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# STABILIZATION AND REFORMS IN THE EU AND EASTERN EUROPE

## CONTEMPORARY DEVELOPMENTS OF THE EU PUBLIC FINANCES: TOWARDS A FISCAL UNION OF THE EU

Svetla Boneva<sup>1</sup>, Filip Petkov<sup>2</sup>

### *Abstract*

*The purpose of this article is to review the current state of development of the European Union fiscal union and to explain the fundamentals of it and its meaning for the successful governance of sustainable economic environment in EU. The methodology of the paper is based on the content analysis as primary methodology. Computer-aided and manual content analysis has been used in order to explore the publications on the research subject and gain statistical data for the results of the fiscal stability mechanism in the EU which have been in use so far. The sources of information involve more than 20 analytical materials on the subject, such as articles, monographs and books. We used as main sources of information for this article also the treaties and official communications sent by the European Commission.*

### **Introduction**

The idea of close economic cooperation between the European countries was dating back from the post-war period. Nations were striving to gain power and revive its industrial power. The Marshall plan came in assistance even before treaties signed in Messina. The years between 1948 – 1952 was a period when USA decided to lend financial support into the countries west of Ural. This resulted in establishing the Organization of European Economic Cooperation (OECC). The formalities around the allocated financial resources to the west European allies of the USA resulted in establishing of two quite distanced entities from today's horizon – European Payment Union (EPU) starting at 1950. The second organization was a reactive response by EEC in regards to the petrol price crisis as well as the jolted Bretton-Woods dollar-based exchange rate system. This led to the formation of the European Monetary System (EMS) in 1978 which was successful in stabilizing the intra-EEC exchange rates.

### **1. Literature review: the Fiscal Union as an instrument for sustainable economic governance**

The European Commission released in 2013 a communication (COM 2013/165 Final) reaffirming intentions to further build up the fiscal integration capacity within EMU. It offers the establishment of Convergence and Competitiveness Instrument (CCI) which will be addition to the existing Macroeconomic Imbalance Procedure (MIP) and Corrective Action Plan (CAP) for the

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countries whose budgets are being restructured due to the unsustainable public debt levels. The CCI shall establish the necessary measures and structural reforms for certain country and shall avail the required financial resource to achieve the agreed reforms. This is a classic example for EU public money being spent to support national economies/ governments in their effort to avoid negative spillovers in related countries and industries.

The perception of the fiscal stability mechanism is mentioned as “solidarity contract” by Eulalia Rubio (2012) and Sofia Fernandes (2012). Rubio (2012) implies that solidarity elements entail common debt issuance which is yet a sensitive area.

Fiscal integration shall be also discussed through one more perspective - the fiscal union is integral part of the EMU and it relates to the Banking Union (BU). Both unions could be related in the context of sustainable economic governance and advanced cohesion. Kaloyan Simeonov (2015) states that “the banking and fiscal unions are two sides of the same coin”. The researcher implies that fiscal performance would help sufficiently in banking governance. He mentions that as of now Single Resolution Mechanism (SRM) and Single Supervisory Mechanism (SSM) coexist without synchronized fiscal framework being directly related to the banking union. Simeonov reviews series of researches which find reasonable relation between efficient fiscal rules and sound banking and public finance systems.

Although the institutional architecture is developing its entities – namely the European Fiscal Board, there were ideas of way more powerful governing body. Jean-Claude Trichet (2011) considers that better response to the financial challenges in Europe would be the establishment of ministry of finance. This would be supranational authority which will act in the interest of EU and would not manage large federal budget but would rather exercise direct responsibilities in three domains: surveillance in fiscal and competitiveness policies, further market integration (capital market), as well as to represent the EU to international financial institutions.

It is interesting for a group of authors to build up a parallel between the European fiscal integration and the existing federative budgetary system in USA. Henning (2012) and Kessler (2012) discuss the similarities and the counterpoints of the fiscal compact and the fiscal federalism and sovereignty in the United States. Both economists suggest that debt backstops shall be locally specific rather than managed centrally. Another caveat is maintaining efficient policies for counter-cyclical stabilization and, as previously mentioned by Kaloyan Simeonov (2015), it is necessary to ensure stable ground for unified banking regulation and restructuring system. Countries shall make the decision on how much authority to transfer out of their sovereign responsibilities.

Another traditional model comes as assistance when such a strategic decision is to be considered by the governments – this is the theory of the optimum currency areas (OCA) by Mundel (1961) and McKinnon (1963). They evaluate the costs for a country if adopts common currency and participates in monetary union (MU). Abandoning its own currency means giving up their monetary policy, control over the exchange rate as it would be managed by the central banking authority of the monetary union. Even if not directly related to the fiscal union, we still can add that fiscal regulation would be necessary for the efficient functioning of the MU. Bordo, Markiewicz and Jonung (2011) review the second approach of Mundell (1973) to develop the idea of OCA – monetary union will trigger market integration which requires risk-sharing mechanisms. Exactly the fiscal policies could be reviewed as shared risk allocation as they will be used to neutralize the effects of asymmetric shocks if and whenever they occur among the members of MU.

The institutional design of the European fiscal union is not yet finalized or perhaps its achievements would be tested in the upcoming years. That is why it is of a crucial importance to make it sustainable and adapted to the country specific risks. Farhi and Werning (2017) mention in their research paper that while USA federal fiscal system has unemployment benefits program, federal income from social security taxes and, in exceptional and extraordinary cases, direct federal assistance for highly indebted states, the EU does not possess fiscal instruments integrated to such

a level to be able to respond to the latter Eurozone crisis. Authors as well suggest models for equilibrium and effects of transfers within the union. They make reference to the Kennen (1969) theory stating that fiscal policy shall be able to offset regional differences in both income and unemployment parameters.

Further integration steps highlight to the reader a re-appearing trait – efforts obtain intergovernmental basis with supra-nationality becoming even more expressed with the years to follow. Fiscal union would mean not only control in the government expenses but would prioritize tax harmonization and pay attention to leaps in the current tax system to avoid double taxation as well as tax avoidance. The instruments to go forward this goal would be harmonized VAT and Common Consolidated Corporate Tax Base (CCCTB)<sup>3</sup>.

Having mentioned the CCCTB, we shall mention that additional discussions are yet to be held among the stakeholders in this matter. National governments shall demonstrate broader understanding of their duties and goals on EU level rather than putting national priorities as exceptional standpoint which predetermines their decisions.

The discussion about whether such a step is necessary became quite bipolar in the last 5 years. The eurosceptics state that such step would be blocking the national governments in essential function of their own – managing their national budget and reflecting their priorities in the local taxation system. We shall admit that exactly democracy is one of the base pillars on which EU has been standing for years on. However, the question on how the Fiscal Union will be designed in terms of legislative and executive powers, federalism, remains to the political strand of the issue. We would like to focus on the side which will explain about the steps to reach this advanced level of integration, its economic and fiscal aspects to continue driving forward the competitiveness and market stability among the EU population.

## **2. Critical analysis of the development of the European Fiscal Union (EFU)**

Let us turn our attention to the practical updates which reconfirmed the will of European leaders to evolve the Monetary Union into Fiscal one. The presidents *Jean-Claude Juncker* (European Commission), in close cooperation with *Donald Tusk* (European Council), *Jeroen Dijsselbloem* (Eurogroup), *Mario Draghi* (European Central Bank) and *Martin Schulz* (European Parliament) made statement titled “*Completing Europe's Economic and Monetary Union*” (22 June 2015) or rather famously known as “Report of the five presidents”. They highlight that fiscal union would be instrument for both achieving sustainability as well as stability (p. 5). It is worth mentioning the stages which the presidents named as crucial in completing their strategy for the European Fiscal Union (EFU).

The initial stage had already been finished by mid of 2017. It was defined as “Deepening by doing stage” meaning that further structural convergence and implementation of the present treaties were necessary. Institutional establishment (such as the European Fiscal Board which will be discussed further down) and cooperation were one of the goals for the starting phase.

The second stage is perpetuating from the time the report had been published till present – completing the EMU. But what remains for our Monetary Union to be concluded? Yet we shall mention that the benchmarks for fiscal performance are not legally binding all member states (e.g. UK and Czech Republic). European Court of Justice could impose fine as a last resort for countries which purposely deny complying with the recommendations, however, the national governments still do have chance to avoid the compliance and jeopardize the statistical input.

Here would be another question to raise – the institutional architecture. As of now there are consultative independent bodies established on national level as organizations with exclusively expert functions. Their decisions are non-binding legally the governments although there is

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<sup>3</sup> For additional details on Common Consolidated Corporate Tax Base refer to *Proposal for a COUNCIL DIRECTIVE on a Common Corporate Tax Base, COM(2016) 685*

requirement for providing statistically accurate data<sup>4</sup> to EuroStat under the Excessive Deficit Procedure (EDP). Ensuring the quality of the data input is obligation to the national governments which report to EuroStat via EDP Notification Tables which incorporate information for each country twice a year (March and September).

The third stage will be continuation of the financial and economic monitoring and fostering long-term sustainable growth. In addition to that Euro area shall be attractive to more countries to join in case they meet or exceed the criteria.

The second stage has pivotal role in building successfully functioning European Fiscal Union with its framework and institutional bodies. As stated by the group of the five presidents, fiscal cooperation will be attributing to evenly spread risk especially in the private sector as well as close monitoring via the European Semester especially oriented on macroeconomic imbalances.

