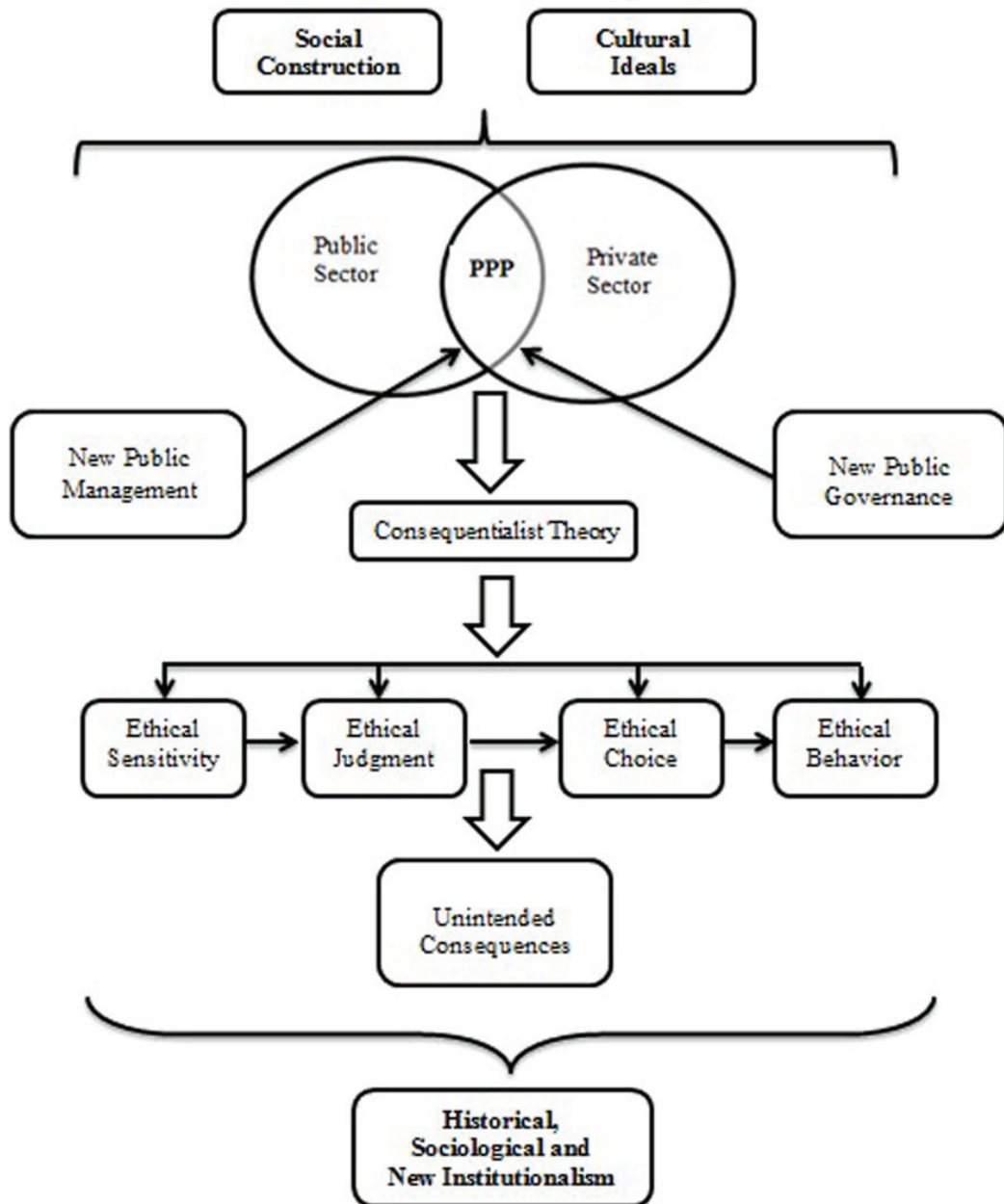
However, this transition has raised serious questions on the values of this shift as the nature of the subject and governance model has been compromised by transferring the rights from state to private ownership (Rybnicek et al., 2020) where the principles of transparency, efficiency and accountability have not been achieved. Moreover, there is a serious need to focus and transform public service ethics as such initiatives have been taken all over the world. However, this transition process may not be a smooth ride as governance principles and values have posed serious threats due to the conflict of interests of both the public sector and the private sector in terms of profit maximization and better service delivery (Bovaird, 2004).

Moreover, managerialism principles are the basis of NPM which compromise the “public-ness” element of public administration as the focus has remained more on administration instead of public. Also, it inculcates business-like practices and instrumentalism in the field of administration (Bozeman, 2007). In addition, values and virtues have been created and restored through market and neo-institutional based principles including competition, value for money and reducing information asymmetry through performance measurements, evaluation and benchmarking (Sobis & Vries, 2011). Furthermore, instrumental reasoning, as a cultural ideal, has not delivered its promises due to too much focus on narrow principles of rationality, and contemporary forms of PA have neglected the humane element (Jun, 2006).

These features of modernity do not only affect civil society; they also take into account the public administration and civil service in different manifestations at local and global levels. Administrative systems in western societies and developing countries often expose different values and ethical dilemmas regarding the orientation and conduct of public administrators. Moreover, it is in light of a legitimate concern for the entire society how services for natives are provided and made accessible in terms of economic as well as ethical means, as they eventually affect the public. It is argued that these ethical dilemmas in the field of public administration are observed commonly after the inclusion of New Public Management practices (NPM) (Ondrová, 2017). As the study focuses on PPPs, the debate has also emerged in the NPG paradigm. NPG aims to focus on collaborative efforts through networking or participation of market forces, citizens, or even communities, resulting in an increased impact globally (Ferlie *et al.*, 2011).

Theoretical Framework

Figure 1: Theoretical Framework



The concepts of cultural ideals, NPM and NPG have already been discussed in the literature section in the light of PPPs with the transition from state-led policies to market-driven approach and participatory governance. However, on top of this, it is crucial to illustrate the root of organizational theories in the light of philosophical foundations as there are many limitations of the function-

alist perspective in the field of public administration and the solution is presented with the help of social construction theory which basically guides the transition in governance models (Jun & Sherwood, 2006). The idea behind the discussion of this theory is in order to understand that organizational theories are socially constructed ideas which can have “validity issues” while introducing or imposing them into other contexts. The objective of this theory is that reality is subjective and has been constructed by a specific segment of society, however, this subjective reality has been imposed on other segments of society. On the contrary, reality is closer to creation than construction; where there is no self-interest involved. In a nutshell, it can be concluded from the following discussion that ideas coming from one side cannot be universally true in all situations (Andrew, 2012).

Thoeing (2012) illustrates three perspectives of institutionalism. First, historical institutionalism deals with the fact that public policy outcomes do not just reflect the interests of powerful social groups, rather such policies are also influenced by past frameworks as they reflect the present policies, rules, and regulations. Second, sociological institutionalism, instead of focusing on formal rules and regulations, focuses more on ethical and cognitive models. Institutions assist individuals or public administrators to pursue their interests while strongly inhibiting the cognitive beliefs. Third, new institutionalism deals with the question of “to what degree some public order is achievable in pluralistic societies”. This premise further states that organizational actions are based on instrumentalism and public administrators make decisions on the basis of bounded rationality. As far as PPPs are concerned, there is the ethical debate as highlighted in sociological institutionalism and new institutionalism that a universal remedy exists for all public service delivery matters, as several policymakers posit.

Moreover, the consequentialist theory deals with the ethical framework for decision makers and argues that ethical actions are based on end results. According to this theory, more focus is given towards pragmatic ends by following the potential actions. The downside of this theory is that ethics get compromised while focusing more on ends instead of means (Kalajtzis, 2013). According to Wittmer (2016), ethical decisions are based on following processes that start with the ethical awareness and sensitivity of decision makers towards a certain phenomenon. This sensitivity based on cognitive processes leads to an ethical judgment by the decision maker, which in turn provides ethical choices to opt for. This entire process results in the shaping of the ethical behavior as output. This procedure is influenced by environmental factors i.e. in the case of PPPs, NPM and NPG are the external interventions that guide the ethical decision-making processes of public administrators.

Methodology

As the purpose of the study is to gain an in-depth understanding of PPPs in current trends of public management, this study is therefore qualitative in nature. The type of study is exploratory as the researcher wants to explore the PPP

phenomenon (Bryman, 2016). This study falls under the interpretivist paradigm due to a qualitative set of inquiry. A case study is used as a research design as the researcher has focused on one organization i.e. Lahore Waste Management Company (LWMC) as part of PPP.

Primary data was collected through unstructured interviews from the key stakeholders of the company whereas the researcher has used secondary data to triangulate the findings. The sample size of the study is dependent upon the maturity of the data set and it has been argued that even a relatively small sample with few cases can yield big insights if the sample has been selected on a theoretical basis and cases have been selected purposively, therefore, the researchers have used the stakeholder sampling technique for the selection of the units for the sample. Ten top-level and middle-level officials were interviewed from LWMC whereas four officials were interviewed from the private partner. Table one briefly highlights this distribution:

Table 1

Interviewed Respondents Profile

Sr No.	Designation	Company
1	Deputy Chief Executive Officer	LWMC
2	General Manager Operations	LWMC
3	Senior Manager Planning	LWMC
4	Senior Manager Monitoring	LWMC
5	Senior Manager Finance	LWMC
6	Assistant Manager Audit	LWMC
7	Manager Contracts	LWMC
8	Deputy Manager Procurement	LWMC
9	Deputy Manager Admin	LWMC
10	Deputy Manager Accounts	LWMC
11	Manager Operations	Albayrak
12	Assistant Manager Finance	Albayrak
13	Manager Operations	Ozpak
14	Assistant Manager Accounts & Finance	Ozpak

Source: Compiled by the authors.

However, for analyzing primary and secondary data, thematic analysis was conducted according to grounded theory methods to understand the views of the respondents. Lastly, based on the discussion in the literature review and framework, the following hypothesis is proposed:

Hypothesis: *Ethical risks exist as a result of LWMC's mode of PPP in the form of lack of transparency, equity-efficiency trade-off, conflict of public-private philosophy, low professionalism, value for money, and weak accountability mechanisms.*

Data Analysis

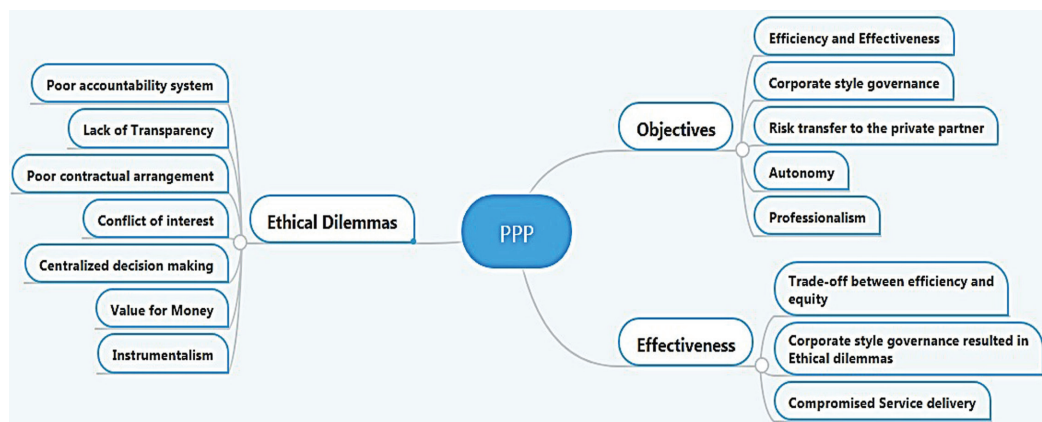
LWMC Profile

Solid Waste Management (SWM) is a highly ignored area on the part of the government, which is why the City District Government Lahore (CDGL) took a step by launching Lahore Waste Management Company (LWMC) in 2010 under "Section 42 of Companies Ordinance 1984" by giving contracts to Turkish companies including Albayrak and Ozpak. Section 42 deals with the nature of the organization, i.e. it shall not focus on profit-making but rather on the quality of service delivery. Furthermore, LWMC can be called a quasi-governmental institution whose members are appointed by the government. Moreover, LWMC is headed by the chairman and is governed by the Board of Directors (BODs). The main functions of LWMC include "collecting, transportation and transfer of waste, and additionally road clearing" (LWMC, 2019).

The goal was to design, execute and manage the numerous PPP projects for the sustainable and enhanced City Solid Waste Management System. Under this agreement, City District Government Lahore (CDGL) transferred the ownership, control, use, implementation and maintenance of machinery, equipment, tools and plants, machinery, property, houses, facilities and all other portable and immovable properties owned, operated or managed by the CDGL for the management of solid waste. LWMC now bears the responsibility for managing the solid waste services of the city of Lahore. The PPP contract for Solid Waste Management Services was developed in the case study area.

The mind map below portrays the themes and ideas that emerge during the course of analysis.

Figure 2: Mind Map for Thematic Analysis



The next section talks about the findings in the light of research questions using thematic analysis.

Objectives for implementing PPPs

Under this theme, according to a senior official, public service delivery has overall been a serious issue and several experiments have been conducted in the past. Where one such experiment following international best practices was the idea of PPP, he elaborated *“many investments were done in the sector of waste management and the majority of them failed and this company mode PPP was initiated in Punjab”*. Majority of the respondents highlighted efficiency and international best practices as the main reasons or objectives for the establishment of PPP mode.

Upon asking the question on why under PPP arrangement, a Section 42 company was made reflecting the government stakeholder instead of the existing Municipal Corporation Lahore structure, one of the officials was of the view that *“in order to govern public service delivery and deal with the private sector, a corporate style entity was required”*; this would not have been possible under typical bureaucratic structure. Other performance related objectives highlighted by the respondents include risk transfer to the private partner, increasing efficiency and effectiveness through a corporate model, autonomy, and professionalism. One of the officials said that *“the best use of implementing PPP is to shift the risk factor from the sole public sector to other partners as well, so that when one entity comes under criticism, the risk may get transferred to others as well to reciprocate the effect”*.

Ethical dilemmas and Effectiveness

Transparency: As per this theme (based on data), it was found that allegedly a contract was not awarded on a merit basis, hence leading to lack of transparency in awarding contracts to the private partners. One senior official was of the view that the introduction of PPPs was a gamble. He explained *“Go and read one of the articles in newspaper, he mentioned that not even a single policy-making guideline was followed in the project development of orange train, same is the case with LWMC where no deliberations were done and just a simple over the night advertisement was published in newspaper and the contracts were awarded to Albayrak and Ozpak without any scrutiny”*.

Furthermore, most of the officials were of the view that there are proper audits done by third parties and the auditor general office, however, it was observed that though a transparency factor may be present out there on face level, a lot of funds have been passed on to private partners from the state entity which have not been properly regulated from the government stakeholders. According to the contractual agreement, there are several checks and balances and penalties on the private partner, however, when the LWMC officials were asked to give their opinion about fake waste weight reporting by the private partners in order to get extra money, all of them were skeptical about this scandal.

Accountability: When asked about the mechanism of accountability and control associated with this PPP arrangement in LWMC, the focus of respondents was more on the claim of performance rather than financial transparency and accountability. One of the officials was of the view that *“the focus lies more with the govern-*

ment and they should incentivize private partners more in order to make the deal more attractive instead of solely emphasizing on accountability and transparency”.

Conflict of Interest: Another aspect of the ethical dilemma in the context of PPP is the issue of conflict of interest. The private partner focuses more on net profits and financial returns, whereas the government’s mainstream job is to provide better service delivery. Upon inquiring about whether the PPP based organization is a profit or not-for-profit organization, the middle cadre seemed to be skeptical about this and did not clearly respond whereas top management declared PPP as a successful partnership working in a collegial environment, refuting the probability of having any relational dilemma.

Professionalism: It was also observed in the findings that decision making resides with the top management with a one- way approach typically backing the assumption of NPM that has become one of the ethical dilemmas in a PPP mode like LWMC which further calls for ‘*professionalism*’. Lastly, few of the officials agreed with the concept of a means-end approach and said that most of the public office holders follow self-interest mechanisms during their tenure.

Efficiency-Equity trade off: According to one of the senior officials, “*though there is an increase in the waste collection tonnage of 3% from last year, if we see the production of solid waste that is increasing from 7% to 8% on average on an annual basis, then the gap of 4% to 5% brings a lot of questions on efficiency*”. This shows a compromise on service delivery. Moreover, the second indicator of effectiveness is to look into environmental factors. According to one of the officials, dumping of waste is sometimes done by compromising on hygienic conditions and that eventually hurts the environmental conditions. This is the biggest challenge LWMC is currently facing.

Value for Money: According to the LWMC officials, the effectiveness of PPP or any service delivery is more about achieving the service objectives rather than ensuring complete transparency and value for money. One of the officials said “*PPPs should be more about economic gains rather than financial gains. For example, a clean and green city would attract more tourists as well as investors than a city which has a poor waste management system*”. Moreover, modern service delivery practices require contemporary techniques and solutions with higher operational and strategic discretion which are not available in the traditional mode of governance and modifying or revamping the traditional bureaucratic style government structure is a huge activity which no one has thought of redesigning yet.

With reference to the aforementioned discussion, the evidence gathered in this study supports the hypothesis that ethical risks exist in the form of lack of transparency, equity-efficiency trade-off, conflict of public-private philosophy, low professionalism, value for money, and weak accountability mechanisms under LWMC’s mode of PPP.

Discussion

The findings of the study suggest that there are multiple objectives for implementing PPPs in Pakistan which bring along various ethical issues as well. One of the prime objectives is to achieve the efficiency level which was missing

in the traditional waste management structure of the local government. The shift from the traditional mode of service delivery is associated with NPM philosophy which came with the claims of higher efficiency and performance but the output still remains a question (Geys & Sorensen, 2017). Moreover, it is also noted that there is a trade-off between efficiency and equity which means that equity gets compromised while emphasizing solely on efficiency and both cannot be achieved at the same time (Gutierrez & De Walle, 2019). Also, the objective of the public sector is to provide better service delivery to citizens whereas the private sector aims for profit maximization by treating citizens as customers (Bovaird, 2004). Findings from LWMC further suggest that the problems of transparency and accountability occur due to the mix setup of public and private partners. For instance, new management continues to blame the traditional bureaucratic structure as part of the company which often curtails the level of accountability. Moreover, no audited accounts of the company are available from 2015 onwards on the official website, which also raises questions towards transparency. This is also observed in developed countries where PPPs have not been able to tackle the issues of accountability and transparency in such arrangements (Bertelli, 2018).

Another objective for implementing PPP is risk transfer to other stakeholders on part of the government, as discussed in the findings. This is true in other parts of the world as well where PPPs are adapted for transferring the risk to other stakeholders in order to divide the responsibility and accountability (Burke & Demirag, 2017). The other aspect of introducing such arrangements is to make an institution more professional which is again the constituent of NPM where professionalism is given due weightage in implementing top-down policies where undue advantage is given to such professionals, which may affect the overall decision making output (Wise & Witesman, 2019).

The other ethical dilemma that arises due to such arrangements is related to value for money. Value for money basically comprises of cost as well as the quality of the service. However, the issue arises as less focus on cost eventually leads to a higher cost of service. Such a situation is quite dominant in these contractual arrangements and partnerships where private partners trying to compromise on the cost factor eventually leads to higher costs of the service (Elkomy *et al.*, 2019). Findings of the study suggest that a similar phenomenon exists in LWMC where its private partners have not been able to meet the set objectives or targets due to the compromise on cost factors.

Transparency is yet another major challenge in PPPs. In LWMC, all the rules were disregarded while giving contracts to two Turkish private contractors on the basis of nepotism. However, the constitution of this entity was objected to by the then Secretary for Finance and Law, but the former -CM Punjab signed the summaries for both contractors as mentioned in the findings section. Over an eight year period, the government of Punjab issued funds of PKR 70 billion whereby PKR 45 billion was a sheer loss through heavy paybacks to contractors. Furthermore, it must be noted that the cost of dumping waste was PKR 4 million in 2007 which accumulated to PKR 40 million in 2018 with no major improvement, showing the major lapse in contractual agreements made by the then CM Punjab (Shahid, 2018).

In a nutshell, one can argue that this one-size-fits-all approach has not provided anything effective to the developing world as NPM is mostly associated with an at-arm's-length idea and most of the countries following NPM have changed their direction to different approaches due to its shortcomings (De Jong, 2011). Also, none of the claimed objectives of NPM and NPG have been achieved so far. Moreover, as per Isset *et al.* (2016), experimental researches are generally not applicable in a social science context. This case is valid in a collaboration style of governance as well as the fact that it is difficult to consider one simple design for such a complex phenomenon (Silvia, 2018).

Conclusion and Recommendations

PPPs have been one of the key constituents of NPM and NPG in the form of participatory governance between private sector partners and the public sector in order to provide an effective and efficient service delivery, however, the efficiency of PPPs is challenged by various scholars on ethical grounds. It has been discussed that there are number of ethical dilemmas associated with PPPs in the form of equity-efficiency trade-off, an overall conflict of philosophy between public and private sectors, transparency in contractual arrangements and overall processes, risk transfer from public entity to private entity, value for money that compromises on cost and quality, weak accountability measures, and higher transparency issues as discussed in the case of LWMC.

Moreover, one needs to see that this cookie-cutter approach as mentioned in institutional theory needs to be revisited as the model of the developed world may not be applicable in other parts of the world because solutions coming from the developed world seem not to be responsive towards developing countries such as Pakistan. Lastly, the field of public administration, i.e. based on contemporary management theories, has been exposed as it could not address the current issues and challenges of societies. It is concluded that none of the objectives claimed by NPM and NPG have been achieved so far, rather they have developed serious ethical dilemmas.

As far as the association between findings and theoretical framework is concerned, the latter basically intends to summarize and connect the idea of development of the two governance models that have been socially constructed and thus have their own limitations in dealing with issues of service delivery. When the ideals of public and private sector are brought closer, the conflicting nature of their values furthers the complexity instead of overcoming one another's deficiencies. In a nutshell, as the concepts developed face the dilemma of cultural ideals and subjectivity, they result in unintended consequences in the form of various ethical concerns and challenges for service delivery governance as confirmed by the findings.

On the basis of the findings, the following recommendations have been provided;

- Local problems should have indigenous solutions instead of relying on foreign or Euro-centric intervention to ensure better service delivery
- While implementing any solution, ethical dilemmas associated with the solution should be considered in order to avoid any issues in future

- Citizens' interests should be given priority and they must not be treated as customers to bridge the difference between 'have' and 'have not'
- Transparency and accountability mechanisms should be strengthened in contractual arrangements and in the overall processes of service delivery
- Preventive measures should be taken instead of reactive measures in order to avoid any unintended consequences of NPM and NPG

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GOOD LOCAL GOVERNANCE IN VIETNAM – BASED ON THE VIETNAM PUBLIC ADMINISTRATION PERFORMANCE INDEX IN RECENT YEARS

Nguyen Trong Binh

Dr., Faculty of School Leadership and Public Policy,
Academy of Politics Region IV (belonging to Ho Chi Minh
National Political Academy), Can Tho City, Vietnam.
Address: 6 Nguyen Van Cu (extension), An Binh ward,
Ninh Kieu district, Can Tho city, Vietnam.
E-mail: trongbinh195@yahoo.com.

Abstract

Currently, public governance theory and “good governance” have a profound and positive influence on the government reform process in many countries around the world today. In essence, good governance is the set of principles and criteria on social management to maximize public interests as well as promote and ensure the harmonious and sustainable development of a country. It can be said that good governance is both the ideal state and the goal that government reform in countries is aiming for, and the guiding principles for the design and operation of the state apparatus, government or system. In recent years, reform of government as well as reform of local government, according to good governance theory in Vietnam, has achieved many outstanding results. This is evident in the improvement in the indicators of provincial governance and public administration (Provincial Governance and Public Administration Performance Index (hereinafter referred to as PAPI)) in Vietnam over the years. Based on the survey results of PAPI in recent years, the article analyzes the good governance level of the local government of Vietnam, offers comments and assessments and proposes solutions on how to increase and strengthen the reform of local government in Vietnam according to good governance theory.

Keywords: good governance; local government; Vietnam; PAPI.

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Introduction

Up to now, researchers and international organizations have, provided different conceptions of “good governance”. Some of the following points of view can be listed: (i) Good governance is the process of social management to maximize public benefits. Its basic feature is the collaborative management between the state and its citizens over public affairs, a new relationship between the state, the market and society (Sheng, 2007); (ii) Good governance refers to the political and institutional processes and outcomes needed to achieve development goals. It is a process by which public agencies deal with public affairs, manage public resources and ensure the realization of human rights in a way that is free from corruption, and abuse, and is in compliance with the rule of law... Depending on the context and intended use, the term “good governance” may be used to refer to such issues as: full respect of human rights; the rule of law; effective participation; multi-actor partnerships; transparent and accountable processes and institutions; efficient and effective public sector; legitimacy; access to knowledge, information and education; political empowerment of people; equity; sustainability; and attitudes and values that foster responsibility, solidarity and tolerance (OHCHR, 2018); (iii) “Good governance refers to competent, timely, comprehensive and transparent management systems...” (Clark, 2011); (iv) Good governance is a set of transparent, accountable, capable and skilled institutions, along with the determination to do good... All of which help a state provide effective public service to the people” (Wolfowitz, 2006); (v) Good governance is demonstrated through four basic factors: accountability, participation, predictability, transparency (ADB, 1995); (vi) Good governance is based on five principles: openness, participation, accountability, effectiveness and coherence (EC, 2001); (vii) Good governance is reflected in factors such as transparency in state operations, efficiency in managing public resources, and the stability and transparency of the legal and economic environment.... (Camdessus, 1997); (viii) According to the Organization for Economic Cooperation and Development, the key elements of good governance include: accountability, transparency, efficiency, effectiveness, responsiveness, forward vision and rule of law (OECD).

The aforementioned views on good governance also present a consensus on some key features of good governance. According to a United Nations document, good governance includes major characteristics, namely: participatory, consensusoriented, accountable, transparent, responsive, effective, efficient, equitable and inclusive, and follows the rule of law (United Nations ESCAP). Yu Ke-ping said that good governance has ten basic characteristics such as: (i) legitimacy; (ii) the rule of law; (iii) transparency; (iv) accountability; (v) responsiveness; (vi) efficiency; (vii) participation; (viii) stability; (ix) integrity; (x) social justice (Ping, 2000). There is also a view that good governance includes features, such as: participatory, the rule of laws, transparent, responsive, consensus, equitable and inclusive, effective, and accountable (Binh, Le Hai, 2020).

Since 2009, the Centre for Community Support and Development Studies (CECODES), the United Nations Development Program (UNDP) in Vietnam, the Center for Personnel Fostering and Scientific Research of Vietnam Fatherland

Front (VFF-CRT) and the Real-time Analysis Company (RTA) have coordinated to implement the Provincial Governance and Public Administration Performance Index (PAPI) program. PAPI is a governance quality assessment program of local government in Vietnam over the years. The purpose of PAPI is to improve the efficiency of service provided by the local government in order to better meet the increasing demands of the public by: (i) creating opportunities for citizens to participate in the assessment efficiency of the government's activities, and mobilizing the government to improve the ways it serves the public; (ii) promote self-assessment to innovate, create healthy competition practices and a culture of learning from local governments. The content of the program focuses on surveying, and collecting data and opinions on the following contents: (i) Participation at Local Levels; (ii) Transparency; (iii) Vertical Accountability; (iv) Control of Corruption; (v) Public Administrative Procedures; (vi) Public Service Delivery; (vii) Environmental Governance; (viii) E-Governance. Each of these has a rating scale from 1 to 10 points. To carry out this assessment program, PAPI conducted direct interviews with the public. By the end of 2019, PAPI had collected and reflected the experiences of 131,501 people. In 2019, PAPI directly interviewed 14,138 people in all 63 provinces and in cities nationwide (CECODES, VFF-CRT, RTA & UNDP, 2020). The aforementioned evaluation contents have not covered all the characteristics of good governance, but have included some very basic contents of good governance, such as participation, transparency, effectiveness and efficiency. Therefore, the PAPI results partly reflect the good governance of the local government in Vietnam. Based on PAPI's sources from 2011 to 2019, this study analyzes the good governance of local government in Vietnam, provides comments, and reviews, and suggests recommendations to promote reform of local government in Vietnam under good governance.

Good Governance of Local Government in Vietnam from 2011 to the present

Participation at Local Level

Citizen participation is a fundamental feature of democratic governance, and is also one of the key features of good governance. Therefore, the breadth and depth of people's participation are important criteria for assessing the level of democracy and democratic governance (Cohen, 1971). In order to assess people's participation in local governance, PAPI has surveyed and captured people's experiences in various aspects, such as: (i) Civic Knowledge (people's understanding of current books and leadership positions); (ii) Opportunities for Participation (level of participation in socio-political organizations, social organizations, people's clubs, and rate of participation in the last election); (iii) Quality of Elections (ensuring principles such as competition, autonomy, and transparency in the election); (iv) Contributions (the level of people's voluntary contributions to public work in a commune, residential area, etc).

Accordingly, in 2011, the average score of grassroots citizen participation nationwide was 5.23 points on a scale of 1 to 10. Of this 5.23 Civic Knowledge

is 1.11 points; Opportunities for Participation is 1.88 points; Quality of Elections is 1.45 points; and Contributions is 0.85 points (CECODES, VFF-CRT, RTA & UNDP, 2012). The average scores of Participation at Local Levels in 2012, 2013, 2014, 2015, 2016, 2017, 2018 are respectively: 5.16; 5.14; 4.91; 4.71; 5.15; 5.18, 5.19 on a scale of 1 to 10. In 2019, the overall average score of Participation at Local Levels was 4.84 points on a scale of 1 to 10. Of this, Civic Knowledge is 0.74 points; Opportunities for Participation is 1.46 points; Quality of Elections is 1.48 points; and Contributions is 1.16 points. The locality with the lowest score in this content is Phu Yen province with 4.11 points (scale of 1–10). The locality with the highest score in this content is Ha Tinh province with 5.81 points (CECODES, VFF-CRT, RTA & UNDP, 2020).

Transparency

Publicity and transparency of information in government activities is of great importance. This is the basis to ensure citizens' right to know. Implementation of information disclosure and transparency is also the basis to ensure the participation of the people and is an important way to sanction unconstitutional behavior of public power. Kenneth Culp Davis argues that: "Publicity is the natural enemy of autocratic tyranny, also a natural ally to combat injustice" (Kenneth Culp Davis, 1970); the secret itself, like evil, is an instrument of conspiracy, a cause of inequality; Publicity is the essence of democratic politics, the more material that is disclosed, the better the public good is (Norman Marsh, 1987). Therefore, information transparency is one of the key features of good governance.

Over the past years, PAPI has surveyed and assessed the level of information disclosure by local authorities in Vietnam through the following indicators: (i) access to information (channels of access to information of people and their effectiveness); (ii) Poverty Lists; (iii) communal Budget and Expenditure; (iv) Land-Use Plans/Price Frames. Accordingly, the national average score for transparency in 2011 was 5.47 points on a scale from 1 to 10. Of this, access to information is 2.15 points; poverty Lists is 1.76 points; and communal Budget and Expenditure is 1.56 points (CECODES, VFF-CRT, RTA & UNDP, 2012). From 2012 to 2018, the national average score for transparency was: 5.61; 5.80; 5.74; 5.29; 5.55; 5.68 and 5.19 on a scale of 1–10 points. By 2019, the overall national average score for publicity and transparency was 5.35 points. The locality with the lowest score is Phu Yen (4.11 points), the locality with the highest score is Hoa Binh (5.66 points) (CECODES, VFF-CRT, RTA& UNDP, 2020).

Vertical Accountability

Democratic politics as well as democratic governance and good governance especially emphasize the accountability of the government as well as the bureaucracy of public service. Usually, governments need to fulfill their political, legal, administrative and ethical responsibilities. In which case, responsiveness is a core requirement for a responsible government. Response means that the government fully and promptly grasps the legal and legitimate needs and aspirations of citizens as well as take timely and effective measures to meet legal needs. The assessment of the accountability of local government to the people partly reflects the

responsiveness and accountability of the government. In order to assess accountability to the people of local government, over the years, PAPI has conducted a survey of key aspects, such as: (i) Interactions With Local Authorities (assess ways for people to contact the authorities and their effectiveness); (ii) Local Government's Response to Citizens' Appeals (assessing the extent to which people send complaints and denunciations, reporting to the authorities and the government's response to complaints and denunciations; (iii) Access to Justice Services (surveying people's confidence in judicial agencies, especially local courts).

The PAPI survey results show that, in 2011, the national average score for accountability was 5.50 points on a scale of 1–10 (CECODES, VFF-CRT, RTA & UNDP, 2012). In the years from 2012 to 2018, the national average score for accountability was respectively: 5.58; 5.65; 5.73; 5.46; 4.85; 5.02; 4.89 on a scale of 1–10. In 2019, the score of accountability of localities across the country ranged from 4.30 points (Vinh Long province) to 5.59 points (Quang Binh province). The overall national average of accountability is 5.15 points on a scale of 1–10 (CECODES, VFF-CRT, RTA & UNDP, 2020).

Control of Corruption

Integrity is one of the key characteristics of good governance. It reflects the level of purity of government as well as public servants. One indicator for determining the level of integrity is the level of corruption in the public sector. Usually the higher the level of corruption, the lower the integrity level; on the contrary, the lower the level of corruption, the higher the degree of integrity. Therefore, it can be said that the assessment of corruption control in the public sector is also an assessment of the level of integrity of the public sector. Over the years, to assess corruption in the public sector (or measure the integrity of local governments and public service organizations), PAPI has captured people's opinions on: (i) Limits on Public Sector Corruption (surveying the extent to which people need to spend more money in the process of local government handling administrative procedures); (ii) Limits on Corruption in Service Delivery (surveying the extent to which people need to spend extra money in health care and education); (iii) Equity in Employment (surveying the extent to which people have to spend "hand-to-hand" money to get jobs in state agencies); (iv) Willingness to Fight Corruption (surveying people's perceptions of seriously handling corruption cases in the locality).

The survey results of PAPI showed that, in 2011, the average score of localities across the country achieved in this content was 5.76 points on a scale of 1–10. Of this, Limits on Public Sector Corruption is 1.40 points; Limits on Corruption in Service Delivery is 1.76 points; Equity in Employment is 0.94 points; and Willingness to Fight Corruption is 1.66 (CECODES, VFF-CRT, RTA & UNDP, 2012). From 2012 to 2018, the average scores of localities in this content were 5.90; 6.15; 6.11; 5.75; 5.69; 6.09 and 6.57 points respectively on a scale of 1–10. In 2019, the average score of localities across the country in this content ranged from 5.44 points (Hai Phong city) to 8.19 points (Ben Tre province). The national average score is 7.2 points on a scale of 1–10 points (CECODES, VFF-CRT, RTA & UNDP, 2020).

Public Administrative Procedures

A core feature of good governance is “citizen-centered government governance”. Citizen-centered government governance is manifested in many ways, one of which is that the government ensures sufficient quantity and quality of public service delivery to the population. Administrative procedure is considered a kind of public service. Therefore, the survey and evaluation of the settlement of administrative procedures by the local government not only show the results in administrative procedure reform, as well as the quality of activities of local governments, but also reflect the level of “citizen-centered” in the governance of local governments. Over the past years, PAPI has taken the assessment and survey of the provision of administrative procedures by the local government as one of the contents of the quality assessment and governance capacity. Public administrative procedures are quite wide in scope. PAPI only survey and evaluate the settlement of a number of administrative procedures directly related to many people, namely: (i) Certification Procedures (surveying the extent to which the people have gone through the certification procedures, the authority’s certification, the quality of the certification service, the government’s certification and their satisfaction level); (ii) Construction Permit (surveying people’s perceptions in the construction permit application process and their satisfaction level); (iii) Land Procedures (surveying people’s perceptions in the process of applying for land use rights certificates and their level of satisfaction); (iv) Personal Procedures (assessing people’s perception about the quality of administrative services provided by commune authorities).

The survey results of PAPI show that, in 2011, the average score of localities across the country in this content was 6.88 points on a scale of 1–10. Of this 6.88, the score for Certification Procedures is 1.68 points; the score for Construction Permit is 1.77 points; the score for Land Procedures is 1.58 points; and the score for Personal Procedures is 1.84 points (CECODES, VFF-CRT, RTA & UNDP, 2012). From 2012 to 2018, the average score achieved by localities across the country was 6.87; 6.89; 6.88; 6.79; 7.10; 7.17 and 7.39 points respectively on a scale of 1–10. In 2019, the average score of localities in this content ranges from 6.84 points (Khanh Hoa province) to 7.67 points (Tra Vinh province). The national average score is 7.34 points on a scale of 1–10 (CECODES, VFF-CRT, RTA & UNDP, 2020).

Public Service Delivery

As mentioned above, the quality of public services is an important criterion for evaluating the governance output of local governments and also an important criterion for evaluating the governance effectiveness and quality of the government local. Therefore, the assessment of the quality of public services is also an important aspect to reflect the level of “good governance” of the local government. Over the years, the assessment of public service quality has been conducted by PAPI on component contents, such as: (i) Health (including the proportion of people participating in health insurance, use of health insurance cards, free medical care services for children under 6 years old, quality hospitals at district level, etc.); (ii) Education (including walking distance to school (km), time to get to school (minutes), comments on teaching quality of public primary schools, quality of primary schools in the

commune); (iii) Infrastructure (including the proportion of households using electricity from the grid, the proportion of respondents saying that the household has not had a power cut in the past 12 months, the type of road closest to the household), the frequency of waste collection services by local authorities, proportion of people using tap water, proportion of households using unsanitary water); (iv) Law and Order (including aspects such as the level of safety, order in the area in which you live, a change in security in a better direction, a sense of safety when the walking alone during the day, feeling safe when walking alone at night, etc.). PAPI's research results in this component index over the past years show that in 2011 the average score in this content of the local government across the country was 6.75 points on a scale of 1–10. Of this, the average score of the four above-mentioned components is respectively 1.75; 1.65; 1.75 and 1.60 points (CECODES, VFF-CRT, RTA & UNDP, 2012). From 2012 to 2018, the overall average score in this content of the local authorities across the country were respectively: 6.90; 6.95; 7.02; 7.04; 7.10; 7.15; and 7.10 on a scale of 1–10. In 2019, the average score in this index of local authorities across the country ranged from 6.88 points (Tien Giang province) to 7.88 (Da Nang city) on a scale of 1–10. The average score of the localities is 7.24 (CECODES, VFF-CRT, RTA & UNDP, 2020).

Environmental governance

The effectiveness of local government environmental governance is directly and in many ways related to the quality of life of the people. The quality of the environment reflects the quality of public services and also reflects the level of implementation of local governments' commitment to promoting sustainable development. Therefore, since 2018, CECODES, VFF-CRT, RTA & UNDP have added the component index of environmental governance of the local government to the PAPI. The addition of this criterion reminds all parties, especially local authorities, of the need to attach importance to improving environmental governance efficiency in order to improve the quality of life of the people as well as promote sustainable development. The environmental governance assessment has been conducted by PAPI on the component criteria, such as: (i) Seriousness in Environment Protection (mainly surveying the percentage of people who say local enterprises give bribes to avoid the obligation to protect the environment); (ii) Quality of Air (in terms of proportion of respondents reporting not having to wear a mask to avoid air pollution while traveling locally; proportion of respondents reporting local air quality) and adequate living place; and proportion of respondents saying that the local air quality is better than 3 years ago); (iii) quality of water (water from rivers /canals/streams close to home is clean enough for drinking, water from rivers/canals/streams near the house is clean enough for laundry, and water from rivers/canals/streams clean enough and close to home for swimming). PAPI's survey results show that in 2018 the average score in the environmental governance index across the country is below average, with 4.63 points/a scale of 1–10 points. Of this, Seriousness in Environment Protection is 1.97 points; quality of air is 1.99 points; and quality of water is 0.67 points. The scores achieved by provinces/cities ranged from 3.54 to 6.74 points (on a scale of 1 to 10) (CECODES, VFF-CRT, RTA & UNDP, 2019). In 2019, the average

score of the content index for environmental governance in localities nationwide ranged from 2.71 points (Thai Nguyen province) to 4.94 points (Dong Thap province). The national average score is 3.53 on a scale of 1–10 (CECODES, VFF-CRT, RTA & UNDP, 2020).

E-governance

The development of information technology, the internet and the advent of the “big data age” have created favorable conditions to increase e-government construction. Increasing the application of information technology in local government activities is significant in many aspects, such as improving the efficiency of government activities; providing information to people; capturing opinions, recommendations and the reflections of people; promoting people’s participation and supervision; and providing public services to the people; and timely interaction with the public (Binh, Nguyen Trong, 2020). In other words, the electronicization of government plays a role in building a democratic, transparent, accountable, efficient and equitable government. Therefore, improving the e-governance efficiency of local governments contributes to good governance. Since 2018, CECODES, VFF-CRT, RTA & UNDP have added an electronic governance criterion to the PAPI. The criteria for assessing the e-governance of local governments include: (i) Access to E-government Portals (surveyed on all aspects, such as the proportion of respondents who reported having obtained enough information, instructions and forms to be taken from the local authority’s web portal when authenticating, certifying, completing construction licensing procedures and issuing land use right certificates); (ii) Access to the Internet (surveyed in various aspects, such as the proportion of people accessing domestic news via the internet; proportion of people reporting internet connection at home); (iii) E-Responsiveness (proportion of respondents who submitted questions to local authorities through the “online question and answer” section on the portal; and percentage of respondents received responses from local government after submitting questions via the “online question and answer” section). The results of the PAPI survey in 2018 showed that the average score of localities was sent to the “online question and answer” section. Achievements in this index ranged from 1.93 points (Quang Ngai province) to 4.24 points from a scale of 1–10 (Da Nang city). The national average score is 2.99 points (CECODES, VFF-CRT, RTA & UNDP, 2019). In 2019, the average score achieved by localities in the e-governance index ranged from 2.05 points (Quang Ngai province) to 5.00 points on a scale of 1–10 points (Da Nang city). The national average score is 3.30 points (CECODES, VFF-CRT, RTA & UNDP, 2020).

Synthesized results on good governance of local governments from 2011 to 2019

The PAPI survey results not only reflect the change in the component indicators, but also the aggregate results of the performance of governance and public administration at the provincial level (or good governance of the local government) in Vietnam from 2011 to 2019. Accordingly, the determination of the aggregate results of the effectiveness of the governance and public administration at the provincial level is done by adding scores of six original indexes in each

year, excluding the two component indicators of environmental governance and e-governance added from 2018. The results show that the aggregate score of good governance of local authorities in Vietnam since 2011 to 2019 respectively: 34.5 points; 35.5 points; 35.4 points; 35.3 points; 34.0 points; 35.1 points; 35.9 points; 36.5 points and 37.4 points on a scale of 10 to 100 (CECODES, VFF-CRT, RTA & UNDP, 2020).

Discussion

From the PAPI survey results, we can draw some comments and assessments of the good governance of local authorities in Vietnam over the years as follows:

Firstly, although it is not stable, through the aggregate score of the six original sub-indexes on the efficiency of governance and the public administration at the provincial level, especially comparing the total score in the six sub-indexes of 2011 and 2019, it can be seen that the good governance of local governments in Vietnam has been improved, from 34.5 in 2011 to 37.4 points in 2019 (from a scale of 10 to 100). This both reflects the positive change in governance of local governments in Vietnam in the past, and also shows the initial results in governance reform of local governments in Vietnam over recent years.

Secondly, although there is an improvement and inequality in indicators (some are not high, some are relatively good), in general the quality of governance and public administration at the provincial level or the level of good governance is still not high, if not low. The point is that, if only six original component indexes are included, excluding two additional component indexes from 2018, the combined score achieved in 2019 is only 37.4 points on a scale of 10–100. If the eight indexes are included, the score achieved is below average, with 44.92 points on a scale of 10–100. That means, reforming local government according to good governance in Vietnam still has a lot of room for maneuver and still has much to do; at the same time, in the coming years, Vietnam needs to place a focus on governance innovation of local governments.

Thirdly, in the component indicators of PAPI, such as control of corruption, Public administrative procedures and Public Service Delivery have improved significantly over the years, and at the same time these are also the indicators with the best scores. Specifically, for the corruption control index in the public sector, if in 2011 the score was 5.76 from a scale of 1–10, in 2019 the score was 7.2 points. For public administrative procedures, if in 2011 the score was 6.88 from a scale of 1–10, in 2019 the score was 7.34. For Public Service Delivery, if in 2011 the score was 6.75 from a scale of 1–10 points, in 2019 the score was 7.24 points. If compared with other indexes at the same time, these indexes have higher scores. Specifically, in 2019, scores of indicators on control of corruption, public administrative procedures, and Public Service Delivery are 7.2, 7.35, and 7.24 points respectively (out of 10 points). This is proportional to the Government's determination to improve these indicators. At the same time, the determination and efforts of the Government of Vietnam in the prevention and fight against corruption, in reforming administrative procedures and improving the quality of public services have brought about positive results.

Fourthly, in the component indicators, those such as Participation at Local Levels, transparency, and Vertical Accountability have not been improved; the score actually tends to decrease. At the same time, these are also component indicators with low scores. Specifically, in 2011, the number of points achieved in the component indicators, such as Participation at Local Levels, transparency and Vertical Accountability were 5.23, 5.47 and 5.50 points respectively (on a scale of 1–10). By 2019, the scores of these component indicators will not only increase, but also decrease. Specifically, the score of the component indicators, such as Participation at Local Levels, transparency, Vertical Accountability were 4.84, 5.35 and 5.15 respectively (on a scale of 1–10) (CECODES, VFF-CRT, RTA & UNDP, 2020).

Regarding Participation at Local Levels, the PAPI report in 2018 showed that on Civic Knowledge, 40.73% of the respondents said that they know about local leaders; on Opportunities for Participation, 16.76% of respondents said that they participate in social organizations, groups, and independent clubs; on Voluntary Contributions, 45.24% of the respondents said that they have participated in voluntary contributions; the percentage of respondents who said that they had contributed their opinions in the design process to renew/repair the project is 34.01%; and 5.44% of the respondents said that they had the opportunity to comment on the local land use planning and plan (CECODES, VFF-CRT, RTA & UNDP, 2019). By 2019, the above-mentioned indexes had the corresponding rates of 13.40%; 15.49%; 47.18%; 36.19% and 4.54% respectively (CECODES, VFF-CRT, RTA & UNDP, 2020).

Regarding transparency, the PAPI report in 2018 showed that 11.83% of respondents said they had received policy and legal information from the local authorities; 12.64% of respondents said that the information received was useful; and 12.59% of respondents said that information about policies and laws from authorities is reliable. In 2019, the respective indexes mentioned above had the rate of 11.5%; 11.72%; 11.48% respectively. The PAPI report in 2018 showed that the proportion of respondents saying that commune/ward budget revenues/expenditures were publicly announced was 40.98%; the rate of respondents saying that they have read the budget revenue and expenditure statistics table is 27.65%; and the rate of respondents knowing about current land use planning and plans in the locality is 18.39% (CECODES, VFF-CRT, RTA & UNDP, 2019). By 2019, these indices had the respective ratios of: 40.55%; 28.76%; 16.87% respectively (CECODES, VFF-CRT, RTA & UNDP, 2020).

Regarding Vertical Accountability, the PAPI 2018 report showed that 25.9% of respondents said that they sent recommendations, denunciations, denunciations and complaints to the authorities, of which 21.89% said that the authorities had responded satisfactorily to their recommendations, denunciations and denunciations. By 2019, 24.24% of respondents said that they had sent recommendations, denunciations, denunciations and complaints to the authorities, of which 20.17% said that the authorities had responded satisfactorily. This means that measures taken to increase the participation of the people, and promote transparency and public accountability, have yielded unsatisfactory results. Therefore, it is necessary to make an overall assessment and identify the correct causes to have more effective solutions to improve the score on these indicators.

Fifthly, among the component indicators of PAPI in 2018 and 2019, e-governance and environmental governance have the lowest scores. PAPI's survey results show that, in the years 2018 and 2019, the average scores in the environmental governance index in the localities were only 4.63 and 3.53 points respectively (on a scale of 1–10). The e-governance index in these two years is 2.99 and 3.30 points respectively. In terms of e-governance, the PAPI report in 2018 showed that the percentage of respondents who said that they had obtained instructions and forms to be performed from the local portal when authenticating and certifying is 3.48%. The rate of respondents saying that they have taken information, instructions and forms to be done from the local portal when completing construction permit procedures is 0.83%. The rate of respondents saying that they have taken instruction information and required forms from the local portal when completing procedures for land use right certificate is 1.35%. The proportion of respondents who reported submitting their questions/requests via the online inquiry channel on the portal of the local government is 1.56% (CECODES, VFF-CRT, RTA & UNDP, 2019). By 2019, the aforementioned rates will be 3.07%; 0.77%; 1.04%; 1.58% respectively (CECODES, VFF-CRT, RTA & UNDP, 2020). Regarding environmental governance, the PAPI report in 2019 showed that the percentage of people who said that local businesses did not give bribes to evade environmental protection obligations was 57.83%; the rate of people saying that the competent authorities have solved the environmental problems they announced is 52.21%; the proportion of respondents saying that they do not have to wear a mask to avoid air pollution while traveling in the residential area is 37.81%; the rate of respondents who think that the local air quality is better than 3 years ago is 38.16%; and the proportion of respondents saying that water from rivers/canals/streams near their houses is clean enough for swimming is 16.93% (CECODES, VFF-CRT, RTA & UNDP, 2020). This shows that improving the effectiveness of environmental governance and e-governance is the problem facing the local government in Vietnam today. In the coming years, the Government should attach more importance to the issue of improving local e-governance and environmental governance on its agenda.

Some recommendations

The above analysis shows that, although the initial results have been achieved in the reform of the local government to improve the quality of service to the public, the reform and renewal of the local government under good governance of the government localities in Vietnam still have a lot to do. To promote good governance of local governments in Vietnam, some of the following issues need to be considered:

Firstly, persistence and efforts to reform and renovate local government according to good governance theory. Moore believes that the ultimate purpose and mission of government (including local government) and public management is to create public value for society (Moore, 1995). Many researchers believe that in order for governance to create public value and promote the realization of the public good, government reform needs to take good governance theory as the ba-

sis and basic orientation (Binh, Nguyen Trong, 2017). In the case of Vietnam, it is necessary to continue studying good governance theory as well as learning through training and retraining to make politicians, managers and civil servants in the public sector understand the characteristics of good governance. From that, it sets out the vision and measures to strengthen the innovation of the government and local governments under good governance.

Secondly, “citizen-centered” in government and local governance. It can be said that citizenship or “citizen-centered” is the basic characteristic of good governance. Having citizens in the center of governance means that the government itself is not the end, but the government is the instrument. The only plausible reason for the existence of government is in ensuring and enhancing the human dignity of its citizens; the responsibility of the government is to ensure the realization of citizens’ political, economic, cultural and social interests, to satisfy the basic needs of citizens, especially the basic needs of disadvantaged groups; providing basic public services, thereby making citizens’ lives better and better (Fu, 2014). This means that the government as well as local authorities need to clearly see their responsibility and mission to ensure and promote human rights and citizenship; realizing that the planning and implementation of all mottos, policies and all jobs must come from citizens, must be for the benefit of citizens; wholeheartedly serving citizens; perform well, maintain well, develop well the most basic interests of citizens, get citizens’ support or disapproval, agree or disagree, happy or unhappy, satisfaction or dissatisfaction is the basic criterion for evaluating all jobs.

Thirdly, add evaluation criteria to promote reform and renewal of local government according to good governance. It can be said that local government governance is considered “good governance” when it fully demonstrates features, such as (i) citizen-centered; (ii) legality; (iii) openness and transparency; (iv) participation of the people; (v) efficiency; (vi) rule of law; (vii) responsibility; (viii) responsiveness; (ix) social justice; (x) integrity; (xi) stabilization. The assessment criteria for the governance quality of local government implemented by PAPI in recent years, although showing some characteristics of good governance, still lacks some important content and criteria important. Therefore, in order to promote reform and innovation of local governments in Vietnam under good governance, it is necessary to add the following criteria to the set of criteria for evaluating the governance quality of local governments. Accordingly, this set of evaluation criteria can include: (i) the legitimacy or confidence of people in the government; (ii) level and effectiveness of ensuring human rights and citizenship; (iii) quality of public services (public administrative procedures, quality of education services, health care, transport infrastructure, law and order, environmental governance, etc.); (iv) degree of disclosure and transparency of information; (v) citizen participation; (vi) rule of law; (vii) social justice; (viii) efficiency; (ix) accountability; (x) responsiveness; (xi) integrity (controlling corruption in the public sector); (xii) electronic governance; (xiii) degree of decentralization and decentralization to subordinates; (xiv) stability. It is necessary to develop specific component criteria to evaluate the above basic criteria (Binh, Nguyen Trong, 2019).

Fourthly, using the efficiency of governance and public administration at the provincial level or the good level of governance of the local government as one of the core criteria in evaluating the effectiveness of leadership and management of local leaders. The innovation promotion effect of local government under good governance is fully promoted only when stakeholders attach importance to the use of assessment results; at the same time using this assessment as a basis to evaluate leaders and local leaders. Over the years, many localities in Vietnam have attached importance to using the assessment results of PAPI to serve up the content and reform program for each period. However, the government as well as many local governments have not used the assessment results of PAPI as one of the criteria in evaluating the leadership effectiveness of leaders in localities. Therefore, it is necessary to take the efficiency of governance and public administration at the provincial level in each year and each period as one of the basic criteria in assessing leaders and leaders in localities.

Fifthly, properly and fully assess the cause of the limitations to formulate effective strategies, strategies and measures to improve the low component indicators. Component indicators such as citizen participation, transparency, and accountability are key and core indicators of good governance, but are slowly being improved and the score is low. Therefore, it is necessary to properly and fully assess the causes to take effective measures to improve these component indicators. Besides, e-governance and environmental governance are currently ineffective. Therefore, it is necessary to have appropriate strategies and policies to improve the effectiveness of e-governance and local environmental governance. It should be emphasized that effective e-governance is directly related to promoting good governance by local governments. Therefore, the central and local governments need to adopt many solutions to improve the efficiency of e-governance, especially attaching importance to investment in developing e-government at the grassroots level, increasing training and fostering information technology for both public managers and citizens.

Sixthly, decentralizing strong powers to subordinates and improving the quality of the contingent of civil servants. Power concentrated at higher levels not only easily leads to the phenomenon of “running” and “asking – giving”, but also it is not conducive to promoting the initiative and creativity of subordinates. Therefore, it is necessary to strengthen decentralization towards decentralization to empower autonomy and improve governance efficiency of local governments. Besides, the quality of public managers is also a decisive factor to the effectiveness and quality of governance. Therefore, many reform measures need to be adopted to improve the quality of the contingent of public managers. In order to improve the quality of the contingent of public managers, it is important to attach importance to the building of public service ethics. That is, through the work of education, organization, administration, inspection, monitoring, screening and handling to minimize the phenomenon of anti-cultural politics and anti-ethics public service in government agencies, as well as making the values and norms of public service ethics such as public service, public interests, public responsibility, transparency, democracy, etc., penetrate and diffuse into magistrate relations and activities.

Seventhly, develop citizenship and civic spirit. Citizen participation is the core of democratic governance, it is also an indispensable requirement and characteristic of good governance. For good governance of local government, it requires not only efforts from the government, but also the companionship and efforts of the citizens. To meet this requirement, it is necessary to form and develop a “political culture of the participants” in the people. In other words, it is the sense of participation and civic spirit of the people. In public governance, the civic spirit of the people includes a number of aspects: (i) citizens know their rights and obligations in accordance with the law; (ii) citizens actively exercise and exercise their rights in practice; (iii) citizens are interested in and actively participate in related work in local governance; (iv) the citizen has a certain capacity to judge and evaluate whether a particular policy or behavior of the local government is with the law and the public interest; (v) citizens value, respect and protect the interests of the community; (vi) citizens have the courage to fight unlawful conduct that harms the legitimate interests of others; (vii) citizens respect the diversity of opinions, objectivity and reason in assessing things and phenomena; (viii) citizens know how to use peaceful methods to resolve conflicts and differences. Citizenship is one of the conditions to promote good governance of local governments. The status and spirit of citizenship should regulate the self-participation of citizens in local governance; regulations should be the voluntary dedication and contribution of people to common works and should promote the autonomy and self-governance of the people in local governance. The motivations and purposes of citizen participation should also be specified. At a larger level, the education of civic consciousness and spirit is conducive to establishing the civic ethics system; this is conducive to promoting democratization and publicizing the workings of public power as well as for building a harmonious society. Due to the importance of citizenship, to promote good governance of local governments, it is necessary to attach importance to fostering and educating citizenship for the people. Under the current conditions of Vietnam, there should be a project on education and the improvement of ethics and civic responsibility. On the other hand, educating and improving citizenship should be seen as an important responsibility of the local government (Binh, Nguyen Trong et al., 2020).

Conclusion

As one of the most prestigious local government governance quality assessment programs in Vietnam today, over the years, the PAPI has shown a fairly full level of governance quality as well as good governance of the local government. On the other hand, this also contributes to promoting innovation and reform of local government in Vietnam under good governance. The PAPI survey results show that, in general, the good governance of local authorities in Vietnam has improved, but is still not high. Therefore, to meet the development requirements of Vietnam in the coming years, Vietnam needs to continue to strengthen its institutional reforms as well as put the governance innovation of local governments under good governance in an appropriate position on its agenda.

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PENSION REFORM IN AN AUTHORITARIAN STATE: A CASE STUDY OF EGYPT

Yusuke Kawamura

DPhil in Political Science (University of Durham, UK),
Assistant Professor, Graduate School of International
Cooperation Studies, Kobe University, Japan.
Address: 2-1 Rokkodai-cho, Nada-ku, Kobe, 657-8501, Japan.
E-mail: yusuke.kawamura@boar.kobe-u.ac.jp

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Abstract

This article focuses on two pension reforms in Egypt in order to understand the dynamics of social policy reform under authoritarian rule. One was supported by the World Bank and promulgated in 2010. It included drastic changes, such as the introduction of a defined benefit scheme, and ultimately failed. Another was successfully implemented in 2019. Compared to the 2010 reform, the 2019 reform involved only parametric change (such as increasing the retirement age and amalgamating social insurance funds), in order to mitigate the criticisms that had been made of the previous pension reform and to facilitate gradual, steady enhancement of the programme's sustainability. The findings suggest that perceptions of authoritarian leaders as having wide-ranging discretion in decision-making concerning public policy and being able to more decisively implement harsh social reform compared with democratic political leaders need to be reconsidered.

Keywords: Pension reform; authoritarianism; Egypt; non-financial defined contribution (NCD); the World Bank.

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Introduction

Pension reform law was promulgated in August 2019 in Egypt and enforced in January 2020. As a result of this pension reform law, the retirement age will gradually increase from 60 to 65 years old. In addition, the reform

law combined two social insurance funds and calculation formulas for contributions that had been previously divided in terms of the occupations of the insured. This reform modified the Egyptian pension system that had been consolidated in the 1980s.

Two interesting questions arise concerning this reform. First, in comparison with other countries that have implemented pension reform, the Egyptian population is considerably young. The population exceeded 100 million in 2020 and is still increasing by 2.28% annually. More than half of the population (51.63%) was under 24 years old by 2020, with a median age of 24.1 years, whereas the population over 65 only comprised 4.44% (Central Intelligence Agency, 2020). It seems that pension reform was neither necessary nor urgent, although Egyptian citizens over 65 years old will account for more than 15% of the country's population by 2100 (Egypt Today, 9 June 2020). What motivated the pension reform in Egypt?

Second, the pension reform in 2019 was a second attempt at such reform as the Egyptian government had failed in a previous attempt. President Hosni Mubarak (1981–2011) initiated pension reform in 2007 and adopted a law in 2010, whose contents (e.g. the introduction of defined benefit schemes) were more radical than those in the 2019 law. Although this law was scheduled to take effect in January 2012, the interim government at the time postponed its implementation following the January 25th Revolution (2011). President Mohammad Morsi (2012–2013) finally annulled the reform law and confirmed that the pension legislation, current since the Sadat era (1970–1981), would remain operative (Ido, 2018). Authoritarian governments often implement radical pension reform successfully (for example, in Chile under Augusto Pinochet). In typical authoritarian countries such as Egypt, political leaders have been considered to have overwhelming decision-making power concerning public policy (including social policy) (Brownlee, 2007; Lust-Okar, 2005). However, the Egyptian government was forced to abandon the 2010 pension reform law. Why did the Egyptian government give up the 2010 pension reform?