In regards to the monetary policies, the completed European banking union (EBU) becomes possible after adopting the Single supervisory mechanism, Single Resolution Mechanism and establishment of European Deposit Insurance Scheme (EDIS) built on system<sup>5</sup> of national Deposit Guarantee Schemes. The last step in EBU is the functioning of Capital Markets Union which will ease the access to non-banking financial credit sources through harmonized regulations and will diversify the risk portfolio within the private sector.

### **3. Results of the implementation of the EU Fiscal Policy Instruments**

The instruments developed by the European Commission as main administrative body play pivotal role in the successful application of the monetary and fiscal policies. We would point the results of only few of them while noting the fact that numerous more procedures co-exist in the complex flow of economic and fiscal surveillance within EU.

#### **3.1. The Macroeconomic Imbalance Procedure (MIP)**

Macroeconomic Imbalance Procedure (MIP)<sup>6</sup> takes dominant role in the fiscal monitoring and control. MIP would be basis for the instruments which will be utilized in the prospective EFU. Implemented as a contingency response measure during the recent crisis, it serves as mechanism of monitoring national budget imbalances and deficiencies which could impose negative inflections not only on intra-government level but could create domino effect on other EU member states. Not only did fiscal performance is essential for underperforming countries but to those whose more relaxed fiscal policies could create undesirable movement of capital and manpower which could lead to structural changes in particular segment or country.

MIP surveillance includes: the country specific In-depth reviews (IDR), Alert mechanism reports (AMR) and the Excessive imbalance procedure (EIP).

Those reports are quintessential for the Commission to observe non-conformities and alert the Council as well as the member state in concern. The preparations of the reports follow a clear work process that was named European Semester. It serves as coordination mechanism between the relevant sides of the monetary and fiscal governance in EU.

After establishing the MIP, it was agreed on five years initial period after which the Commission will evaluate and review the degree to which the imbalance procedure was efficient and served its purpose. The scheduled review shall take place at the end of 2019.

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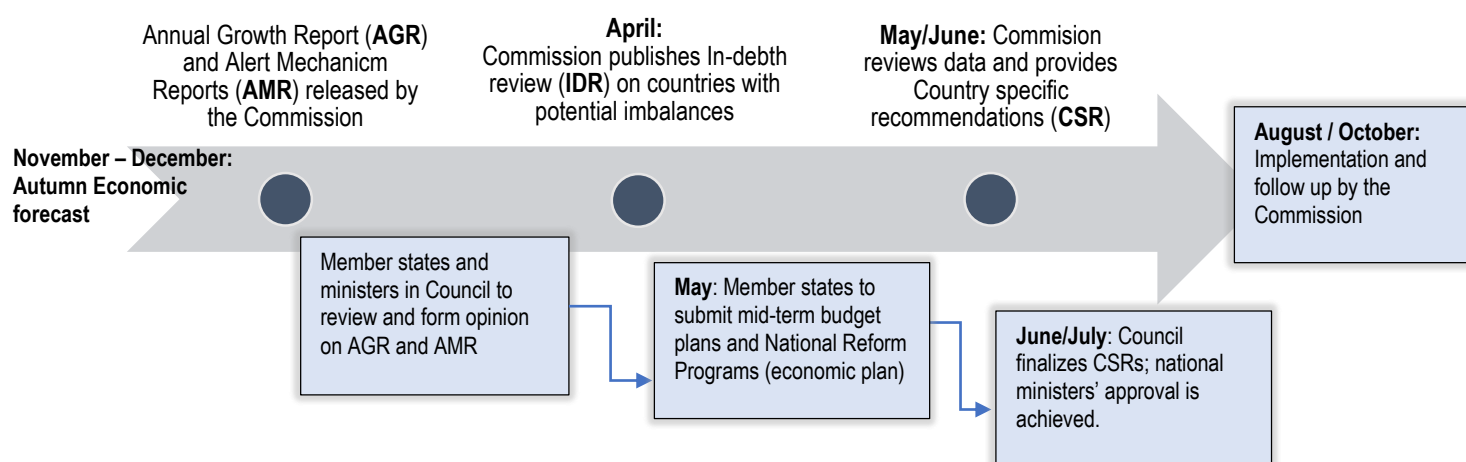
<sup>4</sup> See Council Regulation (EU) 679/2010 and Commission Regulation (EU) No 220/2014

<sup>5</sup> Directive 2014/49/EU

<sup>6</sup> See Regulation (EU) 1176/2011 and Regulation (EU) 1174/2011



**Figure 1. The European Semester: simplified workflow of a practical instrument which serves as coordinating mechanism between institutions and national governments**



Source: the authors

### 3.2. The European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM)

The present MIP has been developed several times since its efficiency was highly demanded in response of the negative shock which affected multiple economies across EU since the end of 2009.

**Table 1. Number of shares of the European Financial Stability Facility by country (at the end of its' functioning, 2015)**

Country	Shares	Capital as of 31/12/2015 (EUR)
Germany	771,706,294	7,717,062.94
France	579,522,400	5,795,224.00
Italy	509,243,918	5,092,439.18
Spain	338,392,963	3,383,929.63
Netherlands	162,521,534	1,625,215.34
Belgium	98,844,650	988,446.50
Greece	80,070,849	800,708.49
Austria	79,125,435	791,254.35
Portugal	71,329,846	713,298.46
Finland	51,097,174	510,971.74
Ireland	45,261,689	452,616.89
Slovakia	28,256,464	282,564.64
Slovenia	13,398,796	133,987.96
Estonia	7,294,357	72,943.57
Luxemburg	7,119,129	71,191.29
Cyprus	5,578,757	55,787.57
Malta	2,575,437	25,754.37
<b>Total</b>	<b>2,851,339,692.00</b>	<b>28,513,396.92</b>

Source: 2015 European Financial Stability Facility Annual Accounts Report

European Financial Stability Facility (EFSF) had been swiftly formed in 2010 to support the emerging problems of Portugal, Ireland and Greece. The bonds issued by EFSF fixed temporarily the problem but the root-cause analysis proved that further institutionalized actions are required to tackle the debt crisis from its core resource – inconsistent government spending and biased statistical data on the real government payment account.

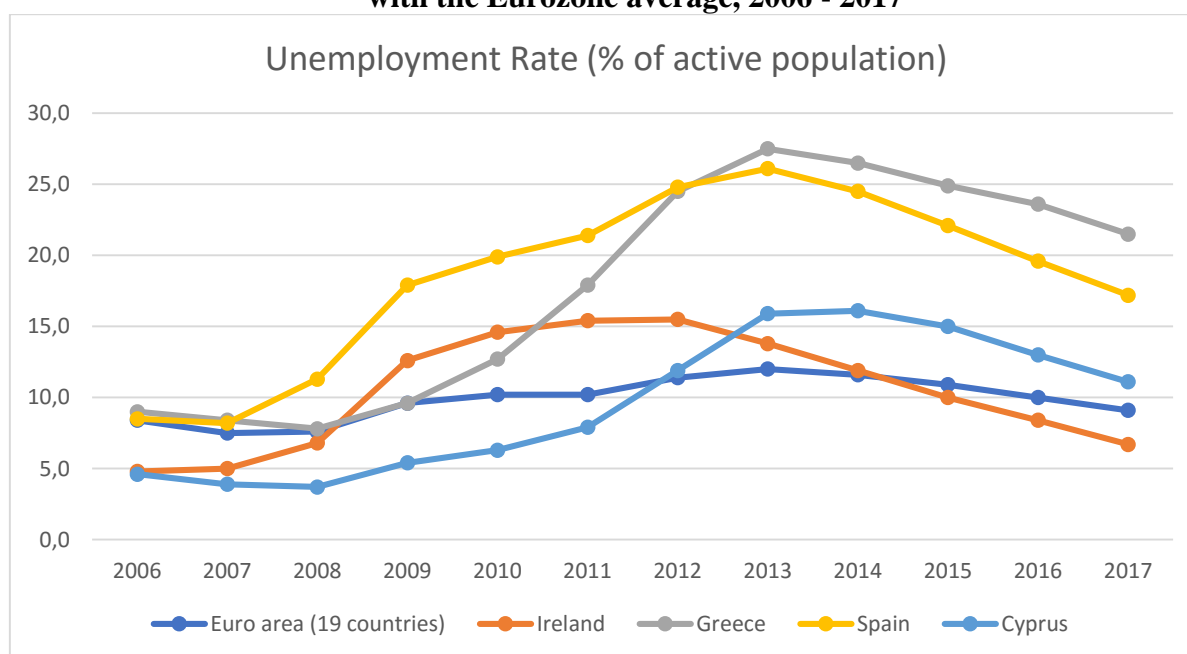
As the aid from EFSF was on a temporary basis (it expired on 30 June 2015), additional efforts were necessary to recapitalize the banks and finance the banks.

Thus the European Stability Mechanism (ESM) was formed in 2012 to provide long-term solution on the debt crisis. On 2 February the following has been agreed between the leaders in the Euro Area: “the ESM will provide stability support to an ESM Member when its regular access to market financing is impaired or is at risk of being impaired”<sup>7</sup> with EUR 704 798.7 million as capital stock.

The ESM assumes the tasks of its predecessor EFSF while also foreseeing option for precautionary financial assistance (see article 14 of the Treaty on ESM). Greece, Cyprus, Portugal, Ireland and Spain were the countries to benefit from the financial aid raised by ESM.

Now let us explore the situation in the above mentioned countries when the debt crisis started as well as the effects after their request for assistance from EFSF and ESM. For the purposes of this observation we shall select few macroeconomic indicators to show us the size of the economy at that time as well as the social effects. In this regard we shall include the unemployment rate (as % of active population), government gross debt (in % of GDP), and the ratio of general government net lending / borrowing.