In seeking to address these questions, this article proceeds as follows. The literature on pension reform under authoritarian rule is first reviewed. The development of the pension programme under President Gamal Abdel Nasser (1956–1970) and Anwar al-Sadat (1970–1981) and its emerging shortcomings under President Hosni Mubarak (1981–2011) are then investigated. Next, the two pension reforms and their political motivations are analysed. Finally, the article concludes with a discussion of the findings and suggests that scholars should reconsider their perceptions of authoritarian leaders as having wide-ranging discretion in public policy decision-making and as being more decisive in implementing harsh social reform proposed compared with democratic political leaders.

Theories on Pension Reform under Authoritarian Rule

What factors motivate pension reform under authoritarianism? Demographic factors do not necessarily lead to pension reform, as ageing populations motivate a restructuring of pension systems in some countries but not

in others. In the literature, political factors are considered to determine whether an authoritarian government initiates pension reform, with two factors identified as particularly important.

The first factor concerns authoritarian leaders' strategies. Since these political leaders have wide discretion in the public policy decision-making process, they utilise public policy strategically to maximise their power. In particular, political alliance-building strategies have had a long-term effect on features of social policy in authoritarian developing countries. In mid-twentieth-century Latin America, for example, authoritarian leaders attempted to co-opt organised labour; therefore, they implemented social policy more favourable to urban formal-sector workers than for those in urban informal and agricultural sectors. Consequently, social-insurance-based pension programmes covered urban formal workers, while urban residents in the informal sector and rural farmers were excluded or provided with only minimal welfare provision (Haggard & Kaufman, 2008; Mares & Carnes, 2009).

Beginning in the 1970s, political leaders in several pro-labour authoritarian countries have shifted their political alliance-building strategies to become more pro-capitalist and have often adopted a neoliberal approach in pension reform. Pinochet's Chile provides an excellent example. After the 1973 coup d'état and the collapse of Salvador Allende's socialist government, Pinochet began to implement neoliberal economic policy to resolve Chile's balance-of-payment problems, based on support from industrial capitalists. At the same time, the Pinochet government attempted to exclude a previously active popular sector from the national political arena (O'Donnell, 1979). This change in political alliance-building strategies (from pro-labour to pro-capitalist) significantly influenced Chile's pension programme. In 1980, Chile introduced a new savings-based pension programme, which eliminated employer contributions and obliged workers to save at least 10% of their taxable income in their personal accounts. After 1981, this programme became mandatory for all dependent workers. Subsequently, this new pension programme has been administered by private health funders, and workers can freely choose between funders (Castiglioni, 2001).

The second factor is international pressure. In the 1980s, the World Bank adopted neoliberal approaches to economic reform in developing countries, which consequently had significant effects on social policy in developing, authoritarian countries. In the 1990s, the bank paid more attention to social policy in these countries (Rapley, 2007). In 1994, it published a report, *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, which had a significant effect on debates concerning pension reform in developing countries. That report suggested that, to achieve both financial security for the elderly and economic growth, developing countries would need to build up a three-pillar pension system consisting of a publicly managed, mandatory pension system for poverty alleviation among the elderly; a privately managed, mandatory saving system; and voluntary savings. The authors of that report recommended that, where possible, states should replace pay-as-you-go (PAYG) systems with funded, privately managed, defined contribution systems (World Bank, 1994).

However, this three-pillar model was criticised for overestimating the benefits of funded, privately managed, defined contribution systems and overlooking their shortcomings. Responding to such criticism, the World Bank changed its approach in the 2000s (Merrien, 2001; Orszag & Stiglitz, 2001). First, it explicitly noted the importance of social pensions in countries with large informal sectors and low coverage for social insurance. Second, it drew attention to non-financial (or notional) defined contribution (NDC) schemes. These schemes, as well as PAYG schemes, use contributions to pay current pensioners. However, in such schemes, benefits are closely tied to contributions as workers' pensions are calculated based on how much they have paid during their working lives. After retirement, a social insurance fund pays benefits with interest, whose rate is notional, reflecting the growth in productivity in relation to real wages and labour force growth. The benefit is calculated according to life expectancy on entering retirement. Although such schemes are essentially PAYG schemes, the incentive structure is like a funded scheme (Wodsak & Koch, 2010).

In 2005, the World Bank proposed a five-pillar model to replace the current three-pillar model. The five pillars comprised: a basic 'zero-pillar' in the form of social pensions; a mandatory 'first-pillar' contributory system linked to earnings and aiming to replace some portion of lifetime pre-retirement income; a mandatory 'second-pillar' involving essentially an individual savings account but which could be constructed in a variety of ways; voluntary 'third-pillar' arrangements taking many forms (e.g. individual or employer-sponsored savings); and informal intra-family or intergenerational support to the elderly (Holzmann & Hinz, 2005). This five-pillar model allowed countries to flexibly interpret risk diversification and select aspects in accordance with their preferences and needs while avoiding the risk of 'putting all the eggs in one basket' (Wodsak & Koch, 2010).

Formation of the Pro-Labour Pension Programme in Egypt

In Egypt, a modern pension programme was developed after the 1952 Revolution. Although a pension programme had already been introduced in the pre-revolutionary era, it had only targeted civil servants and military personnel and was not based on their contributions, but on tax. In 1956, a new social insurance programme was designed, in which social insurance funds were founded separately for government employees and for workers in the private sector and state-owned enterprises (SOEs)¹.

As in Latin America countries, the pension programme's main beneficiaries were urban workers, especially workers in the public sector (including government institutions and SOEs). Most wage earners in the private sector were not covered by the pension programme because, to keep costs down, their employers did not take part (Loewe, 2000). Indeed, some private-sector employers pre-

¹ These social insurance funds covered various social risks, such as (1) old age, (2) disability and death and (3) work injury. They were further developed and payments began for unemployment and sickness in addition to existing payments in the mid-1960s.

vented the government from collecting contributions. Instead, employers forced their employees to form fictitious companies and treated them as 'partners'. Because employees were no longer 'workers', employers did not need to pay social insurance contributions for them, according to contemporary laws². In another example, employers continuously hired and fired workers temporarily to avoid paying social insurance contributions because the programme did not cover temporary workers. Therefore, during large-scale nationalisation that occurred in 1961, the number of workers covered by the pension programme almost doubled, from approximately 300,000 in 1960 to 555,000 in 1961. As a result of this institutional expansion, the number of insured workers in 1971 became almost 20 times as large as that in 1956, rising from 75,412 (1956) to 1,561,344 (1971) (Garrison, 1976).

The pro-labour features of the pension programme resulted from the fact that President Nasser attempted to co-opt organised labour into his ruling circle. Following Colonel Nasser's mobilising of the Cairo Transport Workers' Union to win his political struggle against General Mohammad Naguib in March 1954, the Nasser government subsequently attempted to incorporate organised labour within the ruling party. Although the government deprived organised labour of political freedom, workers in the formal sector enjoyed various social and political benefits, one of which was the pension programme (Kassem, 2004). Although the pension programme began to provide old-age, disability and death pensions to more vulnerable people, including: (1) self-employed and employers (Law 61/1973); (2) Egyptian citizens working abroad for employers (Law 74/1973); and (3) casual workers (Law 112/1980) during the Sadat era (Ministry of Social Insurance, 1984), the beneficiaries of the pension programme remained primarily those workers in the formal sector.

It should be noted that the state's role in the programme changed during the Sadat era. Following the 1952 Revolution, the government spent little on the pension programme, as it was mainly financed through contributions from employees and employers. However, in the Sadat era, the government spent more on the programme, and it gradually shifted to become a partially funded PAYG with defined benefits (Selwaness, 2012).

Shortcomings Revealed in the Pension Programme during the Mubarak Era

The Egyptian pension programme was established and expanded because authoritarian leaders were motivated to act in this domain to ensure ongoing support among urban workers for regime survival. Consequently, it functioned poorly as an effective social protection programme, and its shortcomings became more apparent during the Mubarak era.

The first shortcoming was the programme's limited coverage. Although the pension programme had seemingly expanded to cover more people during the

² This option was prohibited in 1971.

Sadat era, it still actually covered only a limited percentage of the population. First, both employers and workers tended to avoid enrolling because of its high contribution rates. Employees had to pay 10% of their wage as contributions for old-age, death, and disability insurance, which meant that they had to pay 14% of their wage for social insurance overall. Employers also needed to pay 15% of the payroll as contributions for old-age, death, and disability insurance, and so their total contribution rate amounted to 26% (Maait & Demarco, 2012).

The privatisation of SOEs also negatively affected coverage. The ratio of insured workers to total workers declined from 51.6% in 1998 to 41.8% in 2006 (Roushdy & Selwaness, 2012), which occurred in conjunction with the privatisation of SOEs in the 2000s. As privatisation reduced the number of public sector jobs, young people tended to start their private-sector jobs without social insurance coverage (Sieverding, 2016). This tendency was clearly evident in that the insurance coverage of young people (32.7%), which was lower than that of older groups (59.2% for the 40–49-year-old age group and 58.2% for the 50–59-year-old age group). With limited movement from the informal to the formal sector in the Egyptian labour market, particularly for the low-educated, these figures further confirmed that workers were not starting out in the informal sector and then moving into the formal sector as they gained experience (Sieverding, 2012). Consequently, the privatisation of SOEs resulted in the exclusion of significant numbers of young people from the pension programme.

The second shortcoming was low benefits. Income replacement rates in social insurance benefits in Egypt were higher than those in other middle-income countries. Average pensions were equivalent to 147% of private-sector workers' nominal lifetime taxable salaries in 1995 (Loewe, 2004). However, the actual benefits paid were inadequate for many Egyptian households because pension benefits were not automatically adjusted according to inflation but were determined by government decree. Whereas benefits increased by 10% per annum on average, inflation peaked at 20% in the 1980s. Moreover, actual contributions fell below legally required contribution rates. Although legislation mandated that both employer and employee contributions comprise approximately 32%–33% of covered earnings, actual aggregate contributions represented only 17% of contributory wages, because non-payment of contributions was not severely sanctioned (World Bank, 1993). The programme was particularly unhelpful for certain vulnerable groups, such as the work-disabled and surviving family members. For example, if an earner became injured or died at a young age, the accumulated contributions were so low that family members could not afford to live on survivor benefits only. Thus, Egyptian households without a male earner tended to fall below the poverty line (Loewe, 2000).

The third shortcoming was high dependency ratios. Although Egypt had a young population structure, the ratio of programme beneficiaries to the overall population was relatively high (38% in 1998), compared to Middle East and North Africa (MENA) region countries (27%), Latin America (25%) and Asia (11%). The numbers of beneficiaries increased due to several factors: improved life expectancy, a declining birth rate, and increasing employment, especially among young people (Helmy, 2008). In the 1990s, the introduction of early retirement

schemes, which aimed to facilitate the privatisation of SOEs and to ease pressure on the labour market, also contributed to an increase in beneficiaries. Accordingly, the number of beneficiaries reached 6.5 million in 1998 (4.16 million in 1983) (Maait et al., 2000).

The fourth shortcoming was a legal requirement (Law 119/1980) that investments be restricted to government-related funds. Social insurance funds had accumulated reserves that were invested in government debt instruments, such as bonds and treasury bills, and in the National Investment Bank (NIB). Although the government began to invest the pension's annual surplus in the capital market in the late 1990s, only 1% of that could be invested (Loewe, 2014). In the 2004/05 financial year, the treasury was indebted to the NIB to the sum of E£143.7 billion, approximately 41% of the government's public net domestic debt, which amounted to E£349.2 billion (Helmy, 2008). Although these invested reserves were expected to generate a surplus, low or negative actual returns had been recorded since 1975 and had eroded the reserves. Consequently, failed investments forced the government to spend on *ad hoc* financial support to maintain benefit levels (Maait & Demarco, 2012).

Despite such shortcomings, which critically affected the programme's sustainability, the Mubarak government increased expenditure on the programme without radical reform until 2010. From 1987, the treasury had financially supported the scheme to pay assured pension benefits, in addition to existing contributions the government also had to pay. The government's additional payments to social insurance funds were intended to alleviate high costs of living and to maintain benefits at the same level as previously. Consequently, its expenditure steadily increased from approximately E£8.0 billion in 2000/01 to approximately E£13 billion in 2004/05 (equivalent to 8.2% of the total public expenditure) (Helmy, 2008).

However, fiscal restrictions meant that the treasury was unable to cover pension liability in full from the beginning of the 2000s onwards. In 2004/05, liabilities amounted to over E£35 billion. Consequently, from 2004/05, the government had to restrict annual increments to beneficiaries. In addition, this government indebtedness imposed a burden on the pension system, leading to lost opportunities to transfer funds to the NIB and obtain investment returns, which weakened the pension system further (Helmy, 2008).

Current Pension Reform in Egypt

Pension Reform in 2010

To solve these problems, the Mubarak government began to consider a radical reform of the social insurance system in 2005 (Maait & Demarco, 2012). On 13 June 2010, the Egyptian Parliament passed a pension reform law (Law 135/2010), which entailed that existing social insurance laws be abolished. The pension reform included the following four features.

First, the pension reform law stipulated that the retirement age would increase gradually, from 60 years of age to 61 by 2015, to 62 by 2018, to 63 by 2021,

to 64 by 2024, and to 65 by 2027 (Sieverding & Selwaness, 2012; Social Security Administration, 2010). Although increasing the retirement age was not an urgent priority given Egypt's demographic structure at the time, the measure aimed to deal with a future ageing society.

Second, the pension reform law attempted to reduce burdens on employers and employees. Employees paid 10% of their basic wages and 3% of their variable earnings (e.g. incentives and bonuses) in contributions, while employers paid 15% and 2% of employees' basic and variable earnings, respectively (Social Security Administration, 2011). The new law amalgamated these two contribution rates (for basic and variable earnings) and provided that employers and employees pay 13% and 9% of employees' earnings, respectively (Maaït & Demarco, 2012). Through this reform, total contribution rates for social insurance reduced from 26% to 19.5% for employers and from 14% to 11% for employees (Selwaness, 2012). This measure was intended to help employers insure their employees more easily. As in 2006, only 57.5% of wage workers were insured despite all waged workers being required to participate in the pension system. While almost all public sector workers were insured (94% in the government sector and 93% in SOEs), only 24% of private-sector workers were insured, partly because employers avoided making contributions (Roushdy & Selwaness, 2012).

Third, the new law introduced a minimum pension wherein all resident Egyptian citizens over the age of 65, whether or not they had paid into the contributory pension system, would be entitled to receive a pension funded from the state budget. The minimum pension amount would equal 15% of the national average wage and was intended to alleviate poverty through aiding the vulnerable, such as low-income pensioners and non-pensioners, most of whom are uninsured (Sieverding & Selwaness, 2012; Social Security Administration, 2010).

Finally, and most importantly, the new law introduced a defined contribution scheme to replace the existing defined-benefit PAYG scheme. This new scheme consisted of an NDC component and a financial defined contribution (FDC) component, to create a fully funded pension system, which involved a radical rather than a parametric change. On the one hand, although an FDC scheme would increase the risk to the pension system in terms of greater volatility concerning returns, it could allow for higher returns. On the other hand, an NDC scheme would offer lower-risk returns than an FDC scheme but would involve collecting deposits (usually required to maintain the existing defined-benefit PAYG scheme until the transition to the new scheme completes) from the insured. The Mubarak government decided to adopt a mix of NDC and FDC, although this choice was likely to complicate the administration of the pension system (Maaït & Demarco, 2012).

Along with the introduction of a defined contribution pension scheme, the reform law involved measures to enhance the relationship between collected contributions and paid benefits. In the original pension system, the retirement pension amount was only linked to the amount contributed during the five years prior to retirement. The new law aimed to link contributions from throughout workers' careers to what they would receive as retirement pensions (Roushdy & Selwaness, 2012). Every participant would have an individual account that

would record contribution amounts in the new system. Money in individual accounts would be disbursed with interest at retirement (Sieverding & Selwaness, 2012). The interest rate of the NDC account would be equal to the annual average on government bonds, and that of the FDC account would be determined according to the average rate of return from investment in a diversified portfolio (Maaït & Demarco, 2012).

Furthermore, the new law introduced additional voluntary savings for future social risks. The original law stipulated the maximum pensionable wage, which was a cap on employees' earnings used for calculating contributions (Sieverding & Selwaness, 2012). As of 2008, the maximum pensionable wage was E£1,275³ (approximately equivalent to US\$235) (Roushdy & Selwaness, 2012). In contrast, the new law stipulated that employees would be able to pay additional voluntary contributions (Roushdy & Selwaness, 2012; Social Security Administration, 2010), which meant that higher-income workers would be able to save more money than previously under the new system.

The World Bank assisted with the design of this pension reform through a multi-year technical assistance programme, and a draft of the pension reform law was prepared in close collaboration with the Egyptian Ministry of Finance (MoF) (Arslan, 2009, World Bank, 2015). The five-pillar model proposed by the World Bank had a significant influence on this pension reform. The introduction of NDC and FDC components, which formed the core of the overall reform programme, was based on 'the principle that multipillar schemes serve multiple objectives—sustainability, transparency, efficiency, and solidarity' (Maaït & Demarco, 2012, p. 168), which the World Bank had previously emphasised (Holzmann & Hinz, 2005). Following the World Bank's policy advice in this matter was expected to cut the government's fiscal deficit from 7.9% of GDP in 2010/11 to 3.5% over the following five years (*Reuters*, 14 June 2010).

The following two political changes in the Mubarak regime in the 2000s encouraged the Mubarak government to embark on this pension reform: the decreasing political influence of organised labour in Mubarak's ruling circle, and the increasing influence of a growing pro-capitalist elite.

First, organised labour's political influence had weakened in Mubarak's ruling circle. The government had excluded non-permanent workers from the official labour movement (Kienle, 1998), and co-opted union leaders only into the ruling circle. These measures meant that organised labour altered its role within government from being a partner of the regime to a potential challenger (or obstacle) to government policy and could no longer express its 'true' voice in policymaking within the National Democratic Party (NDP), the ruling party during the Mubarak era (Kassem, 2002). Consequently, the Mubarak government was in a stronger position to reform the pension programme, whose largest beneficiaries were workers in urban areas or leading trade union officials, to reduce the fiscal deficit.

³ In the original pension system, contributions were deducted from two types of monthly earnings: basic earnings and variable earnings (e.g. incentives and bonus). As at 2008, the maximum for basic earnings was E£775 and that for variable earnings was E£500.

Furthermore, pro-capitalist, business elites had become dominant among Mubarak's ruling circle, with the rise of Gamal Mubarak, a son of President Hosni Mubarak in the 2000s. Because he did not rely on the military or intelligence sectors but rather on big business groups, he was regarded as a promising advocate of economic liberalisation: 'He imposed a structure within the NDP through which he promoted his trusted elite, channelled ideas and projects and found roles (and government positions) for the favoured capitalists' (Osman, 2010, p. 135). The appointment of Ahmed Nazif as Prime Minister in July 2004 was another sign of change in the ruling coalition, with the new cabinet including several members (e.g. Youssef Boutros-Ghali and Mahmoud Mohieldin) who had worked for such international organisations as the International Monetary Fund (IMF) and the World Bank (Adly, 2013).

The business elites in Mubarak's ruling circle aimed to transform the Egyptian welfare state from a 'protective' model (primarily protecting certain individuals from the market) to a 'productive' model (primarily promoting market development), to use Nita Rudra's terminology (Rudra, 2007). They attempted to liberalise the economy (through deregulation and privatisation of SOEs, for example). Current social policy in Egypt centred on protecting urban workers from the uncertainties of the market to retain their support in ensuring the regime's survival. Business elites aimed to reform social policy to contribute to (rather than disturb) economic growth more effectively (through developing human resources, alleviating poverty, and accumulating capital, for example). In response to business elite pressure, the NDP proposed that subsidies could be better targeted and that it was prepared to reallocate funds set aside for fuel subsidies towards investments in education and health, at its annual conference held in December 2010 (*Ahram Online*, 7 January 2011), which were broadly in line with a 'productive' model of the welfare state.

Two further features of the reform also indicated an intention to transform the Egyptian welfare state into a 'productive' model, namely, the introduction of a defined contribution scheme and a social pension.

The introduction of a defined contribution scheme was expected to contribute to economic growth in three ways. First, it was expected to reduce expenditure on compensation in relation to pension deficits, which would alleviate the burden on the country's economy by reducing the fiscal deficit. Second, it was expected to encourage citizens to participate in the pension programme (or to pay their contributions correctly), as a defined contribution scheme would make clear the relationship between contributions and benefits. An increase in insured citizens would lead not only to the stabilisation of pension funds and the expansion of social safety nets but also to an accumulation of funds needed for investment in the private sector. Third, it was planned that some funds collected in the defined contribution scheme would be invested in assets through the private market. While some contributions (collected as the NDC component) would be invested in less risky assets, such as government-related bonds, others (collected as the FDC component) would be invested in riskier assets through the private market, with NDC component contributions comprising 65%–80% and FDC component contributions comprising 20%–35% initially (Maait & Demarco, 2012). The Mubarak

government expected that investment in the private market would galvanise the private sector and lead to economic growth.

Introducing a minimum pension (or social pension) was also intended as part of a 'productive' model of the welfare state. A 'productive' welfare state seeks to implement poverty alleviation programmes to maintain social stability as a minimum requirement for economic growth. The minimum pension proposed in the new pension system aimed to alleviate poverty by providing a minimum income guarantee to the non-insured elderly. Gamal Mubarak had also specifically referred to the necessity to improve social policy for poor and limited-income citizens, although those opposed to the changes asserted that his attitude towards the economically vulnerable was a pretence and only adopted to refute allegations that he was working to serve the interests of wealthy businessmen and to polish his image (*Ahram Online*, 25 December 2010). However, it is plausible to consider Gamal Mubarak's attitude to poverty alleviation as being motivated by his desire to ensure the country's economic growth.

To successfully reform the pension programme, the government attempted to overcome workers' distrust of pension reform. First, the new law reduced contributions for employees, as noted. It also restricted the application of the defined contribution scheme to new entrants into the labour market and those with no previous record of contributions. Members of the existing system would have the option of remaining within the existing system or switching to the new system, as any law obliging such members to switch would be unconstitutional (Maait and Demarco, 2012). Furthermore, these measures were intended to divide workers into two groups (that is, existing beneficiaries and those who were excluded from the pension programme) to control worker movements against pension reform.

This pension reform was, nevertheless, unacceptable to Egyptians, with trade union activists initiating a campaign against it. An Egyptian labour activist opposed to the reform commented:

This is merely a way for the government to gather funds. The law we have now has been praised by the ILO [International Labour Organization] as one of the best laws in the world. Why are we changing it? Because the law is costing the government, and the IMF says that the government should reduce social welfare spending (*Daily News Egypt*, 18 May 2010).

The interim government that was installed following the January 25th Revolution postponed the implementation of pension reform that had been scheduled to take effect in January 2012. The reform law was subsequently annulled (Presidential Decree 79/2013), with the previous model reconfirmed (Ido, 2018).

Pension Reform reinitiated in 2019

In 2019, the government of President Abdel Fattah el-Sisi (in office since 2014) resumed pension reform with the ILO's support. On 19 August 2019, the Egyptian Parliament issued a new Social Insurance and Pension Law (Law 148/2019) that amalgamated the two existing pension funds into a new pension fund. In contrast to the 2010 reform, this pension reform was parametric rather than radical. Table 1 shows four features of this reform in relation to the 2010 pension reform.

Table 1

Comparison of Two Pension Reforms in Egypt

	2010 Reform	2019 Reform
Pensionable age	Age 60 (2012) → Age 65 (2027)	Age 60 (2020) → Age 65 (2040)
Contribution rates	Employer: 15% → 13% Employee: 10% → 9%	Employer: 15% → 12%* Employee: 10% → 9%*
Social pension	All non-insured citizens over the pensionable age	Citizens with a previous record of contributions
Pension scheme	Introducing a defined contribution scheme	Maintaining the existing defined benefit scheme

Note: * Contribution rates are time-bound and will increase by 0.5% every 7 years until reaching a maximum combined rate of 26% in 2055.

Source: Compiled by the authors.

First, the new pension reform law, as with the previous reform law in 2010, entailed an increase in pensionable age, rising from 60 years to 61 in 2032, to 62 in 2034, to 63 in 2036, to 64 in 2038 and to 65 in 2040 (Social Security Administration, 2020).

Second, the new reform law, like the 2010 reform law, reduced contributions both for employees and employers. New contribution rates for employees and employers were set at 9% and 12% of the total monthly payroll, respectively, whereas employee and employer contributions rates had previously been 10% and 15%, respectively, and levied on basic and variable earnings up to two different monthly earning ceilings⁴. In addition, the new law created 26 new categories to include informal workers in both the private and public sectors, who had otherwise been excluded from the social insurance programme. Ten of these 26 categories comprised new beneficiaries, including irregular and seasonal workers (e.g. fishermen, land-transportation employees, and household workers) and small employers (e.g. owners of rural and family businesses) (Social Security Administration, 2020). Through these measures, the government sought to strengthen the social protection component as part of pension reform.

Third, the new reform law, like the previous law in 2010, introduced a minimum pension. The minimum pension in the previous reform law was intended to cover all Egyptian citizens aged over 65 years, whether they paid their contributions or not, to guarantee minimum incomes to non-insured citizens. In contrast, the new minimum pension scheme only covered citizens who continue paying contributions for 15 years. The minimum pension was set at 65% of the monthly minimum wage of the social insurance subscription (*Egypt Today*, 20 July 2019). Before implementing the new reform law, the government had a minimum pension scheme paying a flat E£900 (approximately US\$55) per month. Given that the

⁴ It should be noted that, to stabilise social insurance funds among an ageing population, these contributions are time-bound and will increase by 0.5% every 7 years until reaching a maximum combined rate of 26% in 2055.

government had needed, at various times, to adjust the amount of the minimum pension with parliamentary approval, this fixed minimum pension had been insufficient to protect pensioners from inflation (*Ahram Online*, 11 June 2019).

In 2015, with World Bank financial and technical support, the Egyptian government expanded the social assistance programme, through its *Karama* and *Takaful*⁵ initiatives, to cover non-insured elderly people. *Karama* provides cash income to poor elderly citizens aged over 65 years, as well as to citizens with severe disabilities and orphans, who receive a monthly pension of E£450 with no conditions. It has been reported that *Karama* beneficiaries comprised 306,016 households (approximately 1,300,568 individuals), of whom 52,338 (17%) were elderly (World Bank, 2018). Therefore, the Sisi government did not need a social pension covering all Egyptian citizens aged over 65 years, the introduction of which had been attempted in the 2010 law.

Finally, the new law maintained the existing defined benefit scheme, in contrast to the 2010 law. A defined benefit scheme normally has mechanisms to adjust pension benefits in accordance with the inflation rate. As the existing defined benefit scheme in Egypt lacked such mechanisms, the pension programme provided elderly citizens with insufficient income security. The new pension system, therefore, included a mechanism to automatically adjust pension benefits in accordance with the inflation rate. The pension amount is adjusted in July of each year, based on changes in the national consumer price index, with a maximum possible annual increase of 15% (Social Security Administration, 2020).

Compared to the 2010 reform, the 2019 reform was parametric as noted, despite a favourable environment for radical social policy reform. After a coup d'état led by the then Defence Minister, Abdel Fattah el-Sisi in July 2013, the government suppressed the labour movement, especially targeting independent trade unions. In addition, on assuming the presidency in June 2014, President Sisi and his government began implementing economic and social reform.⁶ In March 2015, he publicised the Five-Year Plan, which involved reducing the deficit and debt burden (through cutting expenditures and increasing tax revenues), reforming social policy in relation to poverty alleviation without incurring excessive financial burdens, and creating a competitive investment climate for foreign investors (Economic Ministerial Committee, 2015). In August 2016, the government obtained a loan (approximately US\$ 12 billion) from the IMF in a three-year Extended Fund Facility framework to facilitate gradual social policy reform, such as rationalising energy subsidies and restructuring food subsidies within a better-targeted poverty alleviation programme.

The Sisi government chose to adopt a gradual, parametric reform strategy in response to the failure of the 2010 reform. The Mubarak government undertook several measures to overcome workers' distrust in attempting to reform the pension programme successfully, including reducing employees' contribution rates and not requiring workers insured within the existing system to join the new

⁵ *Takaful* is a conditional cash transfer to encourage families to keep children in school and to provide them with needed health care.

⁶ Although President Mubarak co-opted business elites into his ruling circle, President Sisi often utilises the military and its business groups (rather than existing business elites) for his economic projects.

defined contribution scheme. This type of radical reform was not acceptable for most Egyptians, and the 2010 pension reform failed. The new reform law involved only parametric change (such as increasing the retirement age and amalgamating social insurance funds) to mitigate criticism of the pension reform, indicating a preference for a strategy to facilitate a gradual and steady enhancement of the programme's sustainability.

In addition, through the new pension reform, the Sisi government attempted to address the negative legacy of the previous pension reform as led by the MoF. Until the Ministry of Social Insurance was dissolved in 2005, social insurance funds were under the ministry's control and independent of the MoF. Social insurance funds deposited in the NIB could be borrowed by the MoF at a 4.5% interest rate (*Ahram Online*, 5 November 2013). However, Finance Minister Youssef Boutros-Ghali, who was considered an advocate of neoliberal economic reform, transferred the management of the NIB and social insurance funds to the MoF in 2005. Social insurance funds were then used to cover the fiscal deficit. Recently, these funds have been estimated to comprise E£1 trillion (approximately US\$620 billion), according to Al-Badri Farghali, the Head of the General Union of Pensioners (*Ahram Online*, 7 February 2020).

The MoF was accused of misappropriation of social insurance funds after the January 25th Revolution. It was reported that the MoF had unlawfully confiscated social insurance funds to use for the annual budget (*Ahram Online*, 17 September 2011) and squandered E£436 million of social insurance funds because of insufficient investment. Although the interim government embarked on an investigation and denied these allegations, Egyptian citizens became distrustful of the MoF (*Ahram Online*, 7 October 2011). Since the revolution, therefore, the Ministry of Social Solidarity, not the MoF, supervises social insurance funds. In addition, the new reform law promised that the MoF would repay pensioners' funds to social insurance funds. The MoF is committed to repaying E£45 trillion for 50 years at an interest rate of 5.7%, with the government having paid E£160.5 billion in the 2019/20 financial year (*Ahram Online*, 7 February 2020).