**Graphic 1. Development of unemployment trends in Ireland, Greece, Spain and Cyprus with the Eurozone average, 2006 - 2017**

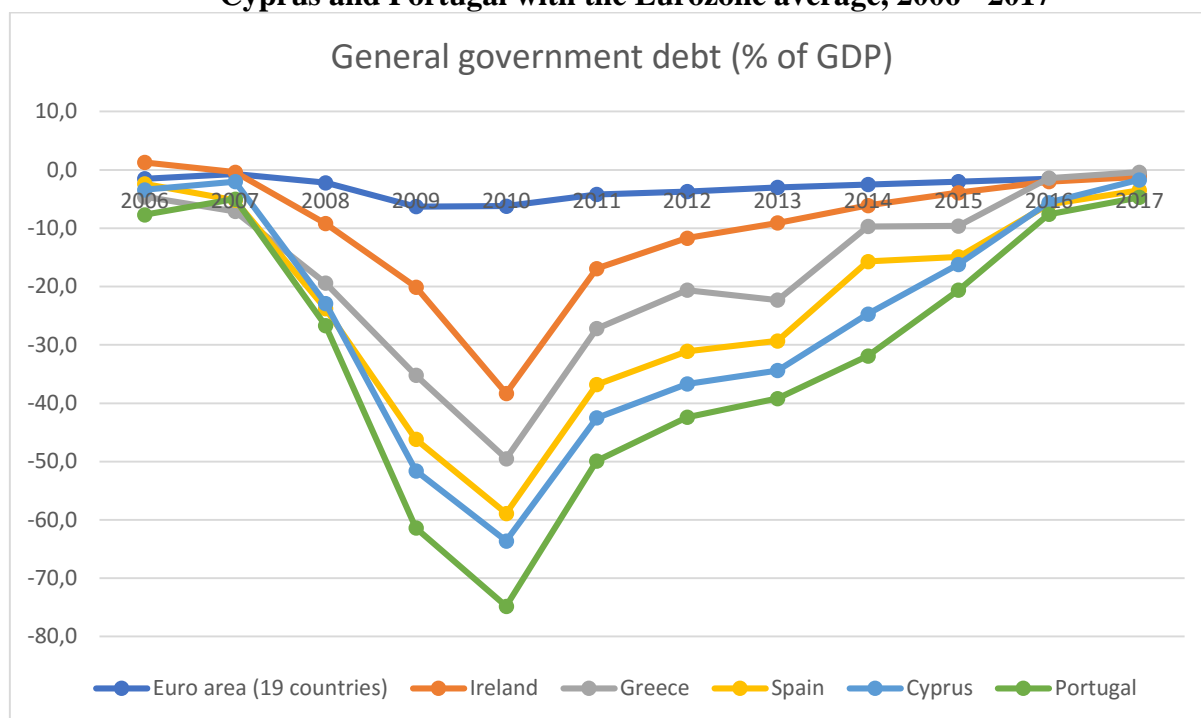


Source: Eurostat

<sup>7</sup> See Treaty Establishing The European Stability Mechanism

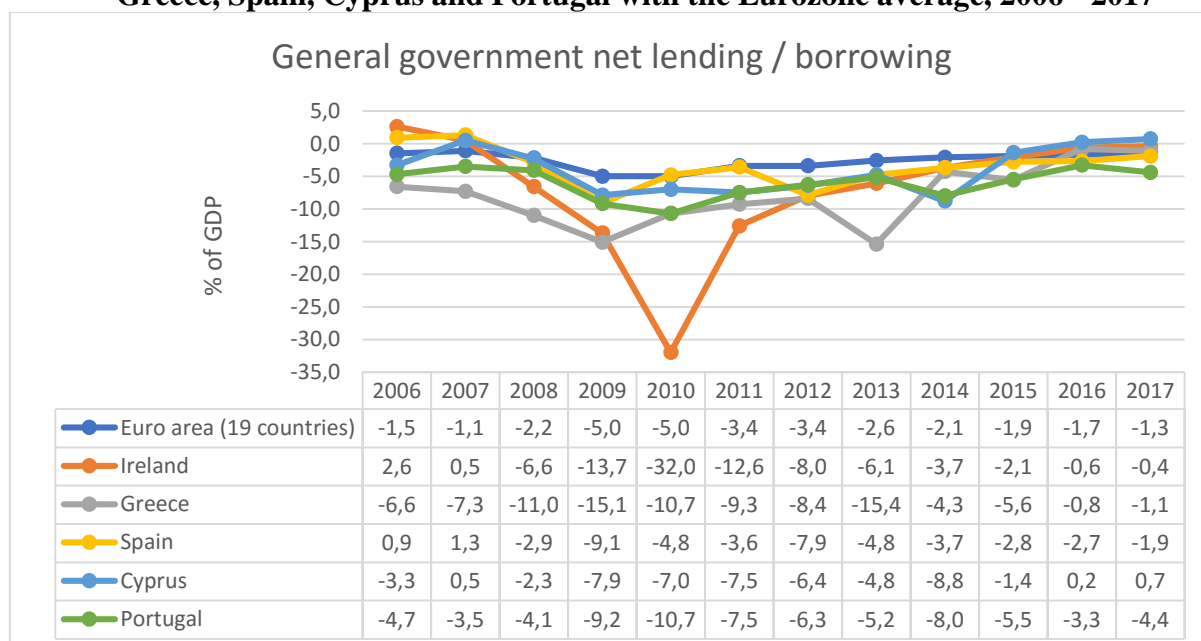


**Graphic 02. Development of general government debt trends in Ireland, Greece, Spain, Cyprus and Portugal with the Eurozone average, 2006 - 2017**



Source: Eurostat

**Graphic 03. Development of general government net lending/borrowing trends in Ireland, Greece, Spain, Cyprus and Portugal with the Eurozone average, 2006 - 2017**



Source: Eurostat

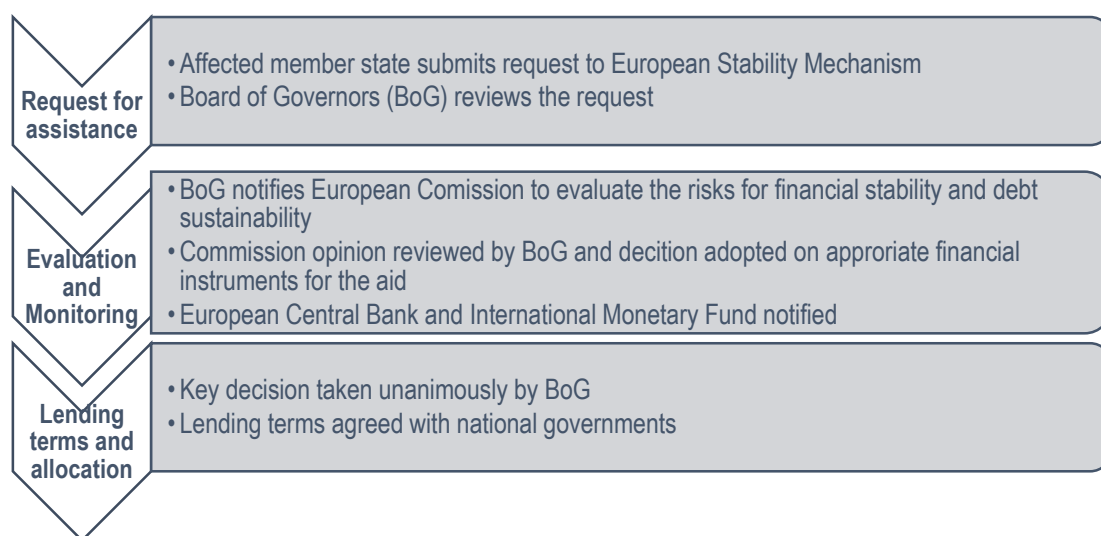
The data reconfirms the need of financial stability mechanism which will not only react but prevent high risk of indebtedness of the national governments. This measure has well been incorporated to the present Stability and Growth Pact (based on art. 121 and 126 of TFEU) with preventive (budgetary surveillance) and corrective arms (Macroeconomic imbalance procedure).

The negative shocks are quite visible in the years of 2008-2010 especially for Ireland and Greece. The requisite to have stable fiscal governance however is valid not only for those troubled

economies. “The progressive deterioration of the economy and waning market confidence made requesting financial assistance practically unavoidable. The weak starting position of the program countries entering the crisis resulted in a rapid worsening of their economic and financial situations”, admit in its annual evaluation EMS (EFSF) board members (“Evaluation of EFSF and ESM financial assistance”, June 2017).

All of the above indicated countries received financial aid as part of the standard financial instruments used and approved with the regulation for EFSF / ESM. An exception is Cyprus where the assistance was turned towards the banking sector.

**Figure 2. European Stability Mechanism: Institutional framework and governance**



Source: the authors

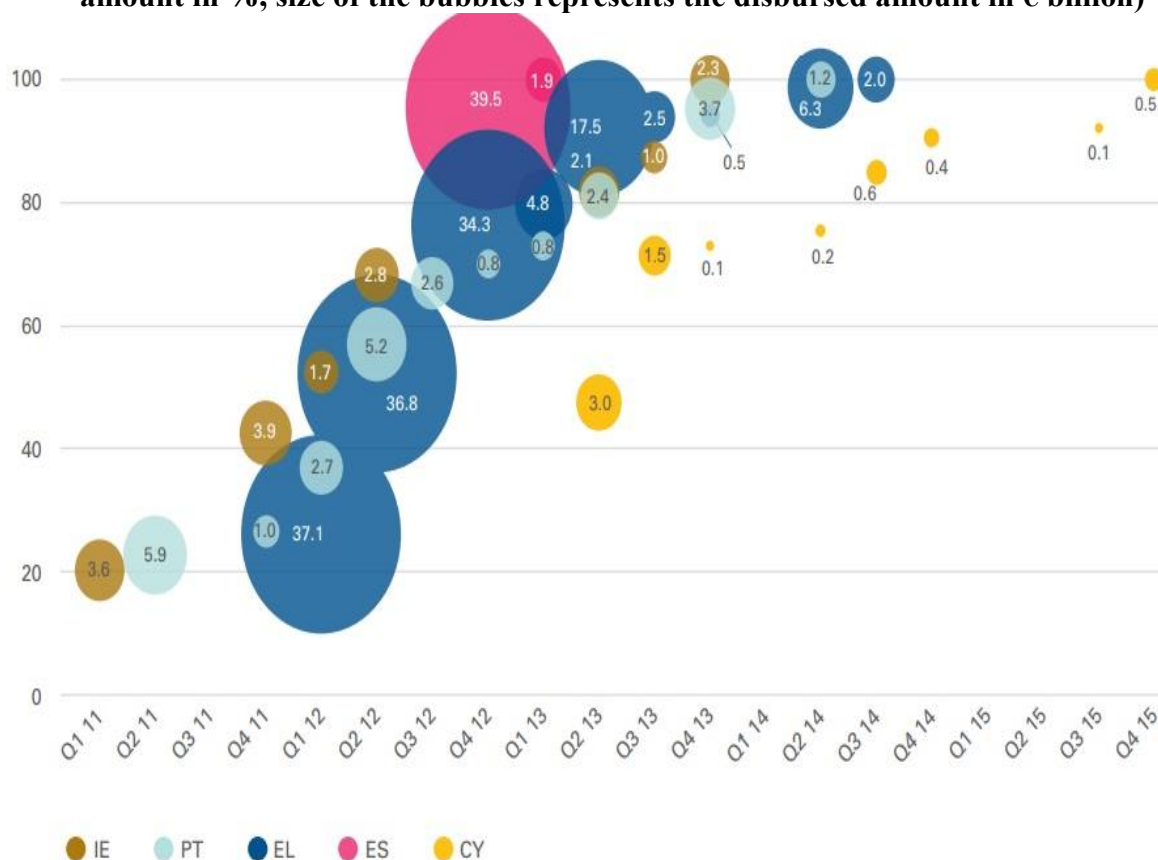
Apart from the required help to fix the excessive debt, it was negotiated that contingency buffers were necessary. They were used as additional “firewall” to following shocks and meeting urgent needs of the central governments.

A contingency provision of EUR 10 billion was factored into the total gross financial need (GFN) for Ireland. Baseline expectations for bank recapitalisation measures amounted to €25 billion, while actual expenditure was €18 billion, which means that the maximum amount of the buffer allocated was not reached.

In the second Greek programme, a capital buffer of €5 billion was considered reasonable to cover higher funding needs. The buffer accounted for about 10% of the total aid of EUR 49 billion that was planned for the recapitalisation of Greek banks. Needs proved thankfully lower in this case and EUR10.9 billion were transferred back to the EFSF in February 2015.

To prove the positive effects after establishing the EFSF and ESM we shall compare the payments timeline with the changes to the government debt (as % of GDP) displayed on graphic 02.

**Figure 03. Quarterly disbursement, by country (cumulative share of total disbursed amount in %, size of the bubbles represents the disbursed amount in € billion)**



Source: European Stability Mechanism

Majority of the disbursements were made in the last quarter of 2011 until second half of 2012. If we compare those transactions with the changes to the government debt levels as well as the levels of net borrowing and lending we will undoubtedly state that EFSF / ESM achieved their immediate goals. This motivated European Union to move forward and take the next step – establishing fiscal governing body. The proposal was swiftly adopted in the wake of the crisis with the vision to not only sustain possible economic contractions but indeed to execute higher level of government control and fiscal surveillance.

### 3.3. The European Fiscal Board (EFB)

After the economic downturn was unfolded in the years after 2008 the European stakeholders realized complex and consistent efforts are needed to tackle the government payment imbalance and monitor their budget spending on regular and structural way. Thus we reached to a point in 2015 when the European Fiscal Board (EFB) has been established – an independent advisory body which would provide autonomously the European Commission with expert opinion and suggestions on the euro area fiscal stance and would foresee measures to be taken in order to keep the national governments away from the excessive deficits in their accounts.

The immediate legislative act which determines the functions of EFB is Commission Decision (EU) 2015/1937 which took effect as of 1 November 2015. By extending its advisory capacity the Commission aims at better monitoring mechanism and building up organizational network on national level as well. The national fiscal councils which shall be in dialogue with the supranational body EFB are extension of Commission’s expertise and strategy on fiscal discipline. However, both EFB and national fiscal councils do not exercise administrative power and do not

possess power allowing them to regulate and/or insist on certain course of actions from the national governments.

As mentioned in the founding document, EFB has advisory functions and monitors horizontal consistency of Union's fiscal framework and reports about the actual budgetary stance in the EU on national level. Its decisions must not be influenced by national priorities or institutional bias of any kind. Thus only proved experts must be appointed on positions with EFB.

It is quite incorrect to consider EFB as "EU ministry of finance" although there are some suggestions in the mainstream publications. The EU is still far from building fiscal union which is integrated to a level that requires general institutionalizations of the national budgets and forming federative ones.

Speaking of structure, let us review the organization which EFB runs. The Commission follows consultations in order to appoint the Chair of EFB. This person will be in charge of the administrative and consultative functions in the fiscal board. They have to be recognized expertise and well known reputation. Four members titled as "Special advisors" will be supporting the Chair and give their professional standpoints in the matters concerning EFB. They will have 3-year mandate and could be reelected once. This team shall follow strict and confidential ethics code. Before submitting their opinions to the Commission, consensus shall be achieved by all members or in cases when this is not possible – simple majority is enough to approve expert conclusion (minimum 3 advisors shall be available except the Chair).

The described functions come in support to previously adopted secondary legislation adopted by European Commission, European Central Bank (ECB) and the Economic and Social Committee. This is Regulation (EU) 1173/2011 of November 2011. The document suggests effective enforcement of the budgetary surveillance<sup>8</sup>. Although no word is yet mentioned about EFB, the reader can perceive the idea of strategic monitoring and EFB was the solution, the missing point that came in later on: "...improved economic governance framework should rely on several interlinked and coherent policies, ...strengthened coordination of economic and budgetary policies, an effective framework for preventing and correcting excessive government deficits (the Stability and Growth Pact (SGP), a robust framework for preventing and correcting macroeconomic imbalances".

The latter regulation focuses on the advanced economic dialogue and enforcing administrative sanctions for the member states that do not follow Commission's and Council's recommendations for fiscal reform. The document defines interest and non-interest bearing deposits as an instrument for fiscal discipline which could be imposed by the governing bodies. For example, any non-performing country which does not follow the stipulated recommendations to limit its deficit levels in 20 days after Council's decision, could be required to deposit 0.2% of GDP in the preceding year. Same is possible in terms of fine in case investigation leads to conclusion of negligence and statistical bias.

End of next year would be quite important for the evaluation of the above regulations – Commission shall report the progress and results of these regulations every five years (last report was end-2014).

### **3.4. The EFB in Bulgaria: the Bulgarian Fiscal Council**

Bulgarian Fiscal Council functions since April 2015 in compliance with Council's Directive 2011/85/EU. The team lead by prof. Boris Grozdanov, PhD, must analyze and assess our national budgetary projections, discuss them in regard to the macro fiscal risks, etc. It publishes regular observations on the annual budget plan and public expenditure. Similarly to all fiscal councils in EU, it cannot impose its views and does not have legislative or executive power.

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<sup>8</sup> Fiscal surveillance was defined in the primary legislation source – TFEU, art. 121(6).

As of now there are no project regulations to delegate executive role to EFB and national fiscal boards. They will remain in the consulting sphere with “comply-or-explain” approach. Charles Wyplosz, Professor at Graduate Institute of International Studies in Geneva, supports the idea of independent fiscal policy councils<sup>9</sup>. He considers that the national fiscal boards will have better view on the economic process within the country. However, Wyplosz highlights that expert functions could be jeopardized by extending resources to analyze issues beyond the fiscal balanced and relating their decisions to the politically motivated expenditure and pro-cyclical policies. In his view the fiscal councils shall adhere to set target and achieve it considering the risks ex-ante.

### 3.5. The Stability and Growth Pact

Stability and Growth Pact (SGP) is the present regulation that combines two arms of action – preventive arm (related to fiscal surveillance) and corrective arm (related to the excessive deficit procedure). The basic local act leading to SGP establishment is TFEU with articles 121 and 126.

The following legislative act was signed in March 2012 and known as Treaty on Stability, Coordination and Governance. It claims that member states (excluding UK and Czech Republic at the time): “*strengthen the economic pillar of the economic and monetary union by adopting a set of rules intended to foster budgetary discipline through a fiscal compact, to strengthen the coordination of their economic policies and to improve the governance of the euro area*”.

The rules for fiscal discipline are clearly defined in the ratified to the treaty protocol 12<sup>10</sup>. The reference values are as follows:

- 3% for the ratio of the planned or actual government deficit to gross domestic product at market prices;
- 60% for the ratio of government debt to gross domestic product at market prices.