Conclusion

This article focused on two pension reforms in Egypt to help reveal the dynamics of social policy reform under authoritarian rule. It showed that political factors determined the success or failure of pension reform in Egypt.

From the 1950s to the 1970s, President Nasser and President Sadat developed and expanded the pension programme by targeting urban workers to ensure regime survival. Such political motivations undermined the capacity of the pension programme to provide effective social security in the 1990s. However, the first pension reform was only implemented in 2010, which can be explained as due to two political factors developing in the 2000s, namely, the decreasing political influence of organised labour and the increasing influence of a pro-capital elite in Mubarak's ruling circle.

Although the Mubarak government took measures to overcome workers' distrust of the pension reform (such as reducing employees' contribution rates

and excluding existing insured workers from the defined contribution scheme), the pension reform was unacceptable to most Egyptian citizens and abandoned after the January 25 Revolution in 2011. Therefore, the Sisi government chose a parametric reform when it resumed pension reform in 2019. This indicates that authoritarian leaders, who have wide-ranging discretion in public policy decision-making processes, cannot necessarily implement unpopular reform when seeking to ensure political stability and their survival.

This finding accords with Markus Loewe's analysis of pension reform under authoritarian rule in the MENA region. According to Loewe (2014), many authoritarian countries in the region have not attempted radical pension reform because their political leaders often prioritise political goals (i.e. favouring their clientele) over social goals (i.e. reducing old-age poverty) and economic goals (i.e. encouraging the engagement of low-income households in productive activities) in pension reform. If such leaders were to undermine the interests of their supporters, most of whom are middle-income earners, through radical reform, they might be faced with a popular uprising. As authoritarian leaders in these countries depend on resource redistribution to confirm their legitimacy, they are often reluctant to implement radical welfare retrenchment policies.

These findings highlight two points. First, current perceptions that political leaders under authoritarian rule have wide-ranging discretion in public policy decision-making processes to decisively implement harsh economic and social reform (Lal, 1997) need to be reconsidered. Given the lack of competitive elections, authoritarian leaders cannot readily obtain accurate information concerning the extent to which people are able to tolerate painful reform. In such circumstances, such leaders are likely to fear that painful reform could hurt supporters of the regime and trigger uprisings. As a result, they often avoid undertaking radical economic and social reform unless strongly motivated to do so. In addition, a lack of accurate information sometimes leads authoritarian leaders to miscalculate concerning their citizens' preferences and, consequently, to a failure in implementing radical reform successfully, which occurred in relation to the Egyptian pension reform in 2010.

Second, conventional perceptions that authoritarian leaders are more compliant with international financial institutions (such as the World Bank and the IMF) than democratic leaders also need to be reconsidered. The Egyptian case shows that an authoritarian leader may often prioritise the needs of domestic politics over World Bank policy advice on pension reform. In the 2010 reform, the government attempted to introduce a defined contribution scheme, based on World Bank advice, but the attempt was not successful. In contrast, the Sisi government prioritised political stability in the country and only carried out parametric pension reform that was less radical than that preferred by the World Bank.

Although the Egyptian government has successfully implemented pension reform, the reforms do not deal adequately with the ageing of Egyptian society, in which it is estimated that the elderly will comprise 22.7 million (12.3% of the population) in 2070, and to 33 million (15.3% the population) in 2100 (*Egypt Today*, 9 June 2020). The PAYG scheme, which is the core of social insurance in Egypt, is vulnerable to such demographic change and further reform, therefore, is inevitable.

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WHEN CULTURE IS HARMFUL

Mate Maskhulia

Master of Public Administration, University of Bergen,
Department of Administration and Organization Theory.
Address: 17/19 Christies Gt., 5007 Bergen, Norway.
E-mail: masskhulia@gmail.com

Abstract

This article is based on mixed-method research conducted into the Georgian public administration system. The author of the article studied Georgian public administration from the perspective of sociocultural theories. The study proposed and confirmed the hypothesis that the persisting issues in Georgian public administration have deep cultural implications which originated from unchangeable centuries-old traditions of local society. With that, the study disproves the common opinion that corruption arose in local managerial traditions primarily during the soviet period. Besides, the results of the study revealed that a new generation of Georgian public servants in some matters demonstrate more traditionalism than their senior colleagues. At the same time, data analysis exposed a subgroup of Georgian bureaucrats which might be considered as potential modernizers among homogeneous groups of cultural traditionalists. Overall, the author makes the conclusion that models of behaviour which are assessed in Western societies as corrupt, are legalized and approved in Georgian society, as well as in local public office.

Keywords: Georgia, bureaucracy, public administration, reforms, culture, corruption, nepotism, cronyism, informal networks.

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Introduction

Despite long-term reforms, Georgian public administration is still considered as a corrupt system. The main features of Georgian public office are patron-client relations, power abuse, nepotism, cronyism, creation of informal networks, inability of teamwork, clanship, and non-transparency (Charkviani, 2014, p. 5). These phenomena appear during in-group and out-group relations. As a result of this corrupt public office, currently Georgia has “an ineffective and unprofessional bureaucracy which experiences difficulties even in the execution of its basic

functions” (Rukhadze, 2016). Both Georgian and foreign researchers associate the issues of Georgian public administration with the legacy of its soviet past. According to this view, Soviet nomenklatura¹ performed as a “spoiler” of Georgian bureaucracy (Shelley et al., 2007; Charkviani, 2014; Dolidze et al. 2010). However, researchers do not present distinct evidence which may indicate the implication of the Soviet epoch to the current issues in Georgian public office.

Thus, the objective of this article is to fill the gap in the scientific knowledge by uncovering the causes of continuous corruption in Georgian public administration which persists even in spite of large-scale reforms. Another aim of the article is to dispute common scientific opinion of the “soviet origination” of corruption in local public administration. Rather, the author brings to the fore the “sanctum sanctorum” of Georgian society – its proudly cherished cultural traditions. At the same time, the article puts in doubt the opinion of the cultural homogeneity of Georgian bureaucracy. Vice versa, the author seeks cultural variability among public servants as a result of generational change and large-scale reforms. Thus, the main purpose of the article is to detect certain dynamics inside an allegedly uniform system.

The Significance of cultural prospect

The literature argues that public entities, despite the adoption of formal rules, reflect the values and norms existing and practised in society (Hofstede, 2005; Alvesson, 2002). Accordingly, cultural context is a factor that determines the efficiency of performance of any organization (Jamil, 2007). Cultural prospect might be understood as an integral “conceptual toolkit” for the study and analysis of a system of modern organization (Morrill, 2008, p. 15). Jamil argues that organizations which are studied through a cultural prism differ not only across cultures but also within one society (Jamil, 2007). Thereby, the performance of an organization that inevitably consists of agents of different values should be analysed through a humanistic approach that focuses on the cultural context of interacting subjects (Alvesson, 2002). These views contradict the view of proponents of the “mechanistic” “one best way-approach” (e.g. Fayol, Taylor, Weber), who argued for the study of organizations through the prism of formal rules (Jamil, 2007). On the contrary, as practise shows, “one-size-fits-all”, which originated at the turn of the twentieth century, has proved its scientific inefficiency (Persson et al., 2013, p. 466). According to observations, cultural traditions play a significant role in the life of Georgians in determining relationships, both on societal (informal) and public (formal) levels. However, reasonable doubt exists as to whether Georgian societal culture has a positive influence in the matter of establishing an efficient public office. At the same time, the literature argues that every cultural tradition should be considered as an impermanent variable that tends (in the case of certain circumstances) to change (Fukuyama, 2011, p. 437; Putnam, 1993, p. 180). According to this notion, cultural traditions are

¹ “Nomenklatura” is a patrimonial model of Soviet bureaucracy which was based on loyalty and obedience to the hierarchy of Communist party functionaries.

not timeless and static, but they are continuously being influenced by *economic*, *political*, *social* and *historical* factors (Ekiert & Hanson, 2003; Meyer-Sahling et al., 2011). Therefore, despite interrelation between corruption and societal culture in developing countries, researchers, at the same time, reject branding societal cultures of developing nations as entirely corrupt. They argue that national culture might be considered as much “a culture *against* corruption” as it is “a culture *of* corruption” (Smith, 2007). The same deliberated approach may be applied in the context of Georgia with consideration of the abovementioned *politico-economic* and *socio-historical* factors. However, in the case of Georgia it was still an unanswered question to what side – “culture *against* corruption” or “culture *of* corruption” – members of Georgian society lean more to, especially the new generation of Georgians. On the basis of these assumptions, three main research questions were formulated:

1. Is it possible to say that the issues of Georgian public administration and its permanent inability to transform into a Western model of public office are determined by local societal traditions?
2. Is Georgian bureaucracy homogeneous (i.e. traditional) in its cultural attitudes or is it possible to single out “modernizers” among Georgian public servants?
3. Which variables, if any, determine the modernity of Georgian public servants?

The structure of Georgian public administration

The literature considers bureaucracy through several categories: branch of government (executive, legislative, judiciary), types of positions (low, medium, high), place of work (central level, field level), and nature of work (generalist, specialist) (Jamil, 2007, p. 98). According to Georgian law on public service adopted in 1997, there are four categories of public employees in Georgia: (1) public-political officials, (2) public servants, (3) supplementary staff, and (4) freelance/supernumerary workers (Dolidze et al., 2010). Public employees of different categories can perform either at *central* governmental level or *local* governmental level. Georgian law on public service formulates several requirements concerning employment policy that public organizations should stick to. According to the law, recruitment of employees in Georgian public organizations should occur on the basis of either *election* or *appointment*. Conforming to the legal regulations, most Georgian public employees are appointed to their positions. These are public servants (or office workers), supplementary staff (or technical workers), and freelance/supernumerary staff, i.e. temporary employees engaged either in office work or the technical provisions of the organization. These types of public employees must be appointed to their positions on the basis of a contest that proves their professional qualification and competence. At the same time, supplementary staff might be hired by governmental structures in the case of a need for their expert knowledge. As for public-political officials, such types of public employees are divided into two categories: (1) political officials who are elected, and (2) public officials who are appointed to the position either by elected political officials or by an authorized department of public organization (e.g. HR department) (ibid: p. 115).

Criteria of “a good bureaucracy”

Weber’s concept of bureaucracy, which has been formally adopted in Georgian public administration, considers public office as a rational-legal system. According to Weber, the ideal type of bureaucracy consists of ten characteristics which place bureaucracy into a legal framework, at the same time, restricting it from gaining and abusing power (Albrow, 1970, p. 45). The Weberian model implies meeting the following requirements: (1) appointment on the basis of contract, (2) observation of solely impersonal duties in the offices, (3) selection on the basis of professional qualification, (4) legal mechanisms of career promotion, (5) existence of a unified control and disciplinary system in the organization, (6) observation of hierarchy, (7) specified mechanisms of office function, (8) granting salary according to holding position, (9) non-misappropriation of resources related to the office, and (10) public office as a major occupation (ibid). Some criteria of ideal Weberian bureaucracy, such as strict discipline and control by means of an administrative hierarchy, may contradict the contemporary perception of efficient public administration. However, “good bureaucratic functioning”, according to the modern approach, still implies the observation of such basic requirements as the selection of public employees on the basis of their professional qualification and promotion on the basis of merit rather than through personal informal relations (Fukuyama, 2014, p. 59).

Georgian public office supposedly contradicts Weber’s concept of rational bureaucracy in key parameters. Firstly, Georgian public servants are *not* subordinated to their superiors merely on the basis of a formal hierarchy. Secondly, Georgian bureaucrats are not selected or promoted on the basis of their professional qualification, they are rather appointed on the basis of personal connections. Thirdly, in Georgian public entities, observation of *formal* intra-organizational business etiquette is disregarded as personal relations are put to the forefront but not professional interests (Charkviani, 2014, p. 5, pp. 122–180). Accordingly, the Georgian system of public administration opposes the Weberian concept of bureaucracy in its ideal (rational-legal) understanding appearing as a patron-client system. Such type of public office implies a *contractual-conventional* model of organization and performs without any well-thought-out strategy, neglects formal requirements, but focuses on the informal relations (Cassese in della Porta et al., 1999, p. 133). Moreover, clientelistic bureaucracy represents a risk for the efficient performance of public administration (Fukuyama, 2014, p. 87).

Georgian societal traditions: some facts

Qualitative research attempts to find parallels between issues of Georgian public administration and local societal traditions. Referring to the existing scientific data (Charkviani, 2014, p. 5, pp. 122–180), under the “issues of Georgian public administration”, the following were considered: (a) persisting phenomena of power concentration, (b) patron-client relations, (c) clan system, (d) inability of teamwork, and (e) overall insusceptibility to reforms.

Culture of Domination and Subordination

In contemporary Georgia, social hierarchy manifests on two dimensions: on a macrosocial level (interactions between different social strata) and a microsocial level (interpersonal interactions and interactions of groups from the same social stratum). Relationships on both dimensions are characterized by superiority of more authoritative either groups or individuals over either less powerful groups or less powerful individuals. At the same time, local political elites, which belong to the highest social stratum in Georgia, are also subordinated – to international political and business elites (Gotsiridze, 2014; Maisashvili, 2016). Patron-client relations existing between local and international elites are explained by the historical subordination of the Georgian state to foreign invaders (Shiukashvili, 2010). On the other hand, patron-client relations between local elites and representatives of lower social strata refer to the heritage of undeveloped civil society which historically facilitated social division and elitist relations between classes. As for the microsocial (intragroup) level, hierarchy is caused by societal norms that refer to (a) patriarchal traditions, (b) perception of leadership as domination, and (c) tradition of affiliation to influential societal groups that endow individual authority over less affiliated ones. Establishment of superiority as a main principle of relations between social groups and individuals has created in Georgia a cultural phenomenon of subordination to the *holder of power*, whether that is a single individual (e.g. elder, father, leader, etc.) or individuals (e.g. priest, businessman, public official, etc.) which represent influential groups (e.g. church, company, government, etc.). Such socio-historical “tuning” has developed in contemporary Georgian society *subjugating* models of interrelation (Bichikashvili, 2017; Berdzenishvili, Maisashvili, 2016; Gotsiridze, 2014; Shiukashvili, 2010).

Another cultural regularity is an upbringing method which might be associated with the tradition of “nurturing of tyrants” (i.e. dominating and powerful men). According to local traditions, the upbringing of youngsters aims at the formation of “persistent, purposeful and courageous man who will strive for the best results in everything” (Toria, 2015, p. 98). Such youngsters are educated to be in competition mode throughout life. From their childhood, youngsters seek success and domination over their peers. Parents foster boys’ interests in physical activity and competitions; victories are complimented, while defeats are perceived as painful failures. The upbringing of girls implies acquiring skills related to maintaining the household and service to other members of the family (ibid). Hierarchy of local families implies a patriarchal order: subordination of women to men, children to parents, juniors to seniors. As to methods of education, in local families these are based on (a) persuasion, (b) authority, (c) encouragement and (d) punishment. At the same time, there is a lack of dialog between family members (Smirnova, 1983; Semyonova, 2011; Tsiramua, 2015). Scholars note that subordination in Georgian families is an agreed phenomenon which is accepted by family members themselves. Thus, the majority of Georgian women do not protest their subordinate status but rather expect domination from the males.

The survey shows that 56% of Georgian females believe that a wife should obey her husband even if she does not agree with him (UNDP, 2013). Psychologists argue that Georgian society lives according to a double moral: behaviour

that is forgivable for men (*strong*) is unforgivable for women (*weak*). In such conditions, relationships between Georgian men are generally reduced to continuously proving their masculinity to each other. If one cannot prove his superiority, he tries to dominate in another situation among other (even unknown) people; otherwise, the man loses self-esteem and is labelled as an insolvent male, i.e. subordinate or marginal male (Nikoleishvili, 2014). Overall, Georgians want to be on the side of winners and not to stand among the losers in the crowd. The aspiration to be part of a successful and dominating group (i.e. power) is instilled in Georgian children by their parents from childhood.

Georgian Collectivism: “We” and “They”

Georgian society is a collectivistic society, however, Georgian collectivism has its peculiarities. Esebua argues that Georgian society is a *narrowly collectivist society* which perceives as a *collective* only particular referent groups. Consequently, the Georgian version of collectivism is accompanied by nepotism and other forms of favouritism. Esebua writes that the societal tradition of narrow collectivism is reflected also in the business environment: “in Georgia being pleasant for referent group is much more important than professionalism, and for such referent group one’s loyalty is more important than his qualification” (Esebua, 2016). Nizharadze echoes that Georgian culture is collectivistic and it is oriented on the creation of small groups. Such groups consist of several hundred men and women who know each other personally. These people might be relatives, friends, acquaintances, and to a lesser degree colleagues, neighbours, distant acquaintances; i.e. those who share the same values, norms of behaviour, and interests. Basically, all those who can be united under the words “My” and “Our” (Nizharadze, 2015). There are a few factors that determine the prevalence of narrow collectivism in Georgian society. These factors are: (1) norms of social relations arising from the tradition of upbringing youngsters; (2) postulates of orthodox religion and its oppressive traditions that do not contribute to the formation of individualism among congregations; (3) historical factors such as (a) centuries-old division of nation by principalities and (b) historical inability of civic organizations (Nizharadze, 2014; Shelley et al., 2007). Moreover, a paradoxical phenomenon exists in Georgia: despite enormous hardships that face most of the locals, there are neither civil solidarity nor organized protest in society, but there is a persistent tradition of division on “we” (“my family”, “my yard”, “my friends”, “my schoolmates”, etc.) and “they” (strangers, aliens, rivals, foes) on both societal and political levels. The tradition of division on “we” and “they” is skilfully used by local government, which usually explains the failure of its policies by the intrigues of the external enemies of Georgian state. Thus, there is always a universal pretext that the Georgian authorities use as an excuse for inefficient domestic policy, and Georgian society accepts it. Apparently societal acceptance is conditioned by an inherent distrustful attitude of Georgians towards strangers that is a part of a cultural code of the nation (Bichikashvili, 2017).

One of the explanations for the alienation to strangers is the tradition of upbringing in Georgian society. According to this tradition, representatives of a new generation are kept within the family and the circle of their out-of-group communication is limited by senior relatives. As a result of such isolation inside families,

youngsters are influenced and dependent on parents in both financial and moral aspects (Mkheidze, 2010). Ermisch et al. argue that social conservation of youngsters inside families and absence of outward exposure inhibit trust in strangers. Subsequently, in adulthood, intrinsic attachment to familiar settings and familiar personalities stimulate the creation of the features of narrow collectivism that impact the ability to form out-of-group relationships. Conversely, those who have a weaker attachment to their families demonstrate higher levels of trust in strangers. The motivation for the establishment of a wide range of social networks is a need for social interaction and the pursuit of economic welfare (Ermisch et al., 2010).

It should be noted that it is exactly the family circle where centuries-old traditions of communication are preserved and transmitted to new generations. As Majundar argues, “without the family there could be no preservation of the species and culture” (Majundar in Dawa, 2002, p. 235). Thus, even soviet collectivism which sought to subdue the mindset and behavior of Soviet citizens could not break the traditional structure of Georgian family. Gellner writes that after the onset of Soviet collectivism, which opposed old cultural norms, the *institute of family* became the concentration point of societal traditions in newly communist Georgia. As a result, pre-communist societal traditions, religious beliefs, kinship ties, and overall “national consciousness” were concentrated in the private sector (Gellner & Simon in Dawa, 2002). As Rakowska-Harmstrone notes, in the Soviet Union the concept of a *well-tied family* became the factor which eventually preserved societal traditions and the feeling of the ethnic identity of nations united during several decades under the motto of Soviet collectivism (ibid).

Another meter of social cohesion is an index of prevalence of individual interests over collective interests (Hofstede, 2005). According to Georgian societal tradition, individual interests have always been placed lower than the interests of the family which is traditionally managed by an effective head. At the same time, interests of the family have always been placed higher than the collective interests of the neighbourhood or village. Such a system of prioritization of interests might be considered as one of the most persistent manifestations of narrow collectivism in Georgian society.

Mental Dilemma: Between Mythology and Reality

According to the literature, there are two factors which determine dynamics of institutional changes of society: firstly, it is an *extent of traditionalism* of society, and, secondly, it is an *extent of rationality* of those traditions. Irrationally, traditional society is characterized by either absence or low dynamics of institutional changes. Moreover, such society subordinates individuals’ intellectual and social initiatives to the authority of traditions. Consequently, instilled traditions give life to social stereotypes which contradict the concept of rationality and ultimately prevent society from further development (Weber, 1992). According to Lippmann, social stereotypes, as a synonym of irrational societal traditions, represent “pictures in our heads” which in most cases do not reflect reality. Such a distorted “picture of reality” gives an inaccurate impression on the surrounding world, at the same time, preventing the adoption of new information (Lippmann, 2004). In Georgian society, the contrast between traditional stereotypes and mod-

ern ideas is distinctively observed. Despite being part of the European political space, Georgian culture rejects Western values; consequently, norms and principles that are common for Western mentality hardly take root in Georgian society (Antonova, 2017). A mismatch of the *form* with its *content* has occurred in Georgia for decades. Thus, the Bertelsmann Transformation Index (2016) reports that since the early 1990s in Georgia, the copying of democratic institutional values which are applied in Western societies has occurred. Those values were brought to Georgia by Western experts without consideration of local cultural specifications; as a result, their implementation has failed. Overall, the principles of Western democracy formally adopted by the Georgian state as a role model were developed by people who bore a different cultural code (Antonova, 2017).

Social stereotypes stem from existing cultural beliefs, values and orientations which are instilled in a human being from childhood. Thereby, stereotypes refer to the subconscious level which determines individuals' behaviour. The essence of stereotypes manifests in simple division on "mine-not mine", "friend-enemy" and "good-bad", which implies blind adherence to instilled traditions. One of the probable explanations for the ingrained traditionalism of Georgian society is centuries of occupation by foreign invaders. Thus, during foreign invasions, rejection of something new, i.e. something that comes from outside, was equal to resistance and, at the same time, preservation of national identity. In modern Georgia, attempts at the introduction of liberal ideas usually cause conflict between different social groups. According to experts, two worldviews exist in Georgia today: modern and traditional. The modern worldview is based on the prevalence of Western liberal values which seek institutional and social changes; those values are promoted mostly by non-governmental organizations which are backed by Western NGOs. The traditional worldview is focused on the past, creating and rooting social stereotypes. The main sources of stereotypes are the ideology of the church, chauvinism of local intellectuals, and populism of politicians (Nizharadze, 2015; Bichikashvilil, 2016).

The enormously increased role of the Orthodox church in recent years and decades has formed a new type of closed, intolerant, narrow collectivist group in Georgia that consists of "homogeneous congregation" and clergy having "supreme and indisputable authority" (Nizharadze, 2015). The institute of the church instils congregation episodes from the "glorious past" and ideas of a divine nature of Georgian nation in its congregations. At the same time, the church does not teach any rational skills of creative intergroup relations and critical comprehension of surrounding reality. Rather, the Georgian orthodox church performs as an assistant of the authorities in the "taming" of the masses with the motto "be patient on the Earth, the better life is waiting for you there in Heaven" (Bichikashvili, 2016). Mariamidze notes that the doctrine of the Georgian orthodox church is akin, no more and no less, to "fascism". "Division of human beings by first-rate and second-rate, condemnation of idea of equality, promotion and justification of segregation and discrimination, intimidation by conspiracy theories, – these and many others are the methods of education of congregation", Mariamidze says (2014). As a result of such ideological "processing", Georgian society represents a deeply neophobic society which is inclined to traditions and highly appreciates its "glorious past" (Bichikashvili, 2016). Having different vectors, nevertheless,

myths in Georgian society have one distinct feature – exaltation of self-importance and representation of Georgia as a “little empire” with a unique heritage (Maisuradze, 2015). Mindiashvili (2014) acknowledges that one of the sources of intolerance in Georgian society is religious philosophy that promotes irrational ideas of isolationism and national exceptionalism.

Another area where religious views play an obstructive role is the attitude towards labour. Being one of the main institutes of socialization, religion is considered as a factor which determines economic behaviour and habits of social actors (Zabaev, 2008, p. 57). In this regard, the doctrine of protestant philosophy has played a significant role in the development of capitalism, the rationalization of the economy and business, taking care of creditworthiness and the culture of long-term investment. At the same time, Georgian orthodox Christians tend to interpret the concept of labour as a *labour of spirit* depreciating other possible interpretations of the concept. Specifically, Georgian orthodoxy opposes the concept of *materially rewarded hard work* which is one of the main principles of Western Christianity that has become its fundamental religious value (Nizharadze, 2015). According to Georgian orthodox Christians, the crowning achievement of labour is religious enlightenment rather than material success (Kachkachishvili, 2014). “Orthodox religion is not oriented on mundane life because it is associated with mysticism, with the transcended world (Mindiashvili, 2014, p. 10). Socio-economic identification of orthodox Georgians can be expressed in the following theses: “We are special people” and “We labour to live” (Nizharadze, 2015). This contradicts the Western religious philosophy that can be expressed as “We live to labour” that implies individual initiatives and the progressive improvement of quality of either product of the labour or work conditions.

Failure of public administration reforms as a cross-national issue

Arasli and Tumer explain cross-national similarities by the concept of *microgeographies* that refers to similarities in the sociocultural evolution of nations. Thus, nepotism and other forms of favouritism might have identically occurred in societies which are similar in their cognitive development (Arasli & Tumer, 2008). Hofstede also proclaims similarity of historical background as a central factor of cross-cultural affinity which determines the formation of values and social institutes of nations (Hofstede, 2005, p. 323). According to Pavlova, commonalities of values and cross-national affinity result from similarities of nations in such aspects as historical background, societal traditions and religious identity (Pavlova, 2014). Antonova acknowledges that similarity of guiding ideas of different societies are formed through identical socio-historical backgrounds. Those ideas being developed through centuries take the form of fundamental political, economic and cultural axiospheres of modern societies (Antonova, 2017).

Greece, as a country with the same socio-historical features as Georgia (one religion, centuries-old subordination to foreign rulers), faces the same challenges in its system of public administration. Papadoulis writes that the main distinctive features of Greek public office are clientelism, patronage and corruption. He argues that in modern Greek public administration there is a gap between formally adopted

EU policy and informal practices which manifest in disobedience of formal norms and statutes. According to him, negligence of formal rules by Greek public employees impacts on the morality and legality of the whole system of local public administration. "The Greek public administration system and style is not a reflection of its formal, institutional context. It has been conditioned by a variety of informal and non-institutional behaviors and practices" (Papadoulis, 2006, pp. 13–16). Papadoulis writes that the adoption of all-European legal standards of bureaucratic performance was supposed to be a guardian of improvements to Greek public administration contributing to its transparency and legalism. However, new legislation in the hands of inadequate implementers failed. Papadoulis argues that, nowadays, Greek public administration, despite formally adopted European legislation, is entirely incompatible to key characteristics of the Weberian public administration archetype; according to him, those characteristics are: calculability, efficiency, instrumentality, and legal rationality or legitimacy. The failure of Greek public administration is explained by multidimensional factors: (1) prevalence of private interests of public actors, (2) current political objectives, (3) national culture and style of administration, and (4) socio-economic needs, demands and problems (ibid). Thus, factors that impact the efficiency of public administration in Greece might be divided on *modern economic* and *historical socio-cultural* factors. Accordingly, processes and phenomena which take place on both administrative and political levels in Greece refer to either specific economic or cultural factors.

In writing about the problem of clientelism and patronage in Greek public administration, Papadoulis refers to a socio-cultural factor: "Clientelism, patronage and corruption represent a significant part of Greek society's behavior, nature, attitude and overall relationships" (Papadoulis, 2006, p. 13). He argues that during reforms of Greek public administration that represented replication of EU legislation, there was no consideration of informal non-institutional structures and practices existing in Greece. Consequently, a study of informal non-institutional structures and practices of Greek society would uncover algorithms through which clientelism, patronage and corruption are maintained and even expanded in local public administration. According to Papadoulis, currently any policy implementation in Greece is filtered by the national administrative system that employs patronage and clientele practices. This might be explained by attitudinal and behavioral loyalty to corruption on a political level in Greece. On the other hand, the problem of acceptance of clientelism, patronage and corruption might refer to a deeper non-institutional level which concerns local society's "cultural and politico-economic traditions and ideologies" (Papadoulis, 2006, p. 21). Thus, according to Papadoulis, "the degeneration of the ethical, transparent and legal environment in which public servants operate has been eased by a climate of tolerance, a *mafia omerta* and impunity... The propensity to tolerate clientelism, corruption and patronage in particular, is closely related to the appraisal of individual or affinity groups' self-interest and selfishness in Greek society... This allows such practices to flourish and expand, threatening the values underpinning democracy" (ibid).

In studying public administration in Western and Eastern Europe, Meyer-Sahling et al. (2011) note that it is a fallacy to disregard a variety of local traditions and historical legacies. Those varieties are in direct relation with, on the one

hand, *institutional resilience*, and, on the other hand, *institutional persistence* that either assist the adoption of reforms or hinder them. Consequently, for successful implementation of “universal” policies there should be common similarity across countries, such as “national-political administrative history, culture, traditions and styles of governance” (Meyer-Sahling et al., 2011). Therefore, in the process of transformation of the post-communist administrative system which is characterized by over-politicization and weakness of formal rules into Western-style, administration attention should be paid first of all to *institutional* reforms. “... studies that focus on the causal effects of the past reach remarkably similar conclusions regardless of their geographical focus: *legacies* are primarily seen as a reform inhibiting factor” (Meyer-Sahling et al., 2011, p. 313). According to Ekiert and Hanson (2003), the concept of *legacy* might be analyzed according to three temporal prospects. Those prospects refer to the interaction of three temporal factors: (a) pre-communist cultural and historical context, (b) communist administrative heritage developed during the Soviet epoch, and (c) post-communist epoch that refers to the period of transformation and adoption of Western, i.e. new, administrative traditions (Ekiert & Hanson, 2003, p. 19). As Meyer-Sahling et al. (2011) note, collective analysis of three temporal dimensions of concept *legacy* contributes to better comprehension of *ideas, values, institutions* and *practices* existing in society, as well as providing information about actors and their attitudes.