The above targets are supported by mid-term objectives (MTO) which are country specific and being published by the Commission on individual base. These results are bi-annually reported to EuroStat via approved template. Presently only Spain has ongoing EDP while 25 countries had successfully closed their excessive deficit procedures including Bulgaria.

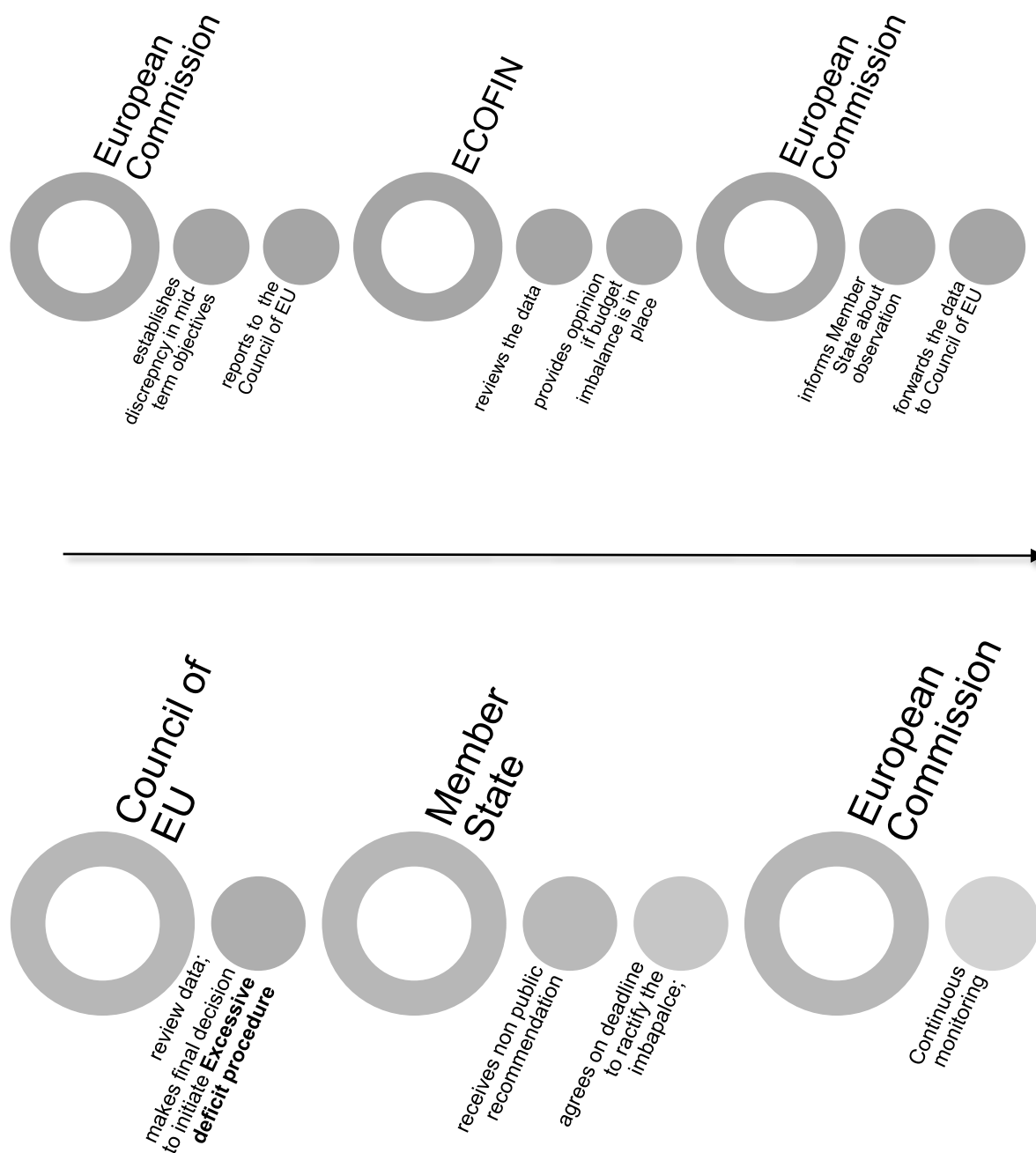
Now let us turn our attention to the steps that are observed when Excessive deficit procedure (EDP) is considered. The process flow is complex and requires input from several EU structures according to Art. 126 of TFEU.

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<sup>9</sup> See FISCAL POLICY COUNCILS: UNLOVABLE OR JUST UNLOVED?, Charles Wyplosz, SWEDISH ECONOMIC POLICY REVIEW 15 (2008), p. 173-192

<sup>10</sup> See EU Official Journal 115 , 09/05/2008 P. 0279 - 0280

**Figure 4. Excessive deficit procedure (EDP) procedure flow**



Source: the authors

The above measures are in place to ensure stable prices within the Union as well as sound public finance. Inconsistency in the monetary policy could negatively impact the economy in long run. This we agree that the balance of payments shall be sustainable and transparent. However, member states might disagree with the Commission’s observations. A responsive action may be triggered by written communication sent to the Commission. Within 03 months an oral hearing shall be organized in front of the European Court of Justice in Luxembourg. The observations to



the member state shall remain private unless deemed necessary to be published (usually when no corrective actions were taken by the country in question). Under the current SGP, the fiscal stand of EU in the past two years could be determined as mildly expansionary. We shall relate this to the IMF projections which also suggest mild expansion in 2017 and neutral stance during 2018 considering the decline of structural surplus to 0.6% (according to the EFB Annual Report 2017).

### **Conclusion**

The Fiscal union is the next logical step which EU institutions shall seek in regards to further enhancing its integration. Establishing fully functional fiscal board will be beneficial to the European citizens as budget spending and resources will be allocated in accordance to stricter supranational control body which will monitor to which extend the national governments are achieving the common EU goals and priorities.

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## SOME ASPECTS OF THE APPLICATION OF THE ADMINISTRATIVE SYSTEM AND PUBLIC SERVICES REGULATION IN NORTH MACEDONIA

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### Abstract

*The process of selection in the employment and promotion of administrative and public civil servants is subject to permanent reform decisions in the legislation regulating the personnel policy in the public sector institutions of the Republic of North Macedonia. A part of that process is the legal and practical regulation of the system of public services in the country. Since the independence, the public administrative system and public service system have been constantly legally upgraded and developed in order to be constantly modernized in meeting the public interest of the Macedonian citizens. In doing the critical analysis, the historical data and various governmental documents and applicative legal provisions were considered. However, the main key legal documents that are analyzed are the effects of the present legal solutions defined in the Law on Administrative Servants and the Law on Public Sector Employees. However, besides the good intentions of the political elites during the last 25 years, the quality and, above all, the dynamics of adopting various legislative interventions at short intervals call into question the final results of the declaratively expressed reform efforts for an efficient, effective and transparent system of administration and public services in the Republic of North Macedonia. The conclusions set forth a new scope of professional discussions. The legal base of the administrative and the system of public services in the country needs to be further changed in order to secure more efficient and more transparent administrative procedures and system of public services in the country.*

**Keywords:** public administration, administrative system, public services, regulation, North Macedonia

### Introduction

The overall process of reform efforts started in 1999 with the adoption of the first Strategy for Public Administration Reform in the Republic of North Macedonia. In order to successfully implement it, in the course of 2000, the first Law on Civil Servants was enacted, as well as with a special act dated 29.08.2000, the Civil Servants Agency was established as an independent state body aimed at the full and consistent implementation of the laws that regulate the work of public and civil servants in the Republic of North Macedonia (Agency for Administration- The History of the Agency for Administration, 2018).

Since early 2011, this Agency has been transformed and has continued to function under the name of the Agency for Administration, which was aimed at the implementation of the newly adopted laws: the Law on Administrative Officers and the Law on Public Sector Employees. All the necessary steps towards the transformation of the agency and the effective implementation of the legislation were undoubtedly part of the so-called Public Administration Reform Strategy

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(2010-2015) (Ministry of Information Society and Administration, 2018), as well as the Revised Action Plan of the Strategy (2010-2015) (Ministry of Information Society and Administration, 2018).

Separation of the party from the state cannot be done without a consistent and professional application of the selection process in the employment and promotion of the administrative and public servants in the Republic of North Macedonia. The question arises: Do the existing mechanisms of selection in the recruitment and promotion of officials defined in the existing legislation lead to professionalism and political impartiality, i.e. separation of the party from the state?

Public services work for the common good - to satisfy numerous needs of public character in the society, i.e. satisfying the public interest of the citizens. The public service system arises as a result of the division of labor that exists in every society and there is no country in the world without a legally defined and functionally set system of public services. Since the independence of the Republic of North Macedonia to this day, the public service system has been constantly legally upgraded and developed in order to constantly modernize and increase the efficiency and effectiveness in meeting the public interest of the Macedonian citizens.

But, despite the good intentions of the political elites, the quality and, above all, the dynamics of adopting various legislative interventions at short intervals call into question the final results of the declaratively expressed reform efforts for an efficient, effective and transparent system of public services in the Republic of North Macedonia. In the following pages of the paper is given analysis of the present conditions of the system of public services as well as the legal bases for employment and promotion of the administrative and public servants in the country.