Normally, the concept of *legacy* is associated with the concept of *path-dependence*, which implies analysis of compatibility of formal rules with existing societal norms. Accordingly, the extent of either prevalence of formal rules or informal practices among interacting subjects might be explained by the historical socio-cultural norms of society (North in Putnam, 1993). The central role of socio-cultural norms is well illustrated by Putnam who, in the 1970s, studied the performance of public agencies in different parts of Italy. Public entities in North and South Italy were guided by the *same formal rules*, however they varied by their socio-cultural context. Putnam came to the conclusion that efficiency of public agencies was higher in North Italy which had stronger traditions of horizontal civic bonds, i.e. civic engagement. At the same time, public organizations which performed in the context of South Italian society with undeveloped traditions of civic engagement suffered from intra organizational corruption. The case of South Italian public agencies distinctly correlates with the case of Georgian public organizations which also perform in conditions of undeveloped civic traditions.

Putnam binds concept *civic engagement* to historical traditions of social development in general and civil networks in particular. One of the main characteristics of a developed society are a high trust level between fellow citizens and less-hierarchical modes of governance which facilitate the establishment of civil networks. Thus, North Italian society was historically characterized by high trust levels among citizens, egalitarian patterns of interaction, and, on the other hand, the existence of civil networks as guilds, cooperatives, unions, sport clubs, literary societies, etc. At the same time, South Italian society was characterized by mutual distrust, vertical dependence, exploitation, social alienation, a high level of corruption and overall economic backwardness. With this connection, Putnam argues that research of public administration in heterogeneous society implies consideration of cultur-

al context as a crucial factor which affects the overall performance of the object of study. He notes that the influence of culture and traditions equally spreads to all members of society even if they have a different social status. Thus, cultural heritage represents an omnipresent factor that conditions the behavior of actors whether in a formal or informal environment. “The performance of a representative of government is facilitated by the social infrastructure of civic communities and by the democratic values of both officials and citizens” (Putnam, 1993, p. 182).

The role of societal culture in the study of public administration is also emphasized by Karyeija. In studying performance evaluation in Uganda’s governmental agencies, he refers to the cultural background of public servants who are in charge of policy implementation at the local level. According to Karyeija, there are two factors which determine effective policy implementation: (1) availability of technical resources and provision; and (2) attitudes of implementers, i.e. their mental model. Karyeija comes to the conclusion that adequacy of performance of local bureaucracy and consequently efficiency of policy implementation is closely related to the cultural values of implementers. He notes that the mental model of local bureaucrats plays a more decisive role in either success or failure of policy implementation than formal variables as resources and provisions. “The bureaucracy cannot be fully analyzed without underscoring the values, beliefs, norms, and attitudes that move it” (Karyeija, 2010, p. 5). According to Karyeija, there are two solutions that might facilitate the adaptation of Ugandan public servants to “borrowed” Western policies, and, consequently, increase the efficiency of policy implementation. The first resolution refers to the adjustment of *borrowed policy* to local “unique sets of values”, and the second solution is to encourage local civil servants to “unlearn their current values and adopt the new value system” (Karyeija, 2010, p. 212).

Persson et al. acknowledge a correlation between failure of policy implementation and cultural factors. While studying the phenomenon of permanent corruption in Africa he came to the conclusion that the main failure of international anti-corruption policies refers to their disregard of cultural settings of local developing societies. Specifically, international authors of anticorruption reforms do not consider cultural variations across societies where *acceptance of corruption* significantly varies. Therefore, policy based on the principle “one-size-fits-all” proves its inefficiency. For the improvement of the current state of affairs, developing societies need a so-called “big push” which implies reconsideration of norms of behavior on an institutional level. Persson et al. outline two domains which need reconsideration: *formal political* and *informal societal* norms. According to them, “big push” is necessary primarily on an informal societal level that implies the formation of a culture of *reciprocity* and *trust* among local actors. At the same time, Persson et al. note that current anticorruption reforms are mainly oriented to the *legal*, i.e. formal (*monitoring* and *punish*) side of the issue. This strategy is inefficient because when societal culture contradicts formal arrangements proposed by the anticorruption policy, then the latter becomes “mere façade” (Persson et al., 2012, p. 466). “Endemic corruption is not some flaw that can be corrected with a technical fix or a political push. It is the way the system works and it is deeply embedded in the norms and expectations of political and social life. Reducing it to less destructive levels – and keeping it there – requires revolutionary change in institutions” (Diamond in Persson et al.,

2012, p. 465). According to Persson et al., resistance to corruption requires collective action from a part of society. At the same time, classic principal-agent theory being promoted by the authors of anticorruption policies, which refers to a monitoring and punishment model, is powerless when there is the absence of *collective will*. Persson et al. argue that in conditions of absence of collective will, no one performs as principal either to monitor or punish as the current status-quo is determined by cultural norms and is acceptable for all actors. In such a situation, elites continue being corrupt, and the others are given a chance to survive by struggling for the crumbs that fall from the “masters’ table”. The paradox of this situation is that “the others” would behave in the same corrupt way if they were given the chance (Persson et al., 2012, p. 458).

Research design

The literature recommends studying public administration of developing societies through three temporal levels. Those levels are: (1) *institutional level* which implies analysis of politico-administrative traditions of study object; (2) *structural level* that studies public administration in context of societal culture and historical legacy; and (3) *interactional level* that refers to definition of current challenges and their causal covariation with the past experience (Ekiert & Hanson, 2003; Meyer-Sahling et al., 2011). The primary objective of my study was to analyse Georgian public administration through *institutional* and *structural levels*. Trying to touch upon both study levels, I focused mainly on the structural (societal) level which is considered as a main determinant of issues in Georgian public office. A study of structural level offers the possibility for a comprehensive explanation of the challenges existing in Georgian public office due to local societal traditions. Thus, qualitative research was dedicated to (a) societal traditions of in-group and out-group relations, (b) civic participation level, (c) the role and perception of the leadership in local society, (d) the doctrine of the Georgian orthodox church and its influence on societal life. Identification of the factors that supposedly correlate with the challenges of Georgian public administration (interactional level) provided variables that were used during the second stage of the study which implied a survey of Georgian public employees.

Units of Analysis

The Labor Code of Georgia defines the following types of public employees in Georgia: (a) *public political officials* who are either elected or assigned; (b) *public servants*, i.e. appointed bureaucrats, who represent the “backbone” of public organizations and who are divided into two groups: those who serve at the central (governmental) level and those who serve at the local level; (c) *supplementary staff* who provide technical support to public organizations and who are not involved in office work; and (d) *freelance/supernumerary staff* who work in public organizations on the basis of temporary contracts and who might perform as both office worker and supplementary employee (Dolidze et al., 2010). Units of analysis of the study were public servants employed in Georgian public agencies at the central governmental level.

Due to bureaucratic obstacles and overall inaccessibility of Georgian public entities, the only feasible opportunity to conduct a survey was to address a mediator. The mediator I addressed was an employee in the press centre of the Administration of the Government of Georgia. The mediator was responsible for (a) random distribution of the questionnaires among employees of Georgian public entities through their email, and (b) for forwarding the completed questionnaires to me.

A total of 82 questionnaires were distributed and 50 random respondents – employees of twelve public entities – participated in the survey. Twenty-seven of the respondents were employees at the Administration of Georgian government. This group of respondents represented about 10% of the overall number of employees at the Administration of Georgian government. Twenty-three of survey participants represented various public agencies of the country. This group of the respondents cannot be considered representative due to the absence of enough participants and a wide enough range of public entities they represented. The main goal of the survey was to retrieve as many completed questionnaires as possible, and as equally as possible from two age groups representing (a) so-called “old” (41<) and (b) “new” (21–40) generations of Georgian public servants. Overall, this objective was achieved only partly as questionnaires filled-in by age group “21–40” prevailed over questionnaires filled-in by age group “41<” in a ratio of 76:24. The survey was conducted in January-April 2017.

Table 1

Public entities that participated in the survey

Public entities	Completed copies	Sent copies
Administration of Georgian government	27	27
Ministry of Health, Labour and Social Affairs	4	5
Ministry of Foreign Affairs	3	5
Ministry of Sport and Youth Affairs	3	5
Ministry of Education and Science	2	5
Ministry of Defence	2	5
Ministry of Finance	2	5
Ministry of Reconciliation and Civic Equality	2	5
Ministry of Euro-Atlantic integration	2	5
Ministry of Culture and Monument Protection	1	5
Ministry of Internally displaced persons	1	5
Ministry of Economy and Sustainable Development	1	5

Source: Compiled according to the calculations of the author (- hereafter, unless otherwise stated).

Independent and Dependent Variables

As independent variables of the study, I considered (1–2) social demography (gender and age), (3) place of birth (capital city/province), (4) presence of foreign

education, (5) work experience in Europe/United States, (6) social background, such as occupation of parents, (7) attachment to family, and (8) religious affiliation. Dependent variables of the inquiry were composed on the basis of factual findings retrieved during qualitative research. Besides, for conceptualization of the variables, I addressed Hofstede's theoretical assumptions. Jamil's studies of the public administration system in Bangladesh played a significant role in the formation of the questionnaire. In addition, in the questionnaire I applied dependent variables from the report of Arasli and Tumer (2008) who studied the level of favouritism in organizations in North Cyprus. The questionnaire consisted of three main indexes (power distance index, collectivism-individualism index, uncertainty avoidance index) and three additional ones (elitism-egalitarianism index, nepotism-favouritism index, cronyism index) which performed as complementary sources of information and were incorporated with the main indexes. Namely, the Elitism-egalitarianism index was incorporated with the Power distance index, and the Nepotism-favouritism and Cronyism indexes were incorporated with the Collectivism-individualism index. The uncertainty avoidance index – which measured cultural rigidity of survey participants – was not combined with any other additional index. Total number of dependent variables of the survey was 36.

Each section of the questionnaire was developed on the basis of observable implications. This point refers to King et al.'s concept of quality of data-generation that ultimately provides veracity of descriptive and causal inferences of the study. According to this notion, a prerequisite of reliability of quantitative study is a relevance of "specific questions that were asked" (King et al., 1994, p. 23). The process of formulation of the statements (questions) of the questionnaire was divided into three stages: (a) selection of theoretical framework in accordance with research questions (hypotheses), (b) identification and selection of observable implications consistent with the theoretical framework, and (c) collection of data about identified observable implications that means a choice of the most relevant variables. As a result, the elaborated questionnaire represents an instrument which *provides data on the object under study* either falsifying initial hypotheses or building strong evidence for them.

Empirical Data Analysis

Data analysis was carried out by means of the software package IBM SPSS Statistics. Statistical analysis involved percentages and mean scores. Each statement of the questionnaire included four possible answers: "completely agree", "agree", "disagree", or "strongly disagree". Each answer was labelled by a corresponding value ranging from "1" for "completely agree" to "4" for "strongly disagree". The questionnaire results were coded with a view to make them clear for the software facilitating consequent analysis. Analysis of empirical data was divided in three phases: (1) the first phase involved percentage frequency distribution according to survey responses; (2) the second phase implied definition of a central tendency of distribution, i.e. definition of mean scores; and (3) the third stage of statistical analysis implied cross-tabulation that allowed a comparison of correlation between variables.

Table 2

Distribution of the respondents according to categories

Independent variables	%	Independent variables	%
Age:		Occupation of parents	
21–40	76	Public sector	30
41 and above	24	Private sector	40
		Academic sector	30
Gender		Living while studying at the university	
Female	60	With parents	80
Male	40	Separately	20
Place of birth		Study experience in Europe, USA	
Capital city	72	One semester	16
Other	28	One semester or more	24
		No	60
Religion		Work experience in Europe, USA	
Georgian orthodox church	92	Several months	22
Other	4	One year or more	24
Atheist	4	No	54
Type of position		Academic degree	
High: deputy secretary and above	14	Doctor	10
Medium: above assistant and below deputy secretary	62	Master	54
Low: assistant secretary and below	24	Bachelor	36
Years in service		Had you either relative, friend or acquaintance in the organization before taking office?	
1–4	66	Yes	76
5–10	12	No	24
11 and above	22		
Expected years in service			
If I am lucky, then several years	4		
It is difficult to predict	90		
Hopefully, till retirement	6		

Discussion of the survey findings**Finding 1: Servants as Potential Despots**

The main conclusion that might be made on the basis of the survey is that Georgian public servants *do not consider the phenomenon of power concentration as an “issue”* at all. Thus, 90% of survey participants correlate the concepts of “strong” and “governor” with each other. In other words, there is *demand for a strong, powerful, dominating superior* who would perform from a “top-down” position. Besides, Georgian public *employees themselves might be identified as elitists*. They are tolerant to such concepts as “subordination”, “hierarchy” and “inequality”. Thus, 86% of respondents agreed that supremacy

of superiors inside an organization is an expected and positive phenomenon because their *subordinates have not enough intellectual capacities* to comprehend complexities of management. At the same time, 42% of public servants think that due to intellectual imperfection of the population they *should not have the opportunity to influence authorities' decisions*. Consequently, the ingrained societal tradition of subordination and even subjugation, and, on the other hand, domination are tracked quite distinctively among respondents. Moreover, those who are in subordinate positions themselves show predisposition to elitism regarding "commoners". Thus, 66% of respondents considered existing in their office *hierarchy as an objective phenomenon*; and 74% of respondents agreed that a "*deep respect*" for superiors should exist in their organizations. These points refer to Schramm's notion of closed organization where employees manifest either as "puppets" or as "good soldiers" of their superiors (Schramm, 2004). It should be noted that the level of acceptance of hierarchy is equal among young (65%) and senior bureaucrats (66%). Further, 58% of survey participants agreed that in their offices, the *superior's sympathy towards subordinates is more important than employees' professional skills*. Sympathy of a superior as a decisive factor in bilateral interaction is emphasized by 60% of males and 56% of females. Overall, 52% of respondents acknowledged that there is *no consultative interaction* between them and their superiors. At the same time, *only 6% of respondents are not satisfied* with the style of interaction between superiors and subordinates.

On the other hand, despite the perception of existing authoritarianism as a matter of fact, Georgian public employees have a need for participation. In other words, having recognized and not contesting the supremacy of the "head of the family", nevertheless, subordinates want to be beneficial to the common business. Thus, only 30% of respondents agreed that the office is not a place for discussions with superiors, and only 18% of survey participants try to avoid giving their opinion to superiors. Moreover, 74% of respondents are tolerant of the freedom of realization of ideas. Among those 26% who tend to restrict realization of ideas are 46% males and 54% females. Thus, *females appeared to be more restrictive* than male public servants. Moreover, *young bureaucrats are more restrictive* – 77%, than seniors – 23%.

Table 3

Power distance index and Elitism-egalitarianism index

Index	Agree	Mean
<i>Power distance index</i>		
Hierarchy in your organization is a reflection of employees' qualification	66	2,3
There is a deep respect for superiors in your organization	74	2,3
Workplace is not an arena for disputes with superiors	30	3,1
Superiors rarely ask you for your opinion	52	2,6
At the office personal sympathy of your superior towards you is more important than your professionalism	58	2,4
Are you satisfied with the quality of interaction between you and your superior?	78	2,2

Index	Agree	Mean
<i>Elitism-egalitarianism index</i>		
Certain people are better qualified than others to lead the country because of traditions of their families	30	3,0
Georgia needs strong personalities who know how to govern this country	90	1,4
Most citizens are not familiar with complexities of modern politics and even during elections are unable to make an intelligent choice	86	1,6
Due to incompetence of most of citizens, they should not have the opportunity to influence authorities' decisions	42	2,9
A citizen should not realize his/her idea if it is unacceptable for others	26	3,1

Notes: High power distance and elitism involve the responses “completely agree” and “agree” while low power distance and egalitarianism imply the responses “disagree” and “strongly disagree” (not represented in the table).

The first column represents the cumulative percentage of those who either “completely agree” or “agree” with the statement.

Mean score ranges from 1 to 4: “one” involves high power distance and elitism, “four” involves low power distance and egalitarianism.

Finding 2: Organization as a Neighbourhood

The majority of survey participants (96%) acknowledged that they *wish and tend to unite around superiors, perceiving them as designers of action plans for subordinates* (in contrast with written law or jointly elaborated strategy). The same mechanism works on a societal level where the head of the household performs as a guide distributing sporadic directives to family members. Moreover, Georgian public employees *expect family relationships with each other*. Thus, 66% and 64% of respondents respectively claim that without *close and warm relationships*, efficient performance of their organization is unlikely. The survey participants also try to avoid competition with each other as it might impact warm relations. Thereby, one of the fundamental pillars of market economy as a *competition is perceived by 68% of Georgian public employees as a certain threat*. However, despite declaring “family relationships” as a basis of intra-organizational culture, there is an intrinsic feeling of distrust among respondents. This point probably refers to the absence of tradition of joint cooperation in Georgian society when individuals without kinship ties (either relationship, friendship, acquaintance-ship) cannot perform within one business association and experience difficulties in establishment of out-of-group relations.

Thus, the phenomenon of distrust might be explained by traditional intolerance to “strangers”; either they are representatives of another (a) household, (b) region (referring to historical division on principalities), (c) philosophical views or (d) religion. Moreover, under “strangers”, along with foreigners, they might be equally considered members of Georgian society. Thus, 78% of Georgian public employees believe that there are “disloyal groups” within Georgian society who perform to the detriment of common national interests and, at the same time, in favour of “foreign enemies”. Further, 88% of respondents claim that *loyal citizens should unite and face “traitors”*. Moreover, 88% of respondents are ready

to forget their private interests, either to fight enemies or if there is a national interest at stake. The level of suspicion regarding “disloyal groups” among male respondents is 80%, among females – 76%. The level of militancy against “traitors” among males is 90%, among females – 86%. As for the level of dedication to common business, among males it is 85%, among females it is even higher – 90%. These indicators, in combination with employees’ reverent obedience before superiors, distinctly outline the structure of narrow collectivism in Georgian society in general and in local organizations particularly.

Thus, in Georgian public organizations there are two objects of trust: *the head of the group* (referring to societal culture: the head of the family), and *loyal members of the group* (or those who correspond to the definition “members of family”, i.e. a narrow circle of familiar personalities). At the same time, the data showed that there is always a risk of having “traitors” in the group (i.e. in the neighbourhood) who represent “disloyal groups” and who cannot be identified as family members. Therefore, in Georgian public organizations, despite the priority of “close and warm relations”, there is certain distrust and probably tension between employees that hinder teamwork. As a result of such a tendency, 74% of respondents evaluate public briefings negatively, and show a preference for *tete-a-tete* communication with superiors. According to respondents, either public appraisal or criticism might cause disharmony in their organizations. In addition, in Georgian public organizations there is somewhat a tendency to alienate external supervision. More than half, 52% of survey participants prefer to keep issues inside their offices.

Regarding the issues of nepotism, favouritism and cronyism, which apparently correlate with the concept “organization as a family”, there is a certain parity between those who acknowledge the existence of nepotism and favouritism in their organizations (48%) and those who consider their offices to be free of such practices (52%). Along with acknowledgement of the existence of nepotism and favouritism, respondents emphasized that *illegal schemes* are somewhat decisive in long-term employment (30%), career advancement (38%), and overall security of position (46%). Almost half of the respondents (46%) also believe that nepotism and favouritism play a destructive role for the organization. The same parity arises regarding the phenomenon of cronyism. Only 48% of respondents bound appointment to the office, promotion or reward of employees with their political affiliation. However, a moderate level of nepotism and cronyism seems paradoxical as it creates a discrepancy with other retrieved data. Thus, according to 76% of respondents, before taking office they already had either a relative, friend or acquaintance in the organization.

Generally, on the basis of the survey it can be argued that the role of *political affiliation in Georgian public administration is more significant* than other forms of favouritism. Thus, 66% of respondents pointed out that they have been in service during the last 1–4 years, i.e. they took their offices after the changing of political power in the country in 2013, and 84% of them had “either a relative, friend or acquaintance in the organization” before their appointment. Moreover, 63% of them had already held a type of secondary position in their departments. At the same time, only 12% of employed public servants in 2017 had

been appointed in the period of previous political power (2004–2013). Meanwhile, 22% of survey participants represent the political power which governed the country before the 2003 revolution. Thus, there is a distinct tendency for labour turnover in Georgian public organizations after a change in political leadership. In support of this point, 76% of survey participants agree that the change of the head of the ministry “had influence on either the recruitment or promotion of employees”; 74% of respondents show apprehension of losing office in the case of change of political leadership; and 82% agree that it is unusual in their organizations to talk about previous political leaders. Besides, 90% of respondents cannot predict how many years they will be in service – apparently as many years as their superiors.

Table 4

**Collectivism-individualism, nepotism-favouritism
and cronyism indexes**

Index	Agree	Mean
<i>Collectivism-individualism</i>		
Relationship between members of organization should be akin to relationship of friends or relatives	66	2,3
Without warm relationship between members of organization effective performance is unlikely	64	2,1
For effective performance members of organization should unite around superior	96	1,3
Appraisal or the criticism of an employee in presence of others might cause deterioration of working process	74	1,9
Competition between members of organization causes negative effects	68	2,2
Results of performance should be evaluated inside public entity without supervision of civil organizations or NGOs	52	2,5
There always have been and currently are non-patriotic groups in Georgia who contribute to our ill-wishers	78	1,7
In the matter of facing our enemies we should be united	88	1,4
There is no an individual interest when we talk about common business	88	1,4
<i>Nepotism-favouritism index</i>		
For long-term employment in your organization it is desirable to have a relative, friend or acquaintance	30	3,1
Having a relative, friend or acquaintance would make your position safer	40	3,0
Having a relative, friend or acquaintance would promote career advancement	38	3,0
Employment through corrupt schemes is a common practice in your organization	48	2,6
Executives of the ministry rarely fire or demote friends and acquaintances even if they prove to be inadequate	46	2,6
Colleagues who are employed on the basis of nepotism influence negatively on an organization	46	2,6

Index	Agree	Mean
<i>Cronyism index</i>		
In your organization political affiliations of the employees are bound to their appointment, promotion, or provision of other privileges	48	2,7
Changes in political leaders and ministers influence either recruitment or promotion of the employees	76	2,1
Changes in political leaders and ministers cause apprehensions of losing office	74	2,1
It is unusual in your organization to talk (out of working hours) about successful performance of previous government	82	1,8

Notes: (a) Narrow collectivism, (b) recognition of existence of cronyism and its negative influence, (c) recognition of existence of nepotism and its negative influence involved responses “*completely agree*” and “*agree*” while (a) inclination to individualism, (b) absence and tolerance to cronyism and (c) nepotism implied responses “*disagree*” and “*strongly disagree*” (not represented in the table). The first column represents the cumulative percentage of those who either “*completely agree*” or “*agree*” with the statement.

Mean score ranges from 1 to 4: “one” involves predisposition to narrow collectivism, existence of cronyism and nepotism, “four” involves predisposition to individualism, absence of cronyism and nepotism.

Finding 3: New Generation – Old Mentality

Soon after the revolution in 2003, the state ministry for Euro-Atlantic integration was established in Georgia. The main purpose of the ministry became promotion of Euro-Atlantic values and the development of strategies for integration with the European Union and North Atlantic Treaty Organization. The latest achievement of the ministry was visa liberalisation for Georgian citizens visiting the European Union. As a final objective, the ministry desires for the country membership of the EU and NATO. Thus, during the last decade, Georgian society has lived under conditions of large-scale propaganda of Euro-Atlantic (i.e. Western) values. For the eradication of “remnants of the past” there is a state-level program of “rejuvenation” of the public administration system. According to state policy, representatives of the new generation have an advantage over their senior fellow citizens during recruitment into public agencies. Moreover, in accordance with the rejuvenation program, the minimum candidacy age for membership of parliament in the country was lowered to 21 years. Along with the age, during recruitment those applicants are prioritized who have work or study experience either in Europe or the USA. Results of the state-level program of rejuvenation of Georgian public servants is well depicted in this survey. Thus, 76% of survey participants were aged 21–40, while only 24% represented the age span of “41 and above”. Moreover, 48% of “juniors” held a medium type of position (that is above assistant secretary and below deputy secretary), being appointed to the positions soon after employment.

At first sight, the decade of the intensive introduction of Western values in Georgia was quite productive. As the survey showed, 96% of Georgian public employees agree that sooner or later *Georgia will adopt Western democratic values*. Moreover, 100% of “seniors” representing the age group “41 and above” supported the idea of the implementation of Western democratic values in Georgia, while 94% of “juniors” representing the age span “21–40” endorse democratiza-

tion of the country. The adoption of democratic values is supported by the overwhelming majority of public servants, both those who either studied or worked in Europe. At the same time, during the survey a paradoxical phenomenon was identified: 92% of respondents agreed that *despite integration to Europe, Georgians should stick to their centuries-old traditions*. The majority of juniors agreed with the maintenance of traditionalism – 89%, while living according to centuries-old traditions was supported by 100% of seniors. In this regard, I can argue that *liberalization of Georgian public servants is a somewhat illusory phenomenon* occurring on the superficial level of absorption of propaganda, while their traditional, ingrained values remain unchangeable. Thus, on the one hand, respondents have absorbed messages of intensive propaganda of Western values; on the other hand, they *do not distinguish substantial contradictions between Western “democratic values” and “centuries-old traditions” of their own society*. Moreover, as the survey showed, neither study nor work experience in Western countries has an influence on the “modernization” of Georgian bureaucrats. Thus, 85% of those having *study experience* either in Europe or the United States agreed with the maintenance of Georgian societal traditions, while 91% of those having *work experience* abroad agreed with the necessity of observation of centuries-old traditions despite integration to the European Union. This might be a distinct sign that for Georgians, including representatives of the younger generation, a Western lifestyle is less attractive, or not attractive at all.

During qualitative discourse I identified the Georgian orthodox church as a social institute that might be called the main source of traditionalism for the local population. The same conclusion can be made following the survey of Georgian public servants. The absolute majority of survey participants, 92%, identified themselves as members of the Georgian orthodox church, 4% as atheists, and 4% as representatives of “other religions”. Further, 84% of respondents considered orthodox Christianity as a foundation of the Georgian nation despite the existence of a variety of political and philosophical ideas. The Orthodox religion is perceived as a “pillar of the nation” by 84% of young bureaucrats; the same trust level exists among senior public servants – 83%. Despite the religiosity and even fanaticism of Georgian society, 62% of respondents think that Georgians, especially the new generation, still need strengthening of faith. The call for the strengthening of religiosity is more distinct among senior bureaucrats – 83%, while this idea is shared only by 55% of young bureaucrats. At the same time, there is a certain feeling of protest against the Georgian orthodox church among respondents of both age groups. Thus, only 42% of survey participants consider a reduction of the influence of the Georgian orthodox church as an equivalent to losing national identity. Less influence by the church is considered as a threat by 47% of public servants of the age span 21–40, while among seniors the figure is 58%.

Despite certain protests against the church as a social institution, it can be argued that Georgian bureaucrats reflect *religious ideology* promoted by the Georgian orthodox church. As a measure of the susceptibility of Georgian public servants to religious rhetoric, in the survey I referred to the concept of “God’s chosen people”. This concept is well ingrained among the population, being part of the “national consciousness” of Georgians. Legends about the divine origina-

tion of the Georgian nation have been introduced not only by religious literature and orthodox priests, but also by the school program, local intellectuals and even politicians who normally use these ideas to attract voters. In the questionnaire, the same word order is used as it is used in daily life in Georgia among ordinary citizens. As a result, 62% of survey participants agreed with the statement “*the Georgian nation is chosen by Mother of God*”. This high level of agreement is surprising if we take into account, on the one hand, the archaism of the statement, and, on the other hand, the high level of education of the respondents. Among young public servants the agreement rate was 58%, while among the old generation of bureaucracy it was 75%. *Among those who “have seen the world”, the agreement rate was unexpectedly high.* Also in agreement with the statement were 75% of those having study experience abroad, and 78% of those having work experience abroad. The most zealous apologists of the concept of the divine origination of Georgians are respondents whose parents represent the academic sector – 86%, while less fanaticism was shown by representatives of the private sector – 55%, and the public sector – 46%. Paradoxically, 50% of atheist respondents also agreed with the idea of the divine origination of the Georgian nation. Another peculiarity is the prevalence of supporters of “Georgian exceptionalism” among those born in the capital city – 70%, while among public servants born in the province adherents of the idea of exceptionalism was 42%.

Table 5

Uncertainty avoidance index

Uncertainty avoidance index	Agree	Mean
Sooner or later Georgia will become carrier of democratic values	96	1,2
Despite integration with Europe we should stick to our centuries-old traditions	92	1,7
Despite the variety of political and philosophical ideas orthodoxy is still the basis of our nation	84	1,7
We, and especially the new generation, need to strengthen our faith	62	2,3
Reduction of influence of the church is bound to loss of national identity	42	2,9
The Georgian nation is chosen by Mother of God	62	2,2

Notes: Strong societal traditionalism and stereotypes involves responses “*completely agree*” and “*agree*”, while inclination to renovations implies responses “*disagree*” and “*strongly disagree*”.

The first column represents the cumulative percentage of those who either “*completely agree*” or “*agree*” with the statement.

Mean score ranges from 1 to 4: “one” involves traditionalism and stereotypical thinking, “four” involves predisposition to renovations.

Finding 4: There are Modernizers

At the current stage of the transformation of Georgian society, it is impossible to talk about noticeable cultural variation among the survey participants. Both the old and new generations of Georgian public servants share the same values and attitudes quite evenly. Moreover, based on data analysis, I came to the conclusion that in some points representatives of the new generation show more

traditionalism than their senior colleagues. Thereby, the *younger generation can hardly be considered as the proponent of "the westernization" of Georgian society*; rather, they feel comfortable within the existing social order:

- 92% of young public servants need strong managers, while similar demand for authoritarianism was expressed by 83% of senior bureaucrats
- 74% of juniors believe that relations between fellow workers should resemble kinship, while only 33% of seniors share this opinion
- 100% of young public servants proclaimed superiors as key figures in the organization and considered it necessary to unite around them, while seniors showed more independence (83%) partly sharing the perceptions and needs of their younger colleagues
- 79% of young bureaucrats negatively assessed public briefings, preferring *tete-a-tete* communication with superiors, while 66% of seniors have the same opinion
- 73% of juniors consider fair competition between fellow workers as a destructive phenomenon, while this opinion was shared by 50% of seniors
- 92% of young public servants are ready to unite against enemies, while militancy was showed by 75% of those representing the age group "41 and above"
- 84% of juniors are sure about the existence of traitors in Georgian society, while this belief is shared by 58% of senior bureaucrats

At the same time, Georgian bureaucracy should not be labelled as entirely homogeneous as it has been considered so far. As a subgroup of modernizers among young public servants, I can single out those who were born in the province but gained their education in the capital city. Most of these, while studying in the capital city, lived either alone or with fellow students in rented apartments separately from parents. Thus, 88% of public servants born in the capital city who represent the age group 21–40 lived with parents during study at university, while among respondents born in the province and representing the age group 21–40, the percentage of those who lived with parents was only 42. The tendency to the somewhat modernity of those who lived independently is apparently determined by separation with their families. Thereby, after leaving the parental home, the family, which in Georgian society represents an important source of traditionalism, partly loses its influence on youths. As a result, those born in the province perceive an organization less as a family. The results obtained on the basis of cross-tabulation are the following:

- 50% of those born in the province believe that relationships between employees should be akin to relations between family members, while kinship relations are expected by 69% of those born in the capital city and living/having lived with parents
- 36% of those born in the province are tolerant to public criticism, while public briefings were positively perceived only by 20% of those born in the city and living/having lived with parents

Further, *employees from the province are more critical regarding the existing hierarchy inside the organization*. According to 50% of them, hierarchy does not reflect employees' qualification, rather hierarchy is based on other criteria which are far from objectiveness. At the same time, 72% of those born in the city

and living with parents perceive hierarchy as an objective phenomenon. Also, employees from the province showed less submission. Thus, only 14% of them think that the office is not a place for disputes with superiors, while discussion with superiors was unacceptable for 36% of those born in the city and living with parents. Further, *respondents from the province showed somewhat less traditionalism and stereotypical thinking*. They agreed with the statement that Georgia will inevitably adopt European values; however, unlike those born in the capital city, they *are more sceptical about the preservation of local centuries-old traditions*. If 97% of those born in the city believe that Georgia should keep its societal traditions even in spite of the adoption of Western values, then this opinion was shared by 78% of employees born in the province. Further inculcation of religiosity is supported by 72% of those from the capital city, while this idea was shared by 57% of those born in Georgian province. Besides, the concept of the divine origination of the Georgian nation, which is the most archaic and stereotypical belief in local society, was accepted by 42% of those born in the province, while this concept was supported by 70% of respondents born in the capital city.

Another group of somewhat modernizers are those public servants who represent academic families. They showed somewhat the modernity of attitudes regarding principles of office work and communication with fellow employees. At the same time, they showed rigidity of attitudes concerning societal traditions and stereotypes. Thus, only 46% of those from academic families believe that either family or friendly relations should prevail in an organisation, while 73% and 70% of those (whose families relate respectively to public and private sectors) expect family and friendly relations at office. In contrast to other groups, *public servants representing academic families are more tolerant to public criticism and competition*. Thus, 34% of them assessed positively on briefings and public criticism in the workplace, while tolerance regarding criticism was shown by only 20% of their colleagues with a public and business social background. Competition is assessed as a positive phenomenon by 60% of those from an academic background, while competition is acceptable only for 20% of their colleagues with a public and business social background. At the same time, those from academic families showed generally more stereotypical thinking. Thus, 80% of them believe that Georgian society should be more religious, while this idea is supported only by 46% and 55% of their colleagues with a public and business social background. Besides, 86% of those who are from academic families accept the idea of the divine nature of the Georgian nation, while this concept is shared by 47% and 55% of those from a public and private social background. As for attitudes towards other variables, views of employees with academic, public and private social background coincided.

Tolerance of public criticism and competition of those representing *academic families* might be explained by the fact that 60% of them had no relatives, friends or acquaintances at the office before employment. So, they may be considered as those who acquired their offices through competition but not through patronage. Consequently, they are critical regarding the concept of “organization as a family” which implies the existence of informal networks. At the same time, 87% of those whose parents represent the *public sector* had either relatives, friends or acquaintances inside the office before being employed, while either relatives,

friends or acquaintances had 80% of those whose parents represent the *private sector*. Thus, this data reveals those who are generally appointed to the office through informal schemes of employment. Firstly, those are public servants whose parents themselves represent the public sector (87%), and, secondly, those from families representing private business (80%).

In the aggregate, *there are two variables which play an important role in the matter of modernization* of Georgian public servants. The first variable is family, namely *family separation*. As the survey showed, those who lived and studied separately without influence from their families tend to be more modern in their attitudes towards religion, centuries-old societal traditions and social stereotypes. They also tend to perceive organization as a part of the business environment but not as a family. However, regarding other points they equally share the same attitudes as their colleagues from the capital city living with parents. The second variable which plays a positive role is *competition*. Those who acquired office through competition showed less tolerance regarding corruption at office. They tend less to perceive organization as “a family”. Besides, they generally do not expect “close” and “warm” relations with colleagues, apparently because of the focus on job responsibilities but not on participation in informal networks. At the same time, acceptance of competition does not change traditional attitudes towards superiors. As with others, employees who acquired office through competition also showed a “deep respect” for superiors, they believe in dominating management, and tend to perceive superiors as designers of an action plan for subordinates. Moreover, those who were appointed through competition and who represent academic families actually share the same elitist views as their “corrupt” colleagues. Thus, 93% of them believe that Georgian citizens do not have enough intellectual capacities to make an intelligent choice during elections, while of the same opinion are 86% and 80% of those representing families with public and private social backgrounds respectively. In other words, those from academic families and those appointed through competition are positive about the phenomenon of power concentration.

Conclusion

The article drew a parallel between societal and administrative culture in Georgia. From the findings of the study, it can be concluded that societal traditions significantly determine such phenomena in Georgian public office as power concentration, patron-client relations, clanship and inability of teamwork which refer to the societal phenomena of high power distance and narrow collectivism. Consequently, the combination of high power distance and narrow collectivism create a phenomenon of *vertical narrow collectivism* which might be regarded as the main issue of both Georgian society and Georgian public office. At the same time, there is a subgroup of Georgian public servants who might be regarded as either partly modernizers or potential modernizers. Thereby, the study results disconfirm the common scientific assumption of homogeneity of Georgian bureaucracy. Another finding of the study is the identification of variables which play the role of “modernization” for Georgian public servants. The existence of a modern

type of bureaucracy in Georgian public administration may indicate the existence of positive dynamics in the system. However, data analysis revealed irregularity of such dynamics conditioned by individual initiatives rather than by well-elaborated governmental policy².

The study also showed that the habit of Georgian society to blame others (historical background, foreign and internal enemies) for various failures should be regarded as destructive for Georgian society itself. Thus, the study revealed a groundless common opinion which blames the non-existing soviet system for persisting issues of Georgian public office. On the contrary, scientific evidence shows that in fact the phenomena of power concentration, patron-client relations, clanship, inability of teamwork have deep cultural roots which refer not to the soviet background, but to the centuries-old traditions of the Georgian people. Identification of such “little truths” implies the ability for seeing undistorted reality which may ultimately contribute to its improvement. However, such an approach requires certain cultural flexibility on the part of society: firstly, it requires critical and pragmatic analysis of existing reality, and, secondly, it requires cultural tolerance to changes. However, on the basis of the survey, a conclusion can be drawn that representatives of Georgian society (even the new generation) are generally conservative in their attitudes avoiding reconsideration of habitual reality. Consequently, the cultural rigidity of Georgian society seems to be one of the reasons that the cultural rigidity of Georgian society is one of the reasons why local public administration cannot adopt a Western model of organization and management but still applies traditional models of behaviour which are associated with corruption and inefficiency.

The findings of the study indicate that Georgian society needs a transformation of social institutions and models of behaviour which these institutions instil and promote. Those institutions are: family, church, and school, i.e. those which are involved in the initial stages of socialization of Georgian citizens. By means of empirical data analysis, it turns out to be evident that these social institutions instil destructive values and habits in individuals, and those values and habits do not contribute to modernization, i.e., the development of Georgian society.

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² Reference to those public servants-modernizers born in the province who left families to study in the capital city in accordance with their own initiatives but not following any student-oriented state policy.

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INTERVIEWS WITH:

Antonova L., philosopher, Tbilisi State University;

Berdzenishvili A., sociologist, Tbilisi State University;

Bichikashvili I., journalist, Tbilisi State University;

Esebua F.K., sociologist, Ilia State University;

Maisashvili Kh., journalist, Tbilisi State University.

AN EMPIRICAL INVESTIGATION OF E-GOVERNMENT ADOPTION IN RUSSIA: ACCESS, RIGHTS, TRUST AND CITIZENS' EXPERIENCE

Sergey A. Revyakin

Ph.D. (in Public Administration), Research Associate,
Center for Civil Society and Nonprofit Sector Studies,
National Research University Higher School of Economics
Address: 20 Myasnitskaya Str., 101000 Moscow, Russian Federation.
E-mail: sergey-revyakin@mail.ru

Alvaro da Rocha

Ph.D. (in Information Systems and Technologies),
Professor, University of Coimbra (Portugal) and University of Lisbon;
Honorary Professor, Amity University (India);
President of AISTI; Chair of IEEE SMC Portuguese Chapter.
Address: University of Coimbra, 3004-531 Paço das Escolas, Coimbra, Portugal.
E-mail: amrocha@gmail.com

Abstract

The problem of low usage of e-government solutions is common in many emerging countries. Is Russia experiencing the same issue? Are there sufficient conditions to grow the usage of e-government solutions (internet penetration rate, rights for the citizens to approach the government remotely, trust in government, computer skills and usage perception, etc.)? Do the use rates for public e-services portals and e-participation platforms equal one another? Based on scholarly articles, analytical reports, laws, regulations, and the results of citizens' surveys, the research considers some factors that influence e-government implementation in Russia. The findings highlighted that the penetration of the Internet in Russia is high and that citizens have the right to approach the government remotely and trust the government. The survey demonstrated that the users believe they have enough knowledge and skills for using public e-services portals and e-participation platforms. At the same time, within the same institutional framework, the level of use of public e-services was still low in 2018 (29% of the respondents), and it was even lower for e-participation platforms (17% of the respondents). This observation suggests that the nature of e-government solutions (whether it is a public e-service portal or e-participation platform) should be considered when governments are developing roll-out programs.

Keywords: Internet penetration; e-government; public e-services; e-participation; trust; technology adoption.

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1. Introduction

E-Government is a complex phenomenon (Scholl, 2002) and its implementation is usually associated with a more efficient and cost-effective delivery of public services, an increase in the transparency and accountability of government, better collaboration between the government, citizens and the businesses, etc. (see, for example, Dwivedi et al., (2017); Pedersen & Tjørnehøj, (2018)). Initially, the simple definition of e-Government referred to the use of information and communication technologies (ICT) in government services to provide a better service for society (Sipior & Ward, 2009; Yildiz, 2007). But over time, the concept of e-government has been developed toward citizens inclusion into government decision-making and it is also associated with three main opportunities for citizens: to get information from the government, to engage in electronic transactions to receive public services, and to participate in government decision-making (Bélanger & Carter, 2008; Thompson et al., 2005).

All the developments in e-government are aimed at more efficient organization of government processes for citizens' convenience rather than the convenience of government agencies (Layne & Lee, 2001), making public institutions more transparent and accountable (Pérez-Morote et al., 2020). It was made for the citizens to use it and to switch from traditional ways of contacting the government. However, the intensity of use of e-government solutions (platforms, portals) by citizens depends on many variables such as trust in the government (Bélanger & Carter, 2008), psychological predispositions, civic-mindedness, information channels, and others (Dimitrova & Chen, 2006). And despite the efforts, not all e-government projects are successful – some of them failed on adoption for different reasons (B. Q. J. Al Nidawy et al., 2018). And “despite the significant amounts of public investment devoted to enhancing e-government over the last ten years, citizens' use of this service is still limited, posing a challenge to national governments” (Pérez-Morote et al., 2020). Sipior and Ward (2009) defined three possible reasons: access to the Internet, computer skills, and e-government inclusion.

The study empirically investigates the context of the Russian Federation in recent years. In this article, we analyze some of the key factors that influence e-government adoption in Russia. Following Janssen, Sipior, and Thompson (Janssen & Estevez, 2013; Sipior & Ward, 2009; Thompson et al., 2005), we explore whether or not Internet penetration rate is high, whether citizens have the right to approach the government remotely. At the same time, we explore citizens' experiences with e-government tools by exploring the level of trust in government, the level of usage of public e-services portals and e-participation platforms, level of computer skills, and overall satisfaction. With this background, the current paper reviews scholarly articles, analytical reports, laws, and regu-

lations to assess the development of public e-services and e-participation platforms and, based on surveys, to analyze citizens' experiences with e-government initiatives to answer the following research questions: *What is the current level of use of e-government solutions in Russia (public e-services portals and e-participation platforms)? And is the use and satisfaction rate for public e-services portals and e-participation platforms equal within the same institutional framework within a country?*

The remainder of the paper is organized as follows. The second section continues exploring the literature on the subject that shapes the model of further research and supports the research hypotheses. The latter is described in the third section. The fourth section describes the methodology of our research. And the fifth and sixth sections represent the results of the analysis. The ensuing discussion considers the theoretical and practical implications of this research. It also considers some directions for future research.

2. Literature review

The concept of e-government is broad and complicated. Janssen and Estevez (2013) discuss three main waves of the evolution of the implementation of information and communication technologies (ICT) into the public sector: e-Government, t-Government, and l-Government. During the first wave (e-Government) the technologies were implemented into public administration to improve public service delivery, to make it faster and easier. Online services were representing a web interface of the existing procedures in citizen-centric service provisioning with no radical changes to it (Front-end approach). Later, the technologies were used to increase the efficiency of public service provision (to transform bureaucracy) with radical organizational changes in the procedures at the same time (t-Government). The next wave (l-Government) was characterized by a reduction in government control and an increase in collaboration with citizens (delegation of power) aimed at doing more with less. Janssen and Estevez (ibid.) discuss that three waves are overlapping in time. Therefore, there are three main approaches to the implementation of ICT in public administration: Front-end approach (e-Government), Front-end + Back-end approach (t-Government), and Network manage & orchestrate (l-Government). And each specific electronic service, portal, or platform could be set up using one of the above-mentioned approaches. Whatever it is, governments hope that their citizens will like it and use it.

The use of e-government solutions (platforms, portals) depends on many variables that could be divided into two groups. The first group of factors is under the governments' control. These are access to the Internet and e-government inclusion (Sipior & Ward, 2009), security and privacy (Al-adawi et al., 2000; Carter & Belanger, 2004b; Gil-garcia & Pardo, 2006; Stephen H. et al., 2003), ICT infrastructure (wireless internet connections, computer centers, and kiosks) (Refat, 2006), training support for citizens who find difficulty in using technology (ibid.), promotional events to improve people's awareness of the e-services provided and events to check progress (Al Bastaki, 2004; Missingham, 2013),

and the right to access information, engage in electronic transactions with the government and to participate in government decision-making (Thompson et al., 2005), etc.

The second group of factors depends on the citizens. This group contains the variables such as appropriate level of computer skills and knowledge (Khalil et al., 2010; Sipior & Ward, 2009), trust in the government (Bélanger & Carter, 2008), perceived usefulness (PU), and perceived ease of use (PEOU) (Carter & Belanger, 2004a; Lin et al., 2011; Warkentin et al., 2002), output quality and performance expectancy (Dwivedi et al., 2017), psychological predispositions, civic-mindedness, and information channels (Nam, 2014).

As we see from the literature review, many factors could potentially affect the usage. And its combination stipulates the actual level of adoption and usage in each specific country. In our article, we will choose the factors that we could assess within available sources of information and methodology. We will explore the level of internet penetration in Russia (to measure whether there is access), check the existence of citizens' rights to approach the government remotely, the level of trust in government, level of usage of public e-services portals and e-participation platforms, level of computer skills, and overall satisfaction.

3. Hypothesis development

Access to the internet is one of the key factors that affect the usage of e-government solutions (Sipior & Ward, 2009). The countries that demonstrate high usage of e-government solutions have better access to the Internet (Al-adawi et al., 2000). Therefore, the first hypothesis in our research is derived from this statement:

H1: The penetration of the Internet in Russia is high (more than 70%).

H1 acceptance criteria: if the penetration rate is any higher than 70%.

To use e-government solutions, citizens have to get the rights to access information, engage in electronic transactions with the government, and participate in government decision-making (Thompson et al., 2005). Thus, the second hypothesis of our research is derived from this statement:

H2: Citizens' have the right to approach government authorities remotely.

H2 acceptance criteria: The rights of the citizens to approach government authorities remotely are regulated by law.

As was mentioned earlier, the usage of e-government tools (the demand for them) highly correlates with trust in the government (Bélanger & Carter, 2008). The third hypothesis in our research is derived from this question:

H3: Citizens trust the Government of the Russian Federation

H3 acceptance criteria: positive response rate is higher than 50%.

"The success of the e-government requires the usage of these electronic services by citizens" (B. Q. Al Nidawy et al., 2020). The fourth hypothesis in our research is derived from this statement:

H4: Citizens are ready to apply for public services online.

This broad-based hypothesis will be divided into more specific sub-hypotheses. To use e-portals, citizens should have the required knowledge and skills.

And they shall believe in success in solving the issue when applying for public services online. Therefore, our H5.a and H5.b hypotheses are as follows:

H4.a. Citizens have enough knowledge and skills to use e-services portals.

H4.b. Usually, citizens find the application through e-services portals to be effective in solving their issues.

Having invested in e-government initiatives, governments hope their citizens will like the portals and be satisfied with them. Therefore, our H4.c hypothesis is as follows:

H4.c. Users like public-services portals and are satisfied with them; they are easy to use, work correctly and stably, and citizens have no worries when using them.

H4 acceptance criteria: all sub-hypotheses have been accepted. We will accept sub-hypotheses if the positive response rate is more than 50%.

When testing this hypothesis, we will also explore the share of citizens who apply for public service online.

Along with public e-service delivery, e-participation is another dimension of the modern concept of e-government (Bélanger & Carter, 2008; Thompson et al., 2005). Arranging the platforms for citizens to discuss and decide is quite a new and more complicated (advanced) form of e-government (Janowski et al., 2012; Janssen & Estevez, 2013). Russia is one of the leading countries in the world in e-government development and e-participation (see section 5.2). But if the level of use for these two types of e-government solution is comparable in Russia – this is the focus of our fifth hypothesis.

H5: The level of use of public e-services portals and e-participation platforms is equal

H5 acceptance criteria: The use rate for public e-services portals and e-participation platforms is equal.

4. Research approach

This section highlights the data selected for the study, the methods, and the analytical approach adopted. This paper is a part of a more extensive research project¹ that focuses on the analysis of changes in public administration driven by digital technologies.

4.1. Data selection

We have chosen three types of data in line with our research question. We review scholarly articles, laws and regulations, surveys, and research reports (including reports from the analytical companies, European Commission, and the United Nations) to address our research question.

4.2. Methods

To find scholarly articles about the e-government concept, we ran a search in Scopus and ScienceDirect with search phrases such as (TITLE-ABS-KEY

¹ Under the Basic Research Program at the National Research University Higher School of Economics

(e-government)) AND (barrier) OR (challenge*) AND (legislation) or (TITLE-ABS-KEY (e-government AND adoption)) AND (rights). The search was made between September 2018 and June 2020. After that, we analyzed the results, narrowed them, and then ran a search among the results.

To explore Internet penetration (H1), we were looking for existing surveys and research reports. The search was conducted in Google and Yandex between September 2018 and June 2020 and was limited to trusted sources.

To define whether citizens have the right to approach the government remotely we analyzed laws and regulations in Russia. We ran a search on Government portals and regulatory databases which were adopted in 2002 when the federal target program 'Electronic Russia' was launched (see section 5.2). The search was made between September 2018 and June 2020.

To test hypotheses #3-5, we used the survey data that the Center for Civil Society and Nonprofit Sector Studies of the National Research University Higher School of Economics collected in fall 2018.

4.3. Analysis

In line with our research question and the hypotheses, we performed desk research and the survey. At first, we carried out the desk research to learn about Internet penetration in Russia (H1) and the rights of the citizens (H2). We used the data from GFK survey reports exploring Internet penetration rates in 2008–2018, considering the structure in age groups and the main reasons why it is not used in Russia. We analyzed the regulation in Russia to define the extended rights of citizens to contact the government electronically. Existing public e-services portals and e-participation platforms were explored as part of the e-government landscape.

In the fall of 2018, we conducted an All-Russian population survey of adults (age 18+) on a representative sample (gender, age, education, type of settlement) to test hypotheses #3-7. A total of 2049 respondents participated in a face-to-face survey with a flexible, conversational interview format in 48 regions of the Russian Federation. The average age of the respondents is 44, the asymmetry is positive (0,197) and it is within the ranges (-1 to 1), therefore, the distribution over this variable can be considered as normal, and we have bimodal age distribution (Fig. 1). The excess is negative but does not exceed 1 in absolute value, which proves the normality of the distribution.

Women prevail in survey gender structure (Fig. 2).

The respondents with higher education have roughly 23% of the share, while respondents with secondary education (general and specialized) have the biggest share among the respondents (57.5%) (Fig. 3).

The questionnaire contained 29 questions on citizens' experiences with both offline and online interactions with government authorities, although only a portion of the questions relates to the topic of this article².

² This paper is a part of a more extensive research project that focuses on the analysis of changes in public administration driven by digital technologies (under the Basic Research Program at the National Research University Higher School of Economics).

Figure 1: Age Distribution of Survey Respondents
(HSE All-Russian population survey 18+, 2018).

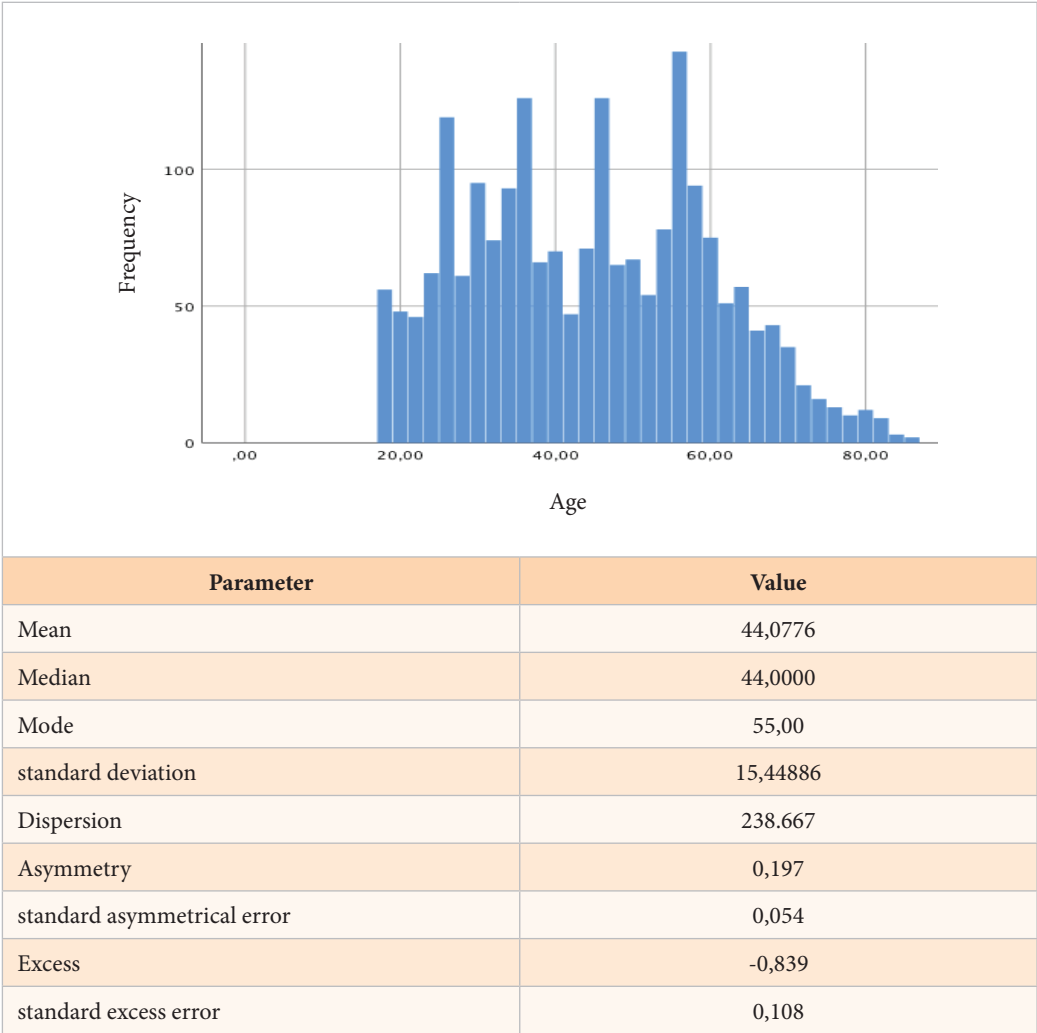


Figure 2: Gender Distribution of Survey Respondents
(HSE All-Russian population survey 18+, 2018).

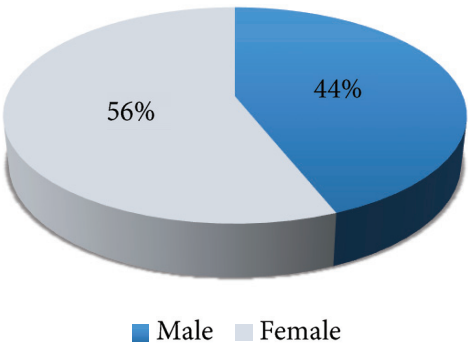
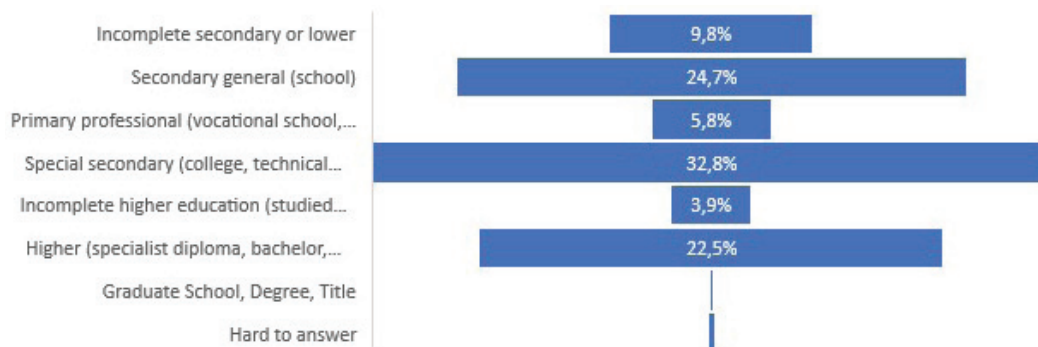


Figure 3: Education structure of the survey
(HSE All-Russian population survey 18+, 2018).

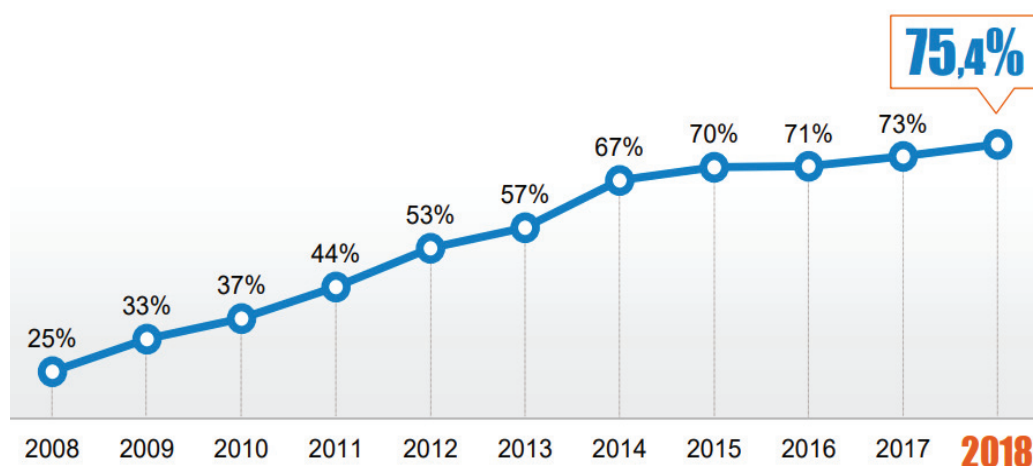


5. E-government in Russia: access to the Internet and citizens' rights

5.1. Internet penetration in Russia

The penetration of the Internet was increasing all over Russia between 2014–2018. In 2018, 75.4% of citizens in Russia had access (76%³–79.8%⁴ in 2019 – which is comparable to Latin America/Caribbean countries (70.5%), but lower than in Europe (87.2%) and North America (94.6%))⁵ (Fig. 4).

Figure 4: Penetration of the Internet in Russia (2008–2018)
(Omnibus GfK-Rus, the whole of Russia, population 16+)⁶



³ URL: <https://mediascope.net/news/1035826> (last access: 29.04.2021). <https://mediascope.net/news/1035826/>

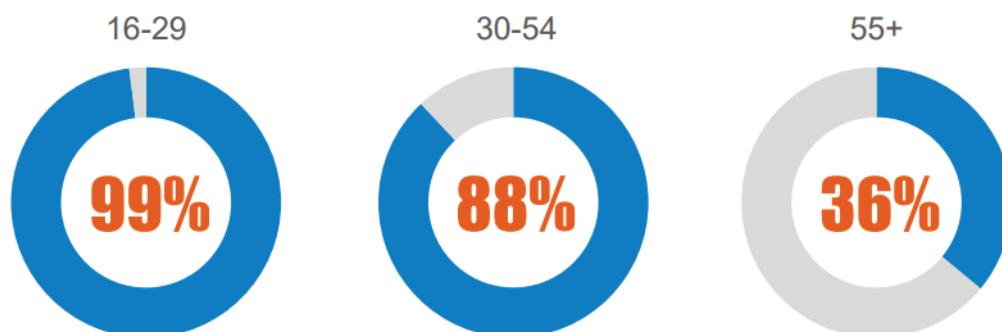
⁴ URL: <https://www.gfk.com/ru/press/issledovanie-kazhdyi-pjatyi-vzroslyi-rossijanin-ne-polzuetsja-internetom?hsLang=ru> / (last access: 29.04.2021).