### **Public services in theory and its legal base in North Macedonia**

Leon Digi is considered the founder of public service theory and in general its further development (Grizo, N., Davitkovski, B. and Pavlovska-Daneva A., 2008). He is advocate of the so-called a theory of social functions according to which administrative law represents nothing but a right to public services. In the words of Digi, “the public service is an activity whose executive management should regulate, provide and control, since it is necessary for the realization and development of social relations” (Grizo, N., Davitkovski, B. and Pavlovska-Daneva A., 2008; Public S., 2010; Slaninka-Dineva M., 2002). That is, any activity that must be secured, regulated and controlled by the managers, because it is necessary for achieving social interdependence and is accomplished only by the intervention of a managerial force is a public service. Another noteworthy definition for public services according to Digi is the following: “public services should organize activities whose stagnation, even the shortest, can lead to social disarray” (Grizo, N., Davitkovski, B. and Pavlovska-Daneva A., 2008; Public S., 2010; Slaninka-Dineva M., 2002).

According to other authors, such as Zhez, the public service is a technically organized procedure to meet the needs of the general interest. In that case, the organization of public services is constantly changing in accordance with the needs of a general nature i.e. it represents a legal situation. On the other hand, unlike Digi, Valin argues that the public service is part of the administrative law and one of its basic notions on which the science of administrative law is based. One of the most important theories is the socialist legal theory that tries to make a modification by bringing all scientific research into public services under the term social services (Grizo, N., Davitkovski, B. and Pavlovska-Daneva A., 2008; Public S., 2010; Slaninka-Dineva M., 2002).

In any case, in the literature there is a consensus on what the public service is. In other words, “the public service is a set of activities that are of common, general significance for all people and their organizations in a certain area, and whose performance is guaranteed and protected by different legal regulations”. This definition shows that the existence of each public service is based on two basic components: a sociological component (performing a particular activity, such as health, education, social and health care, culture, science, etc.) and a legal component, i.e. the legal

norm (Grizo, N., Davitkovski, B. and Pavlovska-Daneva A., 2008). With the development of civilization, the volume, i.e., the number of public needs, increases, and as a consequence, the number of public services increases. As a result, there is a need for privatization and decentralization of some of these public services. Accordingly, the citizens must be fully active during the process of design and practical implementation of the official policies in the process of delivering public services. By that, it can be provided “effective governance, strengthening the civil society access to important public information and providing opportunities for disadvantaged groups to contribute to policy making process” (Cipusheva, H., Memeti, M., Hadzimustafa, S., and Kreci, V., 2013). In doing so, three main principles are of particular importance in the functioning of the public services, such as: the principle of equality, the principle of adaptation and the principle of continuity.

In the legal theory, in addition to a legal-theoretical concept there is a constitutional-legal and ideological concept of public services. According to them, each public service receives a status of public administration whose regulation is governed by administrative law. According to Academician Ivo Krbek, public services have a specific role in those conditions when the administrative body does not appear as the carrier of the activity, but a special public service that functions under a special (particular) regime of law and is a part of the public administration (Grizo, N., Davitkovski, B. and Pavlovska-Daneva A., 2008).

Since 1991, with the constitutional solutions, the public interest in the Republic of North Macedonia is irrevocable, and even regulated by supremacy in respect of private interest and private property. In the Constitution of the Republic of North Macedonia, the Digi Solidarity Theory forms the basis of all considerations that social activities are public rather than private. In the Republic of North Macedonia attempts have been made to reform the public service system for a long time. This is done in stages on different legal grounds, namely: the first stage from 1991-2001, the second stage from 2002-2003 and the third stage from 2003 to the present day (Slaninka-Dineva M., 2002; Dimeski, B., 2016). The main goal of all reform efforts is to make a transformation in the performance of public services. As a result, expectations are more efficient, more effective and more productive performance of public services towards citizens. From 1991 until today, as a result of constitutional changes, all public activities experienced some kind of legal changes. Moreover, these changes began before the adoption of some Law on Public Services or the so-called Law on Institutions. It is worth mentioning that as early as 1992, the Government of the Republic of Macedonia submitted a proposal for the adoption of a Law of Public Services which, for inexplicable reasons, was withdrawn (Slaninka-Dineva M., 2002; Dimeski, B., 2016). According to the positive law of the Republic of North Macedonia, in addition to the Basic Law on Public Services or Institutions, there are also a number of *lex specialis* for different types of activities that are necessary for regulating matter in those areas. Public service reform is nothing more than an act of a country based on an appropriate strategy. In any case, when building the strategy for public service reform, citizens were not mostly consulted about possible solutions or effects that would arise from the new laws. The status of public services in the Republic of North Macedonia is clearly determined on the basis of Article 58, paragraph 1 of the Constitution of the Republic of North Macedonia, according to which “property and labor are the basis for management and participation in the decision-making process” (Slaninka-Dineva M., 2002; Dimeski, B., 2016). Another important characteristic is defined in Article 58, paragraph 2 of the Constitution of the Republic of North Macedonia, is that the public services are managed and decided on the basis of expertise and competence in accordance with the law, unlike other legal entities that do not have the status of public institutions and public services (Slaninka-Dineva M., 2002; Dimeski, B., 2016).

It should be noted that the Public Administration Reform Strategy since 1999 was one of the starting pillars for creating a professional public service. In support of its successful implementation, the Assembly of the Republic of North Macedonia in 2000 it adopted the first

Law on Civil Servants and by a special act of August 29, 2000, the Civil Servants Agency was established, which was later transformed and from 2011 continued to work as an Agency for Administration in accordance with the Law on Public Servants and the Law on Civil Servants (Agency for Administration- The History of the Agency for Administration, 2018).

In the last few years, the most important laws that regulate the issue of selective approach and decision-making in the employment and promotion of administrative and public servants in the Republic of North Macedonia are the Law on Administrative Servants and the Law on Public Sector Employees (Dimeski, B., 2017; Agency for Administration- Law on Administrative Officials, 2018; Agency for Administration- Law on Public Sector Employees, 2018). Also, another key document is the Code of Administrative Officers as a by-law (Agency for Administration- Code of Administrative Officers, 2018). The selection procedures for the employment of administrative officers are regulated, starting from Article 37 to Article 46 of the Law on Administrative Servants. In addition, from Article 48 to Article 52 of the same Law, the procedures for the promotion of administrative officers are described (Agency for Administration- Law on Administrative Servants, 2018). By analogy, the selection procedures in the recruitment or selection of candidates are covered by Article 20-d of the Law on Public Sector Employees (Agency for Administration- Law on Public Sector Employees, 2018). Without further elaboration of the selection procedures, it should be noted that for all of them it is common that the selection committee is formed by the secretary or the manager and that the final decision regarding the selection of employees and promotion is carried out by the secretary or the manager in public institution. Seemingly, there is nothing controversial about the overall selection procedures that should guarantee an objective, impartial and democratic selection of candidates for filling positions in public institutions. Political neutrality (under Article 16 of the Law on Administrative Servants) and the prohibition of political action at the workplace (under Article 38 of the Law on Public Sector Employees) provide for a politically impartial and objective decision-making process in terms of selection in employment and promotion of officers (Agency for Administration- Law on Administrative Servants, 2018; Agency for Administration- Law on Public Sector Employees, 2018).

### **The trends of development of the key legal base**

A number of legal solutions have been altered and amended in recent years. The recent data shows that the areas of public services in the Republic of North Macedonia are subject to numerous and permanent changes and amendments to the legislation (Citizen Association- MOST, 2018) which consequently entails great insecurity, instability and mistrust on the part of the citizens in the efficient and effective functioning of the public service system. The Table 1 below presents the dynamics of development of the legislation in the field of public services in the Republic of North Macedonia.



**Table 1. The amendments on law legislation of the system of public services during time<sup>7</sup>**

Name of the legislation	Date of law enforcement	Total number of changes	Name of the legislation	Date of law enforcement	Total number of changes
Law on Bureau for education development	05.04.2006	6	Law on scientific research	15.04.2008	9
Law on higher education	22.03.2008	19	Law on culture	10.07.1998	13
Law on medical studies and medical professional advancement	05.02.2013	3	Law of protection of cultural inheritance	10.04.2004	13
Law on education for adults	23.01.2008	7	Law on sports	15.05.2002	15
Law on Primary education	27.08.2008	15	Law on media regulations	29.11.2005	7
Law on textbooks in the primary and secondary education	12.08.2008	11	Law on children's protection	22.02.2013	8
Law on student standard	02.02.2013	4	Law on social protection	02.07.2009	18
Law on professional education and training	16.06.2006	7	Law on persons with disabilities	31.07.1976	6
Law on High school education	28.09.1995	30	Law on Drugs and health issues	13.09.2007	13
Law on inspection in education	12.07.2005	11	Law on taking and using human parts for health issues	16.04.2011	8
Law on chemicals	13.11.2010	5	Law on food protection	16.12.2010	9
Law on Sanitary and Health inspection	16.06.2006	10			
Law on health insurance	07.04.2000	35			
Law on Health Protection	06.04.2012	12			

*Source: Dimeski, B., 2016. Public Services in the Republic of Macedonia: Delivering of reforms or producing instability. Legal Dialogue, 10: 8-14. Institute of Human Rights, ISSN 1857 – 7644, Available from: <https://www.ihr.org.mk/p.php?pid=63>*

The selection mechanisms mentioned above are crucial in turning the institutions into a democratic expression of the will of the citizens and establishing public institutions as a symbol of statehood, and not party affiliates and “employment bureaus” through membership in certain political parties. Moreover, if we consistently analyze the process in the selection of employment and the promotion of the officials, it will be concluded that despite the good intentions for creating professional public services, the most important link in the whole procedure is at the same time the

weakest link that throws big doubt on the citizen regarding the transparency of the total procedure. After all, possible abuses can be found in the part of the so-called discretionary decision-making, which in this case turns the Agency for Administration into an institution that is characterized by a highly centralized decision-making system, i.e. a concentration of political power at the top of the decision-making pyramid and a bureaucratic control system. The discretionary decision of the secretary in the case of administrative officials or the manager in the case of public officials when it comes to the selection of members of the selection committee in the course of employment or promotion, then the discretionary decision of the commission when adopting a draft decision and its further forwarding to the secretary or the manager for final selection of the candidate / candidates is a procedure that theoretically, but not practically guarantees, the non-interference of party politics in employment in state institutions (Agency for Administration- The Law on Administrative Servants, 2018; Agency for Administration- The Law on Public Sector Employees, 2018; Dimeski, B., 2016).

### **Some key recommendations**

As a result of the excessive number of legal interventions in a short period of time, in certain categories of public services in the Republic of North Macedonia, completely new legal solutions are needed in order to overcome the ambiguities and ensure greater stability in the continuity of the functioning of the public service system. Without comprehensiveness and predictability in the medium and long term, the reform efforts in the public service system can be counterproductive in the overall legal system of the Republic of North Macedonia.

In order to avoid possible distrust in the part of political impartiality during the selection process in the recruitment and promotion of officials, some types of system solutions are needed which would provide some permanent security, of which the most significant would be the following (Dimeski, B., 2017):

- Since it is an agency that is fully responsible for building the democratic capacity of the institutions through the professional performance of the state's personnel policy, it is necessary for the administration of the Agency to be elected in direct elections as well as legal protection and prevention of any external political pressures and influences in order to protect the integrity of this institution as one of the most important “guards” of the democratic development of the state;
- Over time, it is necessary to form a special and specialized so-called Ministry of Public Administration similar to some other developed and developing countries in the region, Europe and even the world; and
- In order to fulfill the previous prerequisites for a professional and service oriented public service, it is necessary that all political parties that are in power or aim to conquer power in the Republic of North Macedonia should incorporate in their internal legal acts (Statutes, Rulebooks, etc.) special provisions that ensure that neither the position of government or opposition will affect the work and integrity of the system of institutions that manage and control staffing of public institutions.

As it is known, there are four types of the so-called political selection in the selection process for employment and promotion of public sector employees that have been identified in the literature: the spoil system (exclusively on party basis), the meritocratic system (merit system), the mixed system (a combination of the previous two systems) and a system of direct choice through voting as an expression of the will of the service users. Starting from this, and keeping in mind Art. 6 of the Declaration of the Rights of Man and the Citizen of 1789, a different value system are used in different countries in the world in the process of selection and promotion of public and administrative officials (von Guttner, D., 2016). Besides, the meritocratic system is the most perfect and most compatible for the development of democratic processes in society. Analyzing

the legal solutions, theoretically, the system of selection and promotion of the officials in the Republic of North Macedonia is a mixed system i.e. a system that contains elements of a spoil (decisions of political organs and bodies) and elements of the merit system (the test procedures, interviews, etc.). But is that really so? Is anyone in the country truly believes that indeed the elements of the merit system would apply to politically neutral citizens, not to mention political opponents of the party or the ruling parties?!

Regardless of which model of career would be applied in practice, the essence of the reforms is in the final results that would produce them. In the Macedonian conditions of living, the public administration has a huge role that consists in “identifying and understanding the needs in the society” (Davitkovski, B., Pavlova-Daneva, A., Davitkovska, E. and Gocevski, D., 2014). In this context, the ultimate goal of the reforms would be: “a small public administration oriented primarily to regulatory and monitoring functions, with a simple structure of public administration, in accordance with the principle of parliamentary democracy ...” (Markovik, N., 2014).

### **Conclusion**

The development of public services in the Republic of North Macedonia is an indispensable part of the overall democratic development of the country. The reform features of the public services in the Republic of Macedonia since their independence to date are quite dynamic. In order to successfully and professionally respond to the public interest of the citizens, competent, highly professional and efficient public services are needed. But despite good intentions in this direction, legal solutions in the public service system are affected by numerous and more and more comprehensive changes that can produce unpredictability, instability and further distrust in the stability of the legal system.

In the newly proposed Ministry, highly competent and educated staff in the field of administrative law, public administration and public services will be selected exclusively according to the so-called Fresco classification of scientific areas, fields and areas adopted as Decree by the Government of the Republic of Macedonia in July 2010 (Dimeski, B., 2017). The discretionary powers of the secretary in the case of the administrative officials or the manager of public servants must also be removed and deciding upon the selection and recruitment procedures to be passed on to a professional team of professionals who, no matter how they would be defined (commission, body, etc.), they would decide anonymously, i.e. without knowing the personal data of the candidates in advance, but only the results of their performance on the basis of which they would make the decisions for employment or promotion. In order to exclude any doubt about possible bias in the decision-making, the members of the commission should not be known to each other, each of which, on the basis of its neutral expert assessment, would propose a candidate for employment or promotion. Finally, to apply consistently the Code of Ethics of Administrative Officers in the Republic of North Macedonia (An Agency for Administration- Code of Ethics for Administrative Servants, 2018), it must be systematically part of the legally prescribed generic trainings, that is, one of the most important criteria in the selection process of the promotion of the administrative and public servants in the country. However, the future will be the “best judge” of the effects of needed reforms in these areas mostly depending on the political will and the overall support from the professionals and general society at large.

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## DEVELOPMENT OF ECONOMIC REFORMS IN TURKMENISTAN

Ogultach Soyunova<sup>1</sup>

### Abstract

*Turkmenistan continues economic and social progress. In the process of multifaceted transformations in the country, the national model of market economy is steadily improving, taking into account the internal interests and trends of integration processes in the world. Turkmenistan is a dynamically progressing country in all sectors of the national economy. The country has radically changed the structure of many sectors of the economy.*

Turkmenistan is located in the southwest of Central Asia. Its territory is 488.1 thousand km<sup>2</sup>. Turkmenistan has a favorable geographical position. The country is objectively a “bridge” between Europe, the European states of the CIS, the central part of Russia, on the one hand, and the vast regions of Central and South Asia, on the other. Turkmenistan borders with Kazakhstan, Uzbekistan, Afghanistan and Iran, has access to the Caspian Sea.

Turkmenistan is rich in various minerals. The country has large reserves of mercury, sulfur, ozokerite, and that is important for dry desert climate, sources of fresh drinking and mineral curative water. Turkmenistan is also known for other natural resources that are in great demand in the world market.

In the system of the so-called “All-Union Cooperation”, largely based on modern realities, this was due to the fact that Turkmenistan, in particular:

- actually has the 4th place in the world in terms of natural gas reserves (15-20 trillion m<sup>3</sup>);
- besides this, the country also has impressive oil reserves (1.5-2.0 billion tons), as well as gas condensate;
- By volume of raw cotton grown, Turkmenistan is currently included in the ranking of top 10 countries - the leading cotton producers.

At the same time, as part of the USSR, our country significantly lagged behind in the socio-economic development from the rest of the republics of the former Union. This delayed the development of national productive forces. Predominantly extensive management methods, a tough command-administrative management system, bureaucracy, low living standards, a small working class, a conservative employment structure, along with these "features" were the richest natural resources, an advantageous geographical position, a cheap and sufficiently qualified work force. This situation made special demands when developing strategies and tactics of social and economic policy.

Turkmenistan is being as an industrial-agrarian republic still in the USSR, specialized mainly in the extraction of hydrocarbon resources and the production of raw cotton for the needs of the industrial centers of the former USSR. Over the past 15 years before the collapse of the USSR, it produced 1 trillion 390 billion cubic meters of gas, 200 million tons of oil, 7.5 million tons of cotton fiber, a large amount of sulfur, iodine, bromine, and many chemical products. In the total

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amount, the contribution of our republic to the piggy bank of the USSR was approximately 180 billion dollars, of which it took 3-5 billion. At the same time, the country was deprived of the right to develop independently its infrastructure and, in general, its economy.

By 1991, Turkmenistan was a predominantly raw material region with a poorly developed processing industry.

Turkmenistan ranked second in terms of gas production in the former USSR, fourth in oil production and second in the production of raw cotton.

In Turkmenistan, only 3% of the raw cotton, 8% of the vegetables and fruits grown were processed. The basis of the economy: extraction of energy resources, agriculture and energy on cheap hydrocarbon raw materials.

In the former USSR, the share of Turkmenistan accounted for only 0.4% of industrial production, 1% of agricultural production and 0.7% of national wealth.

At the same time, almost no grain was grown in Turkmenistan for food. In the mid-1980s, on average, about 250 thousand low-quality grain crops were grown, which for the most part went to feed livestock. Until independence, only primary processing of cotton was carried out in Turkmenistan, and its industrial processing was carried out in the central regions of the former USSR.

The transition to a market economy in Turkmenistan was a long and difficult process. However, at all stages of the ongoing economic reform, the main guidelines for the government were to ensure gradual and even growth of the economy, stabilize prices, foreign economic equilibrium, social protection of the population, including high employment, and take into account the mentality of the people.

The main goal of the state was the creation of a developed market economy of a mixed type with strong government regulation and social support of the people. The social reorientation of the economy was understood as the saturation of the market with goods, the preservation of price stability in the consumer market, the increase in household incomes. For this, it was necessary to sharply increase the level of per capita national income generated. Market saturation of the market was mainly necessary to ensure on the basis of the organization of its own production.

In the shortest possible time it was necessary to radically change the material, production-technological, organizational-economic and regional structures of the economy. This was supposed to open up broad prospects for the manifestation of market relations and provide firm social guarantees to the general population.

It is known that economic reform is a complex and multi-stage process. In Turkmenistan, they are carried out constantly; starting from the Soviet times, when reforming was aimed at increasing the independence of enterprises with the help of a self-supporting system and ending with the current situation. Reconstruction processes, the purpose of which was the transition from one form of the economy to another: from centralized planning to a market economy, which is still in progress to the present, was a serious basis for economic reforms.

Since January 1, 1992, after the final collapse of the USSR, Turkmenistan, unlike other former Soviet republics, Turkmenistan took the path of a phased transition to a market economy. The main merit of our first President was that market reforms in Turkmenistan began gradually. In the early years of independence, the state retained the right to regulate prices for basic goods and services, to use the card system in the distribution of flour, meat, animal oil, vegetable oil, tea, sugar, soap, which allowed to implement the humanistic content of article 3 of the Constitution of Turkmenistan that in our country the highest value of society and the state is a person.

Since the first days of independence, Turkmenistan has begun to develop a socially oriented model of a market economy. The main directions of the macroeconomic policy of Turkmenistan is the qualitative and gradual formation of a highly efficient economy with a developed public sector, enterprising entrepreneurship and a modern market infrastructure, effective government



regulation, providing social guarantees to all segments of the population and orienting all economic entities towards achieving high end results.

The “10 Years of Stability” program adopted in 1993 became a kind of “Turkmen model” of socio-economic transformations, on the basis of which the country chose a smooth, consistent development path reflecting the country's specific conditions - history and level of development, influence on political changes, way of life of the people and their mentality. The main components of a scientifically developed model are:

- the evolutionary nature of transformations;
- phased economic reform;
- the leading role of the state in managing economic processes;
- a fairly strong state social support of the population.

Ensuring a decent standard of living for the citizens of the country and improving its quality was the core idea of economic reforms in Turkmenistan.

The basis of the economic policy of Turkmenistan was laid the principle of strengthening statehood in the development of economic independence of individual objects. The state acted as a guarantor of the balanced development of all spheres of economic relations, determined the framework for priority areas.

Considering that the fuel and energy complex was the basis of the economy of Turkmenistan and as the practice of other resource-rich countries shows, this makes the economy of the country vulnerable to a certain degree from the external market conditions. In this regard, from the first years of independence, Turkmenistan was well aware of the need to diversify the national economy, advance the development of multiplicative industries and industries, such as construction, textile, light and food industries, as well as infrastructure sectors.

Only due to the reforms that were carried out in the first ten years after the collapse of the USSR, we were able to strengthen the political stability in the country and gain an appropriate pace for economic growth, the highest in all CIS countries. And not only the CIS. As is known, in 2000 Turkmenistan took the first place in the world in terms of the growth rate of the gross domestic product (GDP), which amounted to 17.6 percent.

It should be noted that having a huge resource potential, a significant territory, while following the goals set, during the years of independence Turkmenistan has managed to make a giant leap forward.

In general, the volume of GDP increased fourfold in 2001 compared with 1991. It should be noted here that if the agricultural orientation of our economy in the Soviet period caused a high share of the agricultural sector in the structure of GDP, in particular 40%, and in industry 17%, then in 1999-2001. the share of industry in GDP amounted to 31%, and the agricultural sector 38%.

Currently, this figure is as follows: industry 32.3%, agriculture 11.1%.

At the same time, the share of GDP directed to consumption increases every year, which contributes to an increase in the standard of living of the population. If in 1991, 30% of GDP was allocated for these purposes; in 2001 it was already 51%. At the same time, more than 70% of consumption is provided by own production.

Thus, each stage of advancement to the market was accompanied by measures of social protection of the most vulnerable segments of society with the help of price benefits, benefits, targeted assistance and other social transfers. The share of natural transfers was especially high in the period from 1991 to 1996, which extended to almost the entire population. It should be added that since January 1993, the population of the country began to use gas, electricity, water for free, and since February 1994, salt.

Since 1997, the emerging trend of stabilization, and then the growth of real incomes of the country's population, has allowed for a number of changes in the social protection system, in particular, from 1997 to 2006, the social protection system has become targeted.

Together with the strengthening of targeted social protection, the list of dated and subsidized goods was narrowed. Despite the ongoing changes to the present in Turkmenistan, the state regulates prices and tariffs for a number of food products, transport and communication services and for some other products for the population. By influencing the process of internal pricing, ensuring the availability of prices for basic goods and services, the state thereby contributes to an increase in real incomes of the population and their purchasing power.

In order to maintain the living standards of the population, wages, pensions, benefits and scholarships have been systematically increased since independence. Provides social stability and low income tax rates.

In addition, individuals who have dependents in their maintenance enjoy tax breaks. The rural population, which accounts for 52.7% of the total population, is practically exempted from all types of taxes. Thus, the leveling of disposable incomes of the rural and urban population is ensured.

Along with the priority of social policy, from the first years of independence, the main promising areas of economic reforms were also clearly defined. Primarily, the agrarian specialization of the country's economy at the initial stage of its reform ensured a high proportion (40%) of agriculture in the gross domestic product (GDP) structure.

In general, at the first stage of economic reforms, which ended in 1996, the following was implemented:

1. To regulate the procedure and conditions for the formation of new economic mechanisms aimed at providing solid social guarantees for the population, a number of important laws were adopted.

An important place in the system of measures of legislative regulation of relations in the economic sphere was given to the development and adoption of laws that promote the effective functioning of the monetary system of Turkmenistan.

2. In order to strengthen the economic sovereignty and statehood of Turkmenistan, ensuring independence in the conduct of monetary policy in 1993, the country introduced its own currency - manat. The main purpose of introducing its own currency was to ensure the possibility of stabilizing the monetary system, to protect the domestic market of consumer goods and industrial-technical purposes, to increase the effectiveness of measures for social protection of the population.

3. In December 1993, the process of privatization of state consumer services began. The main form of privatization was the sale of these objects to collective ownership and at auctions.

For legislative support of the privatization process, a legal framework was developed and approved as soon as possible. The Law of Turkmenistan "On Denationalization and Privatization", "On Property", the State Privatization Program, Decrees, and Resolutions of the President of Turkmenistan were drafted.

The main goal of privatization processes was the formation of a class of owners who could contribute to the creation of a socially oriented market economy, increase the efficiency of enterprises. It was this class that was to determine the path of development of the economy of Turkmenistan and allow creating a competitive environment in increasing the production of consumer goods.

The privatization process in Turkmenistan took place in stages, with certain restrictions. The objects of strategic importance, as well as the subsoil, the forest estate, water resources, airspace, the objects of historical and cultural heritage, were not subject to privatization.

At the first stage of economic reforms (1993-1996), the program of the so-called "small privatization" was implemented. Small privatization has captured enterprises in the service sector, trade, catering, small enterprises producing consumer goods and the production of building materials with up to 100 employees.

By the beginning of the second stage of economic reforms, which was announced in April 1997, the country had almost completed the privatization of consumer services, created the conditions for the introduction and development of private property, entrepreneurship, construction of joint ventures, and attraction of foreign capital.

The developed program of the second stage of economic reforms, called the “1000 Day Program”, provided for the deepening of economic reform processes and the activation of new sources of investment. The further expansion of the new class of owners and the rate of economic growth of the country largely depended on the development of privatization and privatization processes.

In order to implement the program of the second stage of economic reforms and regulate the procedure and conditions for the formation of a market environment, the country has adopted many other legal acts regulating property relations and the procedure for privatization.

In particular, the Laws of Turkmenistan (in the new edition) “On Denationalization and Privatization”, “On Joint-Stock Companies”, “On Daikhan Farm”, “On Peasant Associations”, Decree of the President of Turkmenistan “On Improving Reform and Privatization in the Agro-Industrial Complex” “On some measures to accelerate reforms in agriculture”, “On improving the procedure for using state property” and others. The necessary regulations and instructions on the procedure for privatizing industrial enterprises, trade objects, securities, and stock exchanges have also been adopted.

The process of privatization and privatization of state property began on January 1, 1994. The privatization processes of industrial facilities have been widely developed, the process of incorporation of medium and large industrial enterprises began to develop, a number of unprofitable state-owned enterprises passed into private hands. All this allowed the state to attract additional funds for investment from non-inflationary sources through the issuance of shares and credit resources.

When privatizing (when buying) state-owned enterprises, labor collectives took advantage. They were presented with some benefits, in particular, the purchase of state property to labor collectives was allowed by installments or at preferential prices. Some objects were transferred to labor collectives free of charge. It was authorized to labor collectives, also, rent with the right of redemption and some other benefits.

Privatization of small enterprises was carried out by selling at auctions (commercial competitions). Medium and large enterprises were privatized by converting them into joint stock companies with the subsequent sale of the state-owned block of shares. Incomplete construction projects were implemented in investment and commercial competitions.

On the basis of the Resolution of the President of Turkmenistan “On the sale of vehicles of state enterprises, organizations, institutions”, through the Corporation “Turkmenavtohyzmatsovda”, ministries, departments, state enterprises, organizations and institutions received permission to sell, used, and completely spent depreciation or technical condition for further operation in the national economy, vehicles.

For people who received the status of a migrant, the privatization of the public and housing stock was carried out.

The procedure for leasing property complexes and land plots began to be streamlined, where the necessary conditions were created for the compensated use of state property by private entrepreneurs and the transfer of state property to private equity ownership.

Foreign investors began to be involved in the privatization process, the creation of joint ventures with the participation of foreign capital, and the acquisition of existing enterprises by foreign investors were encouraged.

Since 1998, such forms of privatization as an address sale, investment competition, and sale of objects with installment payment for long periods began to be actively used. To increase the

interest of labor collectives in the acquisition of the property of their enterprises