⁵ URL: <https://www.internetworldstats.com/stats.htm> (last access: 29.04.2021).

⁶ URL: https://www.gfk.com/fileadmin/user_upload/dyna_content/RU/Documents/Press_Releases/2019/GfK_Rus_Internet_Audience_in_Russia_2018.pdf (last access: 29.04.2021).

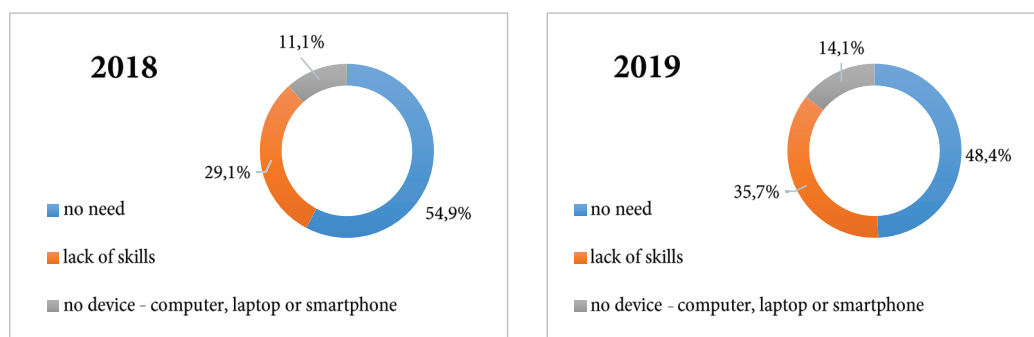
After a dramatic increase in 2013, the growth rate is slowly decreasing. Further growth is mostly expected from involving elderly people to use the Internet, while among young and middle-aged people Internet penetration is close to the limit (Fig. 5). In addition, 61% of the population is using mobile Internet, and smartphones are preferable to tablets⁷.

Figure 5: Internet penetration in age groups
(Omnibus GfK-Rus, the whole of Russia, population 16+)⁸.



Of the total Russian population, 20.2%⁹ (more than 24 million people) do not use the Internet. The main reasons are the following: there is no need (55% in 2018 and 48.4% in 2019¹⁰), lack of skills (29.1% in 2018, 35.7% in 2019), and absence of a device – computer, laptop or smartphone (Fig. 6).

Figure 6: Why 24 mln citizens do not use the Internet
(GfK All-Russian Representative Survey, 16+, 2019)¹¹.



⁷ URL: https://www.gfk.com/fileadmin/user_upload/dyna_content/RU/Documents/Press_Releases/2019/GfK_Rus_Internet_Audience_in_Russia_2018.pdf (last access: 29.04.2021).

⁸ URL: *ibid*.

⁹ URL: <https://www.gfk.com/ru/press/issledovanie-kazhdyi-pjaty-vzroslyi-rossijanin-ne-polzuetsja-internetom?hsLang=ru> / (last access: 29.04.2021).

¹⁰ Of all who does not use Internet.

¹¹ URL: <https://www.gfk.com/ru/press/issledovanie-kazhdyi-pjaty-vzroslyi-rossijanin-ne-polzuetsja-internetom?hsLang=ru> / (last access: 29.04.2021).

As we can see from the dynamics (Fig.6), the share of people who “do not need” the Internet is decreasing. It seems that they acknowledge the need and have found that they do not have proper devices and skills (both “no device” and “lack of skills” shares are increasing).

As per the concept of our study and the results described in section 4.1 (Fig. 4), we shall accept the first hypothesis (H1: The penetration of the Internet in Russia is high (more than 70%)).

5.2. E-government in Russia: the rights of the citizens

The Russian Federation is one of the leading countries in e-government development and e-participation (32nd place in the list of the top-ranking countries, 23rd place in the E-Participation Index (EPI) according to the United Nations 2018 Survey) (United Nations, 2018). The importance of the e-government concept has been officially recognized in Russia since 2002.

The institutional foundations for the penetration of electronic technologies in public administration in Russia were laid in 2002–2010 by implementing the federal target program (Electronic Russia).

The goal of the program was to improve the quality of interactions between the government and society by providing citizens with the right to access information about the activities of public authorities by increasing the efficiency of public e-services delivery, including the introduction of uniform standards for serving citizens¹².

Since 2006 citizens have been eligible to contact government authorities electronically (Article 2 of the Federal Law of 27.07.2006 №149-FZ “On Information, Information Technologies and the Protection of Information”¹³).

In 2009, the Russian Government launched the Federal public e-services portal “Gosuslugi”¹⁴. In Janssen’s classification,¹⁵ it is a T-government model aimed at increasing the efficiency of public e-service delivery by implementing innovative IT solutions along with radical organizational changes. Before the service was implemented, citizens had to approach a government body in person (with a few exceptions).

Since its launch, many government services have been available online through the one-window portal which should decrease the transactional cost for citizens per service obtained. In Multifunctional Centers that the government has established throughout cities, citizens are involved in changing the way they communicate with the government. Along with the Federal public e-services portal “Gosuslugi,” there are Regional portals of state and municipal services.

Besides public e-services portals, there is an additional type of portal focused on the collection of citizens’ complaints on the quality of public services and/or

¹² URL: <https://digital.gov.ru/ru/activity/programs/6/> (last access: 29.04.2021).

¹³ URL: http://www.consultant.ru/document/cons_doc_LAW_61798/ (last access: 29.04.2021).

¹⁴ URL: <https://www.gosuslugi.ru/> (last access: 29.04.2021).

¹⁵ We will not consider the earlier stage of implementation of e-services – when government authorities launched their websites.

ideas on their improvement. For instance, the portal of the Government of Moscow “Our City”¹⁶ allows any issue on Housing and Utilities to be submitted, and the “Russian public initiative”¹⁷ allows the publication of public petitions to be considered by the government if they collect enough public votes.

In recent years there has been an increase in the number of e-participation portals that allow citizens to participate in the government decision-making process. For example, one of the most advanced e-participation platforms in Russia is “Activny grazhdanin” (Active citizen) launched by the Moscow authorities. This platform is the winner of awards such as the Smart Cities Awards-2015¹⁸. Established in 2014, the platform was aimed at obtaining the opinion of Muscovites on pressing issues related to the development of Moscow. This platform showed reliability, the integrity of voting results, and the lack of the ability to manipulate the vote (PWC¹⁹).

Therefore, along with the implementation of e-government initiatives in Russia, citizens gained the right to approach government authorities remotely (electronically).

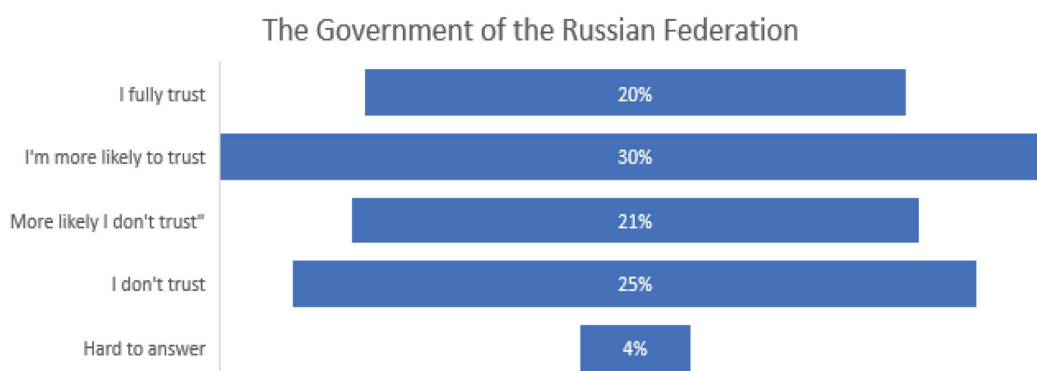
As per the concept of our study and the results of section 5.2, we shall accept the second hypothesis (H2: Citizens’ have the right to approach government authorities remotely).

5.3. Trust in Government institutions

To explore the output of Government efforts we performed the survey using the methodology described in section 4.

From the survey, we learned that the trust rate²⁰ is a bit higher than 50% for the Government of the Russian Federation (50,1%). (Fig. 7).

Figure 7: Question: Do you or do you not trust to...?
(HSE All-Russian population survey 18+, 2018).



¹⁶ URL: <https://gorod.mos.ru/> (last access: 29.04.2021).

¹⁷ URL: <https://www.roi.ru/page/about/> (last access: 29.04.2021).

¹⁸ URL: <https://ag.mos.ru/blockchain> (last access: 29.04.2021).

¹⁹ URL: <https://ag.mos.ru/news/936> (last access: 29.04.2021).

²⁰ As the sum of the shares of those who “fully trust” and “more likely to trust”.

As per the concept of our study and the results of section 5.3, we shall accept the third hypothesis (H3: Citizens trust the Government of the Russian Federation). Note that the trust level has a borderline value in comparison to the condition of acceptance of this hypothesis.

6. Public e-services and e-participation

6.1. Citizens' experience with public e-services portals

In 2018²¹, 74% of the population applied for public services offline (Tab. 1).

Table 1

**Question: Which of these institutions did you address last year?
(% of the total sample.).**

MFC (My Documents Multifunctional Center)	47
Pension Fund	24
Tax Authority	21
Social Security Agencies	9
Registry office	9
Registration (or Cadastral) Office	6
Employment Service	6
Social Insurance Fund	4
Federal Migration Service	4
I have not addressed any of them	25
Difficult to answer	1

Source: HSE All-Russian population survey 18+, 2018.

Almost one in three citizens (29%) received any public services electronically (using a computer or smartphone). But over the past few years, after almost triple growth in 2015–2016 (from 11% in 2013²² to 29% in 2016²³), this indicator has stabilized at 29% and the growth is yet to come if it is to be considered a high level of Internet penetration in Russia (79,8%²⁴).

The survey showed that citizens have enough knowledge and skills on how to use public e-services portals – 81% of users are highly aware of the possibilities of the portals (Fig. 8) and 84% confirmed they have enough skills to use portals (Fig. 9).

²¹ Survey performed in Autumn, 2018.

²² URL: http://www.gks.ru/free_doc/new_site/business/it/fed_nabl/t5-1.xlsx (last access: 29.04.2021).

²³ URL: https://rosstat.gov.ru/free_doc/new_site/business/it/fed_nabl-croc/PublishData/Reports/Files/2016/5.1.xlsx (last access: 19.03.2021).

²⁴ URL: <https://www.gfk.com/ru/press/issledovanie-kazhdyi-pjatyi-vzroslyi-rossijanin-ne-polzuetsja-internetom?hsLang=ru> / (last access: 29.04.2021).

Figure 8: Question: How would you rate your knowledge about the possibilities of using public e-services portals of state and municipal services? (HSE All-Russian population survey 18+, 2018).

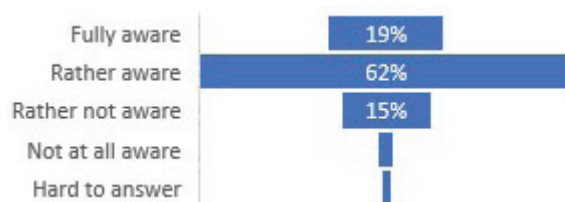
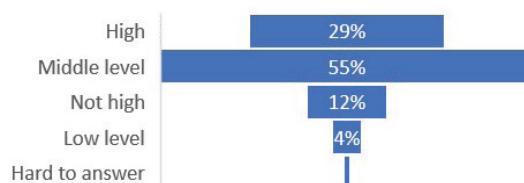
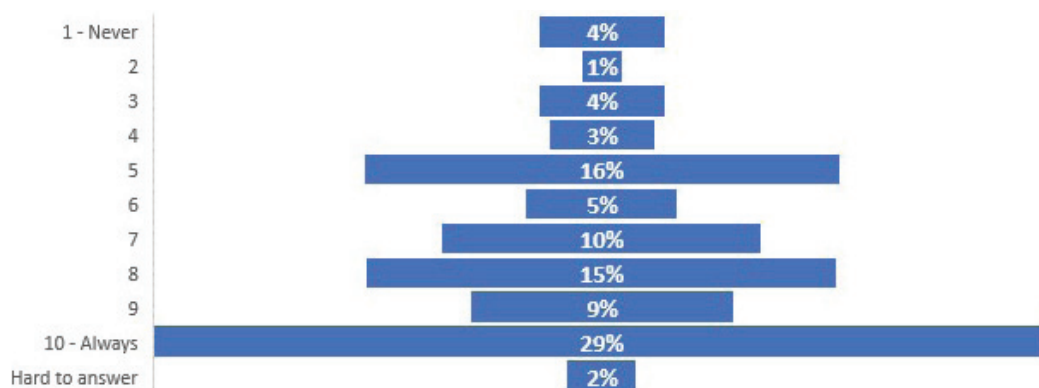


Figure 9: Question: How would you rate your level as a user of public e-services portals of state and municipal services? (HSE All-Russian population survey 18+, 2018).



At least half of all users of public e-services (53%) found it to be effective in solving their issues (Fig. 10).

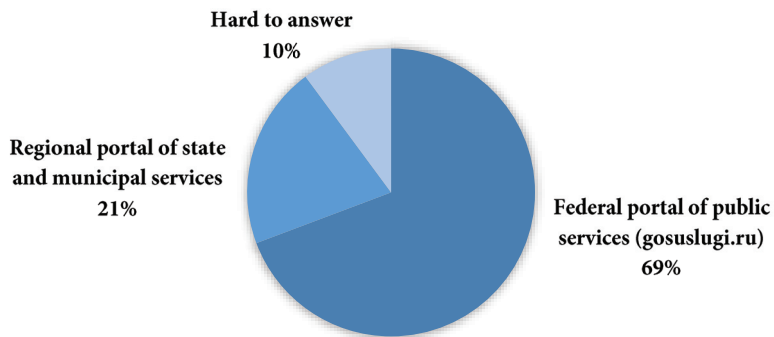
Figure 10: Question: How often have you managed to resolve your issues when using the portals of state and municipal services? (HSE All-Russian population survey 18+, 2018).



The overall satisfaction rate of users of public e-services portals (at federal and municipal level) is very high (88%) (Fig. 10) and is similar to the satisfaction rate with public services obtained offline (84%).

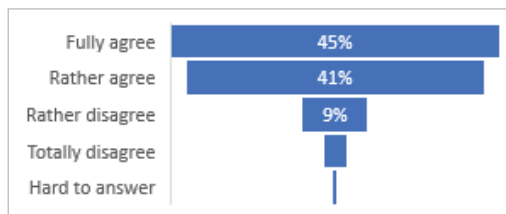
The most popular e-service platform in Russia is the federal portal Gosuslugi.ru – at least two-thirds of users of public e-services (69%) used it when applying for the service (Fig. 11). Every fifth user turned to the regional portal of state and municipal services (21%). Despite this, the satisfaction rate does not differ significantly among the portals (federal or municipal) and did not fall below 67% (Fig. 11).

Figure 11: Question: Please choose the portal of state or municipal services you remember the most.
(HSE All-Russian population survey 18+, 2018).

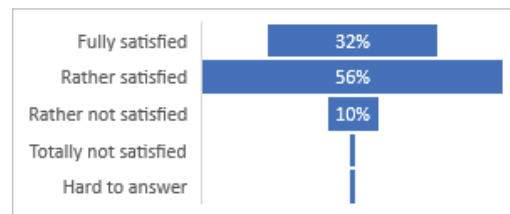


Users like public-services portals and are satisfied with using them, meanwhile there is room for improvement (for instance, 19% of citizens faced stability issues at the portals) (Fig. 12).

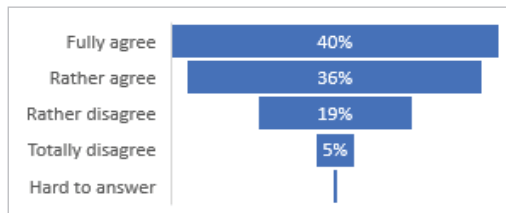
Figure 12: Questions: In general, I like the portal (Q1). Are you satisfied with the use of the portal? (Q2). It is easy to use the portal? (Q3) Does the portal work correctly and stably? (Q4). I'm not afraid to use the portal (Q5).
(HSE All-Russian population survey 18+, 2018).



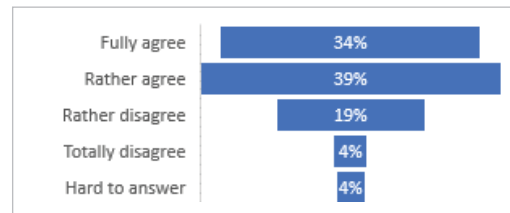
Quadrant 1



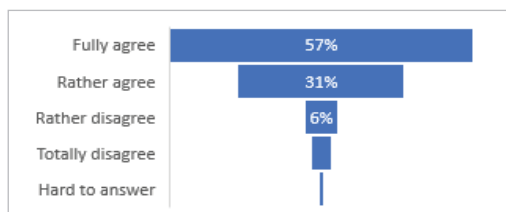
Quadrant 2



Quadrant 3



Quadrant 4



Quadrant 5

These rates are higher for the federal portal in comparison to regional portals (for example, on reliability and safety).

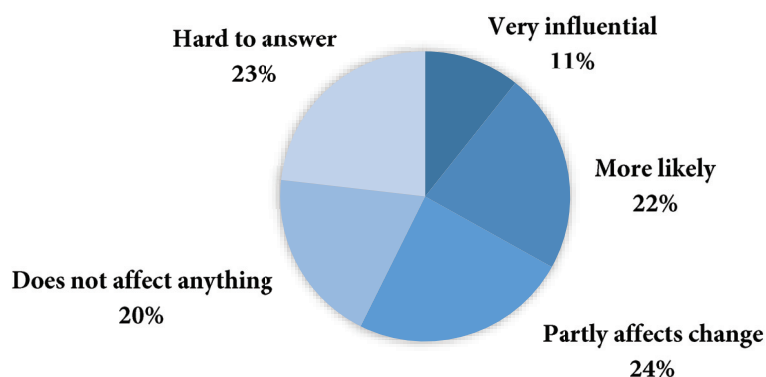
In section 6.1 we learned that 29% of the population in Russia applies for public services electronically. Current users believe they have enough knowledge and skills to apply for public e-services. But only half of them found the use of portals to be effective in solving the issue. Nevertheless, the satisfaction rate of the portals is high and people like the portals but emphasize that they could be improved, for instance in terms of stability of operations. Thus, citizens were satisfied and able to obtain the desired result when applying for public services online – although the share of citizens remains low and most of the people are used to applying for public services traditionally.

As per the concept of our study and the results of section 6.1, we shall accept the fourth hypothesis (H4: Citizens are ready to apply for public services online) as soon as we have accepted all sub-hypotheses.

6.2 Citizens' experience with e-participation platforms²⁵

33% of the citizens in Russia believe in the value of using the platforms, while 23% of citizens could not estimate the value (Fig. 13).

Figure 13: Question: Are various interactive and electronic portals effective tools for influencing environmental changes, observing citizens' rights, and developing socially significant projects in various fields? (HSE All-Russian population survey 18+, 2018).

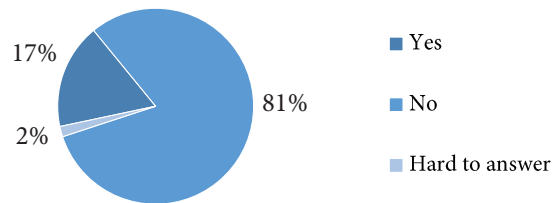


It seems that this 23% are potential active users if provided with additional information and the incentives to participate are demonstrated.

At the same time, only 17% of citizens have tried e-participation platforms. Most citizens (81%) do not use this type of interaction with the government (Fig. 14).

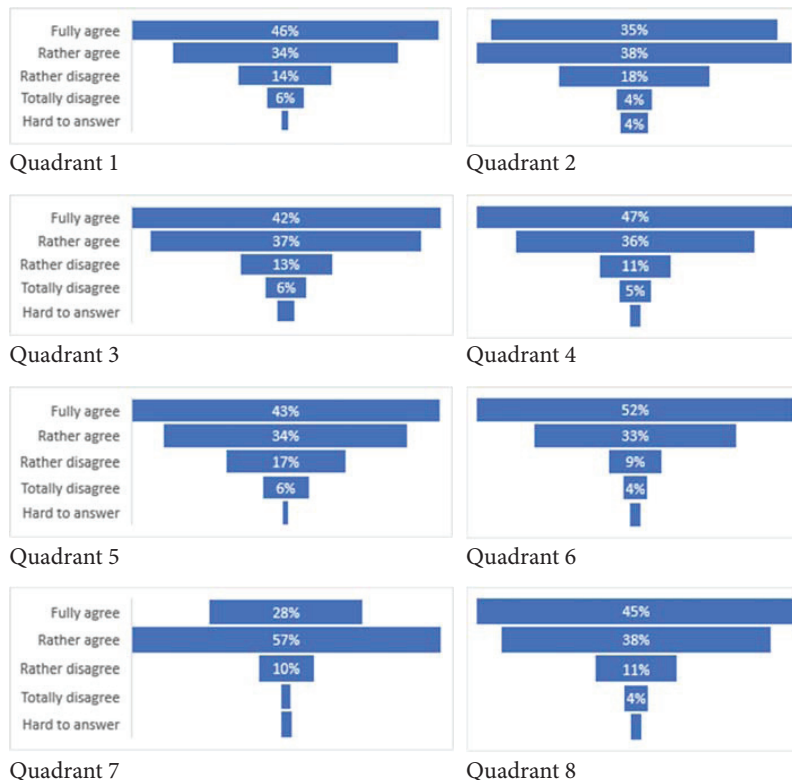
²⁵ We will use separate terms for e-participation websites in order to separate it from public e-service portals. Saying a platform, we will mean communication capabilities inside.

Figure 14: Have you used e-participation platforms in the last 2–3 years to solve your or others' problems or questions? (HSE All-Russian population survey 18+, 2018).



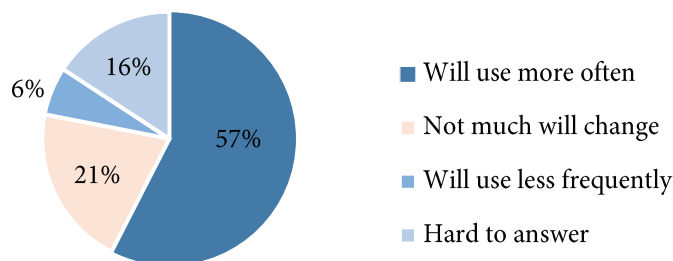
Most of the users are satisfied with their experience with e-participation platforms. Key user characteristics – reliability and functionality, – fully meet the requirements of citizens (Fig. 15).

Figure 15: Statement/Questions: Using the e-platforms is quick and easy (Q1). E-participation platforms work correctly and stably (Q2). The electronic portal can be considered reliable (Q3). I understand how to file a query (Q4). I am a professional user of such a portal (Q5). I am not afraid to use e-platforms (Q6). Are you satisfied with your experience with the platform? (Q7). In general, I like e-platforms (Q8). (HSE All-Russian population survey 18+, 2018).



Being satisfied with the experience at the platform, citizens believe that in the future the use of the e-participation platforms will increase (Fig. 16).

Figure 16: Question: How the frequency of use of e-platforms will change in the future? (HSE All-Russian population survey 18+, 2018).



In section 6.2 we learned that one-third of citizens believe in the value of e-participation platforms, and 20% of citizens believe that it does not affect anything, but only 17% of citizens use it. Users are satisfied with the platforms and believe that in the future the use of them will increase.

However, the penetration rate of the e-participation platform is low.

As we see from the analysis, the use rate for public e-services portals and e-participation platforms is not equal (29% vs. 17%). At the same time, the satisfaction rates and the perception of use do not differ significantly.

As per the concept of our study and the results of section 6.2, we shall reject the fifth hypothesis (H5. The level of use of public e-services portals and e-participation platforms is equal).

7. Discussion

Considering the results of our study we did not accept all the hypotheses (Tab. 2).

Table 2

H1-H5 test results

Hypotheses	Results
H1: The penetration of the Internet in Russia is high (more than 70%).	Acceptance (+)
H2: Citizens have the right to approach government authorities remotely.	Acceptance (+)
H3: Citizens trust the Government of the Russian Federation.	Acceptance (+)
H4: Citizens are ready to apply for public services online.	Acceptance (+)
H4.a: Citizens have enough knowledge and skills to use e-services portals.	Acceptance (+)
H4.b: Usually citizens find application through e-services portals to be effective in solving their issues.	Acceptance (+)
H4.c: Users like public-services portals and are satisfied with them, it is easy to use, it works correctly and stably, and citizens have no worries about using it.	Acceptance (+)
H5: The level of use of public e-services portals and e-participation platforms is equal.	Rejection (-)

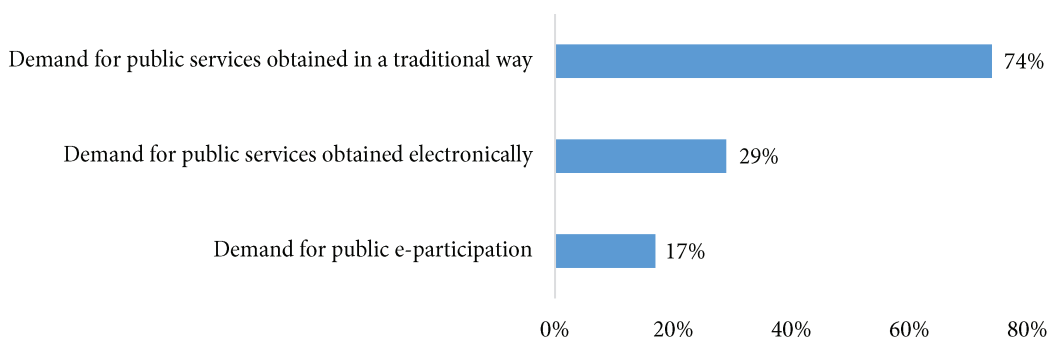
Sources: Compiled by the authors.

As we learned from section 5.1, the penetration rate of the Internet is rather high (79,8%²⁶ in 2019). We accepted H1 (Tab. 2) and confirmed that 79.8% of citizens have access to the Internet, which is one of the key conditions for the high usage of e-government solutions (Sipior & Ward, 2009). But the growth rate has been decreasing since 2013, which means that the growth potential is close to its limit within the current institutional framework. Along with further institutional developments, the growth might be sourced from encouraging the elderly (the penetration rate is 36%) and middle-aged people (the penetration rate is 88%) to use the Internet.

As we learned from section 5.2, the Russian government is developing public e-services portals and e-participation platforms along with extending citizens' rights (H2). Along with high Internet penetration, this is another factor that shall stipulate high usage of e-government tools.

However, we revealed a usage gap between public e-services portals and e-participation platforms. In our research, only 29% of citizens reported using the Internet for obtaining public services, and 17% of such citizens used public participation platforms (Fig. 17). This gap in Russia is not unique and other governments all around the world have experienced the same. When Bélanger was describing the experience of the US Government in implementing e-government initiatives he mentioned that "despite the governments' growing investment in electronic services, citizens are still more likely to use traditional methods, e.g., phone calls or in-person visits, than the Web to interact with the government" (Bélanger & Carter, 2008).

Figure 17. The demand chain (the level of penetration, penetration rate, 2018) (HSE All-Russian population survey 18+, 2018).



Taking into consideration the high demand for public services and the high Internet penetration rate (Fig. 17), the current level of adoption of e-government initiatives in Russia seems to be low in comparison to other countries. For instance, in European countries, 57% of individuals aged 16 to 74 reported using the Internet for interaction with public authorities in 2018 (European Commission, 2018) which is also considered to be low (Pérez-Morote et al., 2020). At the same

²⁶ URL: <https://www.gfk.com/ru/press/issledovanie-kazhdyi-pjatyi-vzroslyi-rossijanin-ne-polzuetsja-internetom?hsLang=ru> / (last access: 29.04.2021).

time, usage phenomena shall be explored additionally soon; “measuring usage is challenging and obtaining pertinent data is much more difficult than measuring the supply side of e-government functions” (Nam, 2014).

The absence of need, a lack of skills, and the absence of devices were named as the main reasons why citizens did not use the Internet in 2018–2019. It might also be the reason why the high demand for public services is not converting into high demand for public e-services (which is associated with ease and efficiency) when the penetration of the Internet is high. But this statement needs to be further explored and proved. If it is proved to increase Internet and public e-services penetration rate further, we might suggest focusing on the advertising of success stories in using public e-services, on education support for the elderly and others, on special discount programs to purchase (or rent) a device, or on increasing the awareness about public computer rooms that are available at Multifunctional Centers for public services.

Another reason for the low usage that is mentioned in the literature is a lack of trust in the government (B. Q. J. Al Nidawy et al., 2018). As we learned from section 5.3, we accepted H3, but the value of the indicator is close to the one that has to be rejected.

The current level of trust in the government is quite moderate (50,1%). As soon as we know from the literature that a low level of trust negatively affects the usage, the current level in Russia could also negatively affect the usage of e-government tools and explain why there is a significant gap between the usage rate of the public services obtained traditionally (74%) and online (29%).

“Many citizens may be reluctant to adopt e-government services due to a lack of trust in the security of online transactions and concerns regarding the use of information submitted electronically” (Bélanger & Carter, 2008), and both trust in the Internet and trust in the government matters when considering the intensity of use of e-government tools. But the high penetration rate of the Internet in Russia could be interpreted as a trust in technology. Perhaps one of the reasons for the low level of demand for e-government tools is the lack of trust in this specific technology (not trust in the Internet but trust in privacy, accuracy, the security of personal data transfer when submitting the application and the unknown price of the error). And as we learned from Figure 13, citizens who tried public e-services portals believe that it works accurately, stable, and secures privacy, and ranged their experience to be positive and successful. Therefore, the first experience matters and one of the further government efforts towards usage increase could be the development of the measures for citizens to make the first attempt with public e-services and make sure it is successful. Sipior et al. advised: “to secure Internet access, coordinate education and training, and sustain Internet use to initiate e-Government participation among the techno-disadvantaged” (Sipior & Ward, 2009). To motivate citizens to have their first attempt the government could use social advertising (sharing successful experiences) through interpersonal channels (e.g., from friends, family, coworkers) and mass media channels (Dimitrova & Chen, 2006), provide extended online and offline support for users, and launch of educational programs, etc.

We revealed that demand for public e-services in Russia is not so high, but it is even lower for public participation platforms (Fig. 17). It seems that some additional factors affect usage in comparison to those which negatively affect the use of public e-service. These factors might not work for public e-services, as soon as there is an obvious need to get something (sometimes it is a must to register at the portals to get public services offline, or an offline service is not available anymore), while there is no need or obligations to participate, hence there should be some other motivation to get involved. And that could be the explanation of why the penetration of public e-services is almost two times higher than for e-participation. Therefore, our hypothesis for further research is the following:

A lack of trust, skills, needs, devices and first successful experience negatively affect the demand (usage) for public e-services, but it affects e-participation to a higher extent within the same institutional framework. Therefore, from a theoretical and practical perspective, the nature of e-government solutions should be considered when governments are developing roll-out programs. To grow usage of e-participation, there should be a growth in usage of public e-services (to be involved by e-government technology), having obtained a positive first-time experience that was broadly shared via two main informational channels (interpersonal channels and mass media channels).

The research undertaken produced three practical recommendations to accelerate the usage of e-government solutions:

1. *To increase the Internet penetration rate in Russia in the 30–54 and 55+ age groups, and to develop measures to increase trust in the government.*
2. *Empower the first successful experience of the citizens (who currently do not use it) by sharing success stories (“no-need” issue, “trust in e-government technology” issue), educational arrangements (incl. for elderly people), and increasing the awareness about public computer rooms that are available at Multifunctional Centers for public services (“no-skills” issue) and special discount programs (subsidies) to purchase (rent) a device (“no-device” issue).*
3. *Analyze the factors that affect the usage of e-participation in Russia (as soon as the level of usage of it differs from the same level for public e-services portals). Develop separate strategies for growth in usage of public e-services and e-participation platforms.*

Today e-government can be considered as one of the multiple options that citizens can select for their interactions with the government (Nam, 2014). And as soon as this is a relatively new option, maybe the government shall not worry about the lower usage (in comparison to traditional channels of interaction) and consider it to be evolutionary? “The increase in citizens’ use of e-government, nevertheless, becomes a discernible long-term trend because a growing number of people have recognized and experienced greater efficiency, effectiveness, and convenience in using various government functions via e-government and digital connections with conventional channels” (Nam, 2014). It seems that the process of the implementation of technology into public administration takes time and the progress depends on many factors that may differ significantly be-

tween the countries that need to be analyzed and managed in each specific government to increase the usage.

7. Conclusion

This paper explored what the current level of use of e-government solutions in Russia is and whether or not the use and satisfaction rate for public e-services portals and e-participation platforms is equal within the same institutional framework within a country.

To answer the research questions, the authors conducted desk research and a survey. The paper explored whether or not the Internet penetration rate is high, whether citizens have the right to approach the government remotely, what the level of trust in the government is, the level of usage of public e-services portals and e-participation platforms, the level of computer skills, and overall satisfaction. The findings show that Internet penetration as an opportunity to use e-government tools is rather high (75,4%), but the actual level of use of public e-services is low (29%) and even lower for e-participation (17%). The use gap between traditional and online channels of interaction with the government is making Russia comparable to other countries. A high Internet penetration rate, extended rights of the citizens to apply to government authorities remotely, and a moderate level of trust in the government belong to the group of factors that positively affect the usage. At the same time, the absence of skills, devices, and needs within some socio-economic groups, plus the lack of a first successful attempt (experience) (for different reasons, including fear of technology, trust in it, psychological factors, etc.) belongs to the group of factors that negatively affect the usage of e-government solutions.

The study confirmed the results of existing literature that also emphasized that “despite the significant amounts of public investment devoted to enhancing e-government over the last ten years, citizens’ use of this service is still limited, posing a challenge to national governments” (Pérez-Morote et al., 2020). And the problem of the low usage of e-government solutions is common for many emerging countries, including Russia. The contribution of this study could be measured by:

- the assessment of the current level of use of e-government solutions in Russia (for public e-services portals and e-participation platforms) and the exploration of some of the key factors that influence the use (Internet penetration rate, citizens’ rights to approach the government remotely, the level of trust in government, the level of usage of public e-services portals and e-participation platforms, the level of computer skills, and overall satisfaction);
- proving the statement: within the same institutional framework the use and satisfaction rate for public e-services portals and e-participation platforms could differ; the nature of e-government solutions (whether it is a public e-service portal or an e-participation platform) should be considered when governments are developing roll-out programs;
- suggesting three practical recommendations to accelerate the usage of e-government solutions.

The research has some limitations. As we mentioned in section 3, multiple variables affect the level of use of e-government solutions. This paper considers only some of these, based on the data available. The article represents the first layer of the analysis and does not share some of the more in-depth results of the analysis. For example, the relationship between citizens' experience with "off-line public services" and their use of e-government solutions, which will be the subject of the next article.

Declaration of Competing Interest

This article is an output of a research project implemented as part of the Basic Research Program at the National Research University Higher School of Economics (HSE University). The research has been executed independently by the authors.

CRediT author statement

Sergey A. Revyakin: Conceptualization, Methodology, Validation, Formal Analysis, Investigation, Data Curation, Writing – Original Draft; Álvaro da Rocha: Writing – Review & Editing.

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EFFECTIVE DEVELOPMENT INSTITUTIONS

Victoria M. Kuzenkova

PhD-student, the Department of Politics and Governance,
Faculty of Social Sciences, National Research University
Higher School of Economics.
Address: 20 Myasnitskaya Str., 101000 Moscow,
Russian Federation.
E-mail: vkuzenkova@hse.ru

Abstract

Development institutions are the most important tool for stimulating innovation processes and infrastructure development. These organizations finance long-term investment projects that contribute to the socio-economic development of the industry, region or country. Such specificity of activity leads to significant difficulties in the assessment of their efficiency. At the same time, the development of a system for assessment of the development institutions' efficiency, improving the efficiency of their work and ensuring positive economic growth rates in regions and states, are impossible without studying the approaches to the assessment of their efficiency.

A growing interest in the activities of multilateral development institutions is taking place in today's literature on public administration. However, there are currently no review articles that would consider the scope of work devoted to the assessment of the development institutions' efficiency. The review examines modern research publications that assess the results of individual development institutions and their contribution to socio-economic development and some issues of economic efficiency. The article analyzes various approaches and methods for assessment of the development institutions' efficiency. The study will allow us to assess the potential for use of modern approaches and identify areas for further application of the used methods.

The materials of the review can be used as a general theoretical part for teaching the disciplines of "public administration" related to the assessment of the public administration efficiency.

Keywords: development institutions; effective development institutions; development institutions' efficiency; assessment of the development institutions' efficiency.

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Introduction

The development of the new public administration concept has led to increased research interest in the issues of efficiency and its assessment in public administration. Currently, many methods of assessment of the public administration's efficiency have been developed.

These methods include the calculation of the indicators for assessment of the government, the labor market, the fight against corruption, macroeconomic stability, innovation potential, etc.

At the same time, development institutions are a relatively new tool for implementing the state's innovation policy. Therefore, there are currently no generally accepted methods or indicators for assessment of their efficiency. It is necessary to determine the essence of these organizations and the specifics of their activities to understand what approaches to the assessment of their efficiency can be used.

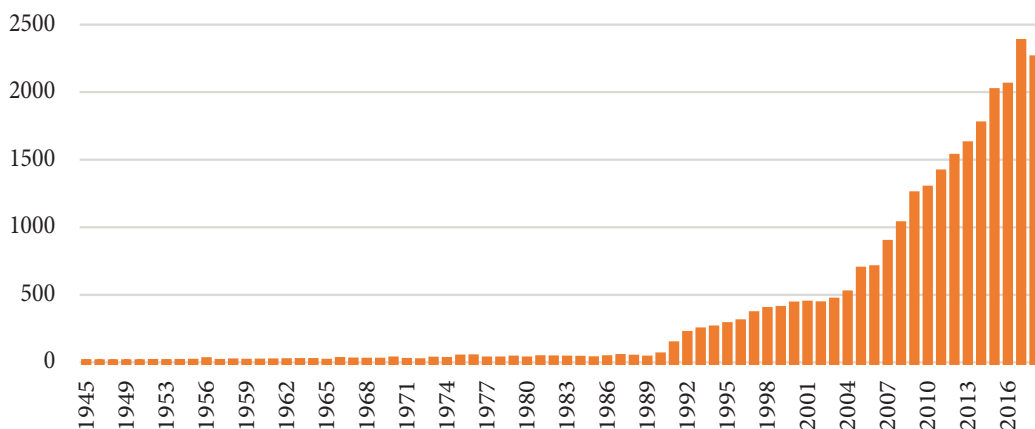
The essence of development institutions

According to the dynamics of development institutions research (Fig. 1 and 2), it is clear that the number of studies conducted prior to the 90s was significantly lower than at present – about three to five studies per year against 200–300.

For a while, there was a weak positive or volatile trend, but the number of studies on development institutions has steadily increased since the beginning of the 2000s.

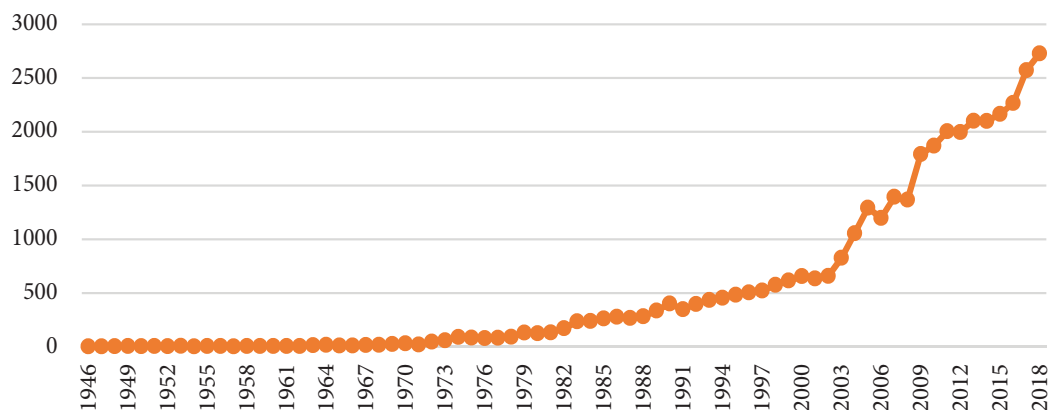
This fact indicates the ever-increasing interest in the activities of these organizations, as well as the fact that the study of the development institutions' problems is at a relatively early stage.

Figure 1: The number of documents by year for the “development banks” query in the Web of Science database, pcs.



Source: Compiled from Web of Science statistics.

Figure 2. The number of documents by year for the “development banks” query in the SCOPUS database, pcs.



Source: Compiled from Web of Science statistics.

It should be noted that development institutions do not have a universal form or a single status in world practice. State governments assign special tasks to these organizations, so special rules and laws are adopted for them. This is due to the fact that many of the functions performed by development institutions are difficult to implement due to financial constraints. The governments of many countries used development institutions as an anti-crisis tool during the global crisis and huge market overloads, because resources from traditional banks were not enough (Dezhina, 2013).

These facts determine the features of development institutions' research. Most of them are studied in isolation, and the essence of development institutions is still very vague. Thus, the concept of development institutions is actively used in Russia but has not been widely used abroad. Most research focuses on development banks, despite the existence of different forms of development institutions: banks, agencies, corporations, and development associations. Let us compare the number of documents requested by development institutions and development banks in the SCOPUS database. At the request of development institutions, there are only 584 of them, while at the request of development banks – 3513. It can be noted that a similar approach to the study of development institutions existed in Russia. Only in recent years have researchers drawn attention to the fact that development institutions as a whole form a powerful innovation system of the state's economy, so they need to be studied together.

Currently, the concept of a development institution is not interpreted unambiguously. For example, the Association of European Development Finance Institutions defines development institutions as organizations that promote economic and socially sustainable development by financing profitable private sector enterprises. The Office of Foreign Assets Control (The U.S. Treasury Department), which is responsible for regulating development banks and financial institutions, defines a development institution as a financial institution that creates economic opportunities for individuals and small businesses (Frumina, 2017).

Russian scientists also could not come to a consensus in the interpretation of the development institutions' concept. For example, a development institution is interpreted as an established form of interaction between economic agents, the result of which is a change in the system (Popov, Vlasov & Simakhina, 2010). Or: development institutions are organizations created as an instrument of economic policy in its various manifestations (Bakhtazin, Valentik & Buchwald, 2015). Some definitions use terms that are not well-established in research and regulatory activities or practice, which makes understanding the essence of development institutions even more difficult. Thus, development institutions are understood as specialized state corporations whose activities are aimed at eliminating "market failures" that hinder the economic and social development of a country (Solntsev, Khromov & Volkov, 2009).

In this article, we will understand development institutions as organizations whose main activity is to stimulate innovation processes and develop infrastructure by financing long-term investment projects that contribute to the socio-economic development of the industry, region, country, and association of states.

The diversity of existing development institutions allows us to classify them according to various criteria:

- by territorial: national and foreign (Forster, 2018) or multilateral (global, regional, sub-regional) and national (Spivachevsky, 2012);
- by the nature of the impact on the environment of organizations: financial and non-financial (Monastyrsky & Saklakov, 2011);
- in the field of activity: research funds, venture funds, institutions to support small and medium-sized businesses, institutions aimed at the development of economic and social infrastructure, etc.
- by type of financing: budget-funded and with a mixed capital structure;
- and others.

The issue of the classification of development institutions is the most important element that precedes the assessment of their efficiency. The goals, objectives and indicators of the efficiency of the scientific fund would significantly differ from those characteristics of the venture development institute, and the regional development institute from the global one, and the methods of the assessment of the efficiency of spending the invested funds will depend on the nature of the financing of the institute in question.

Evolution of approaches to the assessment of the development institutions' efficiency

The changing global economic conditions, the development and implementation of the latest management tools, and the development of state functions in the management of public finances, have all contributed to the evolution of the assessment methodology of the development institutions' efficiency over the past two decades.

Systematizing modern methodological approaches to the assessment of the activities of development institutions, we can distinguish three of the most common:

1. Assessment of the development institutions' efficiency as an economic entity (Nidar, Anwar, Komara & Layyinaturrobanayah, 2020; Gurara, Pres-

bitero & Sarmiento, 2020; Nalaukai, 2015; Heldt & Schmidtke, 2019; Bresser-Pereira & Bechelaine, 2019; Mendez & Houghton, 2020; Malkin & Momani, 2016; Sanders, 2019; Silvestrov, Molodtsov & Skorikov, 2013; Nelson, 2020; Nehru, 2014; Wang, 2017; Munir & Gallagher, 2020; Sidorova & Tatarkin, 2016; Yudina, 2015; Perfilova, 2017; Sukharev, 2017).

The formation of this approach is associated with the development of the concept of new public management, which is based on the idea of the similarity of management mechanisms in public and private organizations and the possibility of improving the efficiency of public administration through the introduction of market principles. At the same time, it is important to note that the financing of the activities of development institutions is carried out on a debt basis, through the issuance of bonds. Budget financing is used only at the stage of formation of the authorized capital. Given the significant limitations of bond loans, it turns out that development institutions, after their formation, should be guided by the market principles of self-sufficiency and self-financing. That is why, in most cases, researchers are interested in the question of financial efficiency. On the one hand, this approach can be called justified, since development institutions do not have constant funding from the participants. Receiving the majority of capital at the time of creation, these organizations must ensure their existence and financial stability for further functioning within the framework of the designated goals. On the other hand, such an approach would not be considered correct, since the goals of development institutions are not exclusively economic.

These features lead to the impossibility of applying other approaches, for example, methods for efficiency assessment of public-private partnership projects. These methods are based on the calculation of different groups of indicators, depending on the project participant. For example, in the case of a project that will result in a significant increase in tax revenues to the budget and a reduction in the unemployment rate, but the return on investment will be only 1%, the state will be interested in its implementation, while the private investor will refuse. For multilateral development institutions, in this case, non-standard methods are needed to evaluate the project, acting both on behalf of the state and on behalf of the private investor.

There is a need to take into account both financial indicators and indicators of socio-economic development in such a way that their results allow us to resolve the contradictions generated by the specifics of their activities and financing of multilateral development institutions.

2. Assessment of the development institutions' efficiency as a semi-commercial and semi-governmental organization, taking into account its goals and objectives and industry specifics (Al-Busaidi & Al-Muharrami, 2020; Simpasa, Shimeles & Salami, 2015; Corral & McCarthy, 2020; Nemlioglu & Mallick, 2020; Nasreen, Mahalik, Shahbaz & Abbas, 2020; Iheonu, Asongu, Odo & Ojiem, 2020; Delikanli, Agolli & Dimitrov, 2018; Kellerman, 2019).

As mentioned previously, the main purpose of development institutions is to form and develop an effective innovation economy, attract private capital on the principles of public-private partnership, modernize high-tech industries and,

as a result, ensure the socio-economic development of a country. In this regard, the development institutions' efficiency should be assessed not only as its efficiency as an economic entity, but also taking into account the impact of investment projects on the socio-economic development of individual regions, states or inter-regional associations, which can be assessed using indicators of economic growth and social development.

3. Assessment of the development institutions' efficiency on the type of policy network (Ferry, Hafner-Burton & Schneider, 2020; Opršal, Harmáček, Vítová et al., 2020; Rommel & Schaudt, 2020; Dreher, Sturm & Vreeland, 2009; Asongu, Nnanna & Tchamyou, 2020; Lim & Vreeland, 2013; Antropov, 2019; Leksyutina, 2018; Alvarez, 2016; Abalkin, 2006; Türkelli, 2020; Bradlow, 2019; Ella, 2020).

This theory, which is based on the concept of "policy network", is becoming increasingly popular and influential among public administration theorists. The concept of political networks is based on the same idea as new public management: the modern state will not be able to meet the needs of society, and therefore there is an urgent need to replace hierarchical administration with a new form of government. In the search for new approaches, new public management focuses on the market economy, and the theory of political networks puts the communicative processes of post-industrial society and the democratic practice of modern states at the center of the analysis. For the production of public goods, the state is increasingly dependent on other actors and subsystems. In this situation of interdependence between public and private actors, neither hierarchy nor the market are effective structures for coordinating the interests and resources of the various actors involved in the production of political decisions. As a result, policy networks become the dominant model of governance. Political networks are characterized by a variety of governance mechanisms, including not only state and non-state political structures, but also business, as well as a combination of various elements of civil society at different levels from international to local. Thus, management networks can consist of a number of different multi-level institutions united to solve a specific management task.

Let us look at these approaches in more detail.

Assessment of the development institutions' efficiency as economic entities

The efficiency of regional development institutions can be measured by indicators such as the share of inefficient loans, capital adequacy ratio, return on assets, etc. (Nidar, Anwar, Komara & Layyinaturobaniyah, 2020). These indicators are traditionally used in the practice of the assessment of credit institutions' efficiency. Since the main mechanism of investment by development institutions is the issuance of loans for the implementation of selected projects, the researchers concluded that it is permissible to borrow these indicators and that they can be applied to the assessment of the efficiency of development institutions. In addition, using the parametric approach, the authors identified the factors that have the greatest impact on performance indicators.

The efficiency of development institutions can be assessed as the total efficiency of their projects, based on the indicators of investment analysis (Gurara, Presbitero & Sarmiento, 2020). In the assessment, the authors use indicators of net present income, profitability, and return on investment indices. It is worth noting that in an investment analysis, these indicators are used to make decisions about investing money before the start of the project, but not in the assessment of the results, since at the end of a long-term project, these values will differ significantly. In this case, it is not possible to adjust the activities of the institute to improve the indicators. The researchers also do not cover the issues of the efficiency assessment of operating activities or activities in international financial markets.

A number of studies with this approach (Nalaukai, 2015; Heldt & Schmidtke, 2019; Bresser-Pereira & Bechelaine, 2019; Mendez & Houghton, 2020; Malkin & Momani, 2016; Sanders, 2019) are devoted to the efficiency assessment of the largest Asian, American and African development institutions. For a comprehensive analysis in these works, the authors use a wide range of indicators: revenue, commercial and management expenses, profit, return on assets and liabilities, equity and debt capital, turnover of assets, capital, etc. However, there is a significant gap in the work of the group under consideration which is that most studies have limited their research to one or two institutions, as a result of which there is no understanding of whether it is possible to apply such an approach when comparing a large set of development institutions.

It is revealed, however, that individual development institutions may have additional goals and activities, so the assessment of their efficiency can be carried out using common indicators, but also taking into account the specifics of each institution (Silvestrov, Molodtsov & Skorikov, 2013; Nelson, 2020; Nehru, 2014; Wang, 2017; Munir & Gallagher, 2020).

Sidorova and Tatarkin (Sidorova & Tatarkin, 2016) define the assessment of a development institute, as an economic entity, as an assessment of its ability to achieve its stated goals and objectives. This type of assessment focuses primarily on the efficiency of internal planning, since investment projects that qualify for state support and can only be implemented with the participation of development institutions, must meet special requirements. The assessment criteria include:

- maintaining optimal levels of financial independence ratios, in particular the ratio of equity and debt capital using effective management, financial and other tools;
- availability and sufficiency of resources to achieve the goals and objectives stated in the charter and other documents of strategic and business planning;
- high level of budget execution of the development institute, especially in the comparison of actual results with the initial objectives (Yudina, 2015).

As the information base for assessing the efficiency of development institutions as economic entities, their financial reports, financial and management reports are used. At the same time, common management methods such as horizontal, vertical, factorial, comparative, trend, and analysis of relative indicators are used (Perfilova, 2017).

Among other things, indicators such as profitability, yield and others that take into account the industry specifics and organizational and legal forms of organizations, play a crucial role in assessing the efficiency of development institutions as economic entities. These indicators include:

- volumes and changes in the dynamics of revenue and profit indicators;
- volumes and changes in the dynamics of implemented investment projects;
- the growth rate of income of development institutions, the growth rate of expenses for their maintenance and the ratio of these growth rates;
- the optimal ratio of the amount of budget funds received for the implementation of the development institute's goals and objectives, and the cost of its maintenance (Sukharev, 2017).

In addition, one of the indicators of interest in this type of assessment is the ratio of the volume of management expenses to revenue. According to the research of the Financial Research Institute (the assessment of Russian and Foreign Development Institutions' efficiency, 2016), in Russian practice, the negative trend of exceeding the growth rate of expenses for the maintenance of development institutions over the revenue from their activities and net profit, is increasing. According to researchers, the increase in the cost of maintaining development institutions continues even in the presence of losses.

Assessment of the development institutions' efficiency as a semi-commercial and semi-governmental organization, taking into account its goals, objectives and industry specifics

A number of researchers identify significant differences in the goals and objectives of development institutions and justify the need to use additional indicators that characterize the specifics of the activity.

It is confirmed that the assessment of development institutions' efficiency only based on uniform indicators leads to a distortion of the results (Al-Busaidi & Al-Muharrami, 2020). The authors argue that it is acceptable to use common financial indicators of the efficiency of development institutions, but it is necessary to introduce non-financial criteria and indicators. Significant differences in the goals and activities of development institutions have been identified, which hinder the assessment of efficiency based on common indicators (Sim-pasa, Shimeles & Salami, 2015; Corral & McCarthy, 2020). Efficiency is proposed to be defined as "the total efficiency of implemented projects, assessed, in turn, taking into account their main purpose". The researchers propose to focus on the goals and objectives of the development institute and, accordingly, the projects implemented by it.

Another group of researchers studying the activities of development institutions offers a number of indicators that can be implemented in the assessment of these organizations' efficiency.

For example, Delikanli, Agolli and Dimitrov noted that the goal of most development institutions, as set out in their statutes, is to stimulate and promote sustainable economic development (Delikanli, Agolli & Dimitrov, 2018). How-

ever, the efficiency indicators used by these organizations do not correlate with this goal. According to the authors, the indicators of development institutions' efficiency can be borrowed from the set of global indicators developed by the special international group on indicators for achieving the Sustainable Development Goals and agreed by the United Nations Statistical Commission. These indicators should be adapted to the assessment of the multilateral development institutions' efficiency.

The efficiency of development institutions' investments can also be assessed based on the dynamics of indicators of socio-economic development of the countries that are their participants (Nemlioglu & Mallick, 2020), for example, indicators of the efficiency of the economy and its real sectors, financial markets, banking, etc. (Nasreen, Mahalik, Shahbaz & Abbas, 2020).

In addition, the most important criterion for the regional development institutions' efficiency is the dynamics of the financial development's level of recipient countries. Its analysis should take into account heterogeneity across countries and cross-industry dependence in the economy (Iheonu, Asongu, Odo & Ojiem, 2020).

It is proved not only that development institutions have different goals and activities, but also that their widespread use has led to duplication of functions performed (Kellerman, 2019). In this case, the question of efficiency becomes more acute, since the disbanding of redundant institutions will lead to the release of budget funds that the economy of any state needs.

Assessment of the development institutions' efficiency depending on the type of political network

The formation of this approach is associated with the development of network theory along with the active spread of multilateral development institutions in recent decades. According to this theory, unions and associations, within which multilateral development institutions are created, are networks consisting of representatives of national governments, "arising spontaneously around individual problems, characterized by a minimal hierarchy of relations or its absence, a wide range of participants interacting based on the principles of mutually beneficial resource exchange to achieve common goals" (Slaughter, 2004). Such networks are created because it becomes more difficult for the modern state to ensure the satisfaction of public needs.

It is increasingly dependent on other actors. Neither the hierarchy nor the market is an effective structure for coordinating the interests and resources of the various actors involved in the decision-making process in this situation (Smorgunov, 2001). Therefore, the use of networks in public administration becomes necessary and effective.

A number of studies have proved that the leading countries of the associations, in defending their interests, exert political influence on the multilateral development institutions, forcing them to accept projects that do not meet the developed goals, objectives and efficiency criteria.

For example, Lim and Vreeland concluded that countries with high influence in regional organizations use them to achieve their foreign policy goals (Lim & Vreeland, 2013). Leksyutina argues that the creation of multilateral development banks is the result of the implementation of “foreign policy ambitions”. Some of the policy decisions are aimed at tightening the requirements for the provision of assistance, which leads to the inability of individual countries to receive the necessary investments (Leksyutina, 2018). Alvarez claims that international organizations, especially multilateral development institutions, act in their political interests, in some cases violating the law. The improvement of international law proposed by The United Nations does not give the expected progressive results in solving this problem (Alvarez, 2016).

Another group of researchers did not identify the direct political influence of the leading countries of the associations on the multilateral development institutions but found difficulties faced by recipient countries due to non-compliance with the policies of donor countries.

It is proved that shifts in the policy of the donor country and the recipient country after the change of leadership lead to the redistribution of aid (Rommel & Schaudt, 2020). Recipients have the opportunity to receive even more aid when their foreign policy position approaches that of the donor. In addition, a direct relationship between membership in the UN Security Council and the number of loans issued by the World Bank is revealed (Dreher, Sturm & Vreeland, 2009). Opršal, Harmáček, Vítová et al. found that Poland and the Czech Republic provide investments to protect their geopolitical interests. These states prefer post-Soviet countries in the distribution of aid (Opršal, Harmáček & Vítová et al., 2020). It is revealed that the efficiency of anti-corruption rules depends on the composition of donors (organizations that are part of development institutions): associations in which the majority of states are characterized by a high level of corruption are more likely to provide funds to similar states, and vice versa (Ferry, Hafner-Burton & Schneider, 2020). Asongu, Nnanna and Tchamyou argue that the development institutions’ efficiency can be assessed as changes in the banking and financial systems of recipient countries. These changes, in turn, depend on the level of regionalization and globalization (Asongu, Nnanna & Tchamyou, 2020).

A number of studies draw attention to the existence of political influence, which, however, does not prevent the achievement of the goals of development institutions.

Türkelli concludes that multilateral development banks grant immunities and privileges to the member states. They are “hybrids”: they perform the functionality that is documented in the goals, and also act as independent actors, making decisions about the implementation of certain projects for political reasons (Türkelli, 2020). Ella concludes that multilateral development institutions strive to maintain a balance between institutional efficiency and the realization of the geopolitical interests of the participating countries (Ella, 2020). Antropov proved that multilateral development institutions have common goals, but different areas of activity. Consequently, the efficiency of the chosen development institution should be assessed for each participant of the association separately

(Antropov, 2019). Bradlow argues that the independent accountability mechanisms of the multilateral development institutions that monitor their compliance with the goals and objectives, as well as equal conditions in the provision of assistance, established by these organizations 25 years ago, now need to be updated (Bradlow, 2019).

Conclusion

To sum up, it can be noted that the scientific community actively studies the problems of the development institutions' efficiency. Currently, many approaches to the assessment of these organizations' efficiency have been formed.

Assessment methods of the development institutions' efficiency as economic entities allow one to assess its yield, profitability, business activity, etc. efficiency indicators. At the same time, making a profit is not the main activity of development institutions, so the assessment based only on these indicators cannot be correct.

Within the framework of the approach to the assessment of the development institutions' efficiency as semi-commercial and semi-governmental organizations, taking into account its goals, objectives and industry specifics, many separate criteria and efficiency indicators are proposed, but the lack of a single methodology makes it impossible to apply this approach in practice.

The approach to the assessment of the development institutions' efficiency depending on the type of political network is just beginning to develop. It is proved that the leading countries of the associations, in defending their interests, exert political influence on the multilateral development institutions, forcing them to accept projects that do not meet the developed goals, objectives and efficiency criteria. However, it is not yet clear how this information can be used and integrated into the assessment of the development institutions' efficiency.

Consequently, there is currently no comprehensive approach that would allow an objective assessment of the various institutions' efficiency and conduct a comparative analysis between them. In such conditions, it is possible to combine different approaches and compare the output data to increase the reliability of the assessment results.

It is expected that in further studies for a comprehensive assessment of the efficiency of development institutions, an integrated approach will be developed which provides for the calculation and analysis of the dynamics of indicators that characterize the socio-economic and commercial efficiency of activities; assessment of the contribution of development institutions to the socio-economic development of interstate associations, states and regions; assessment of the efficiency of budget management; comparison of the performance indicators of the analyzed development institute with the indicators of similar institutions. At the same time, some of the methods can be borrowed from existing approaches and adapted to the specifics of development institutions. The calculation of the integral indicator based on assessments that characterize various aspects of the activities of development institutions would allow one to assess a large set of different institutions and compare their efficiency.

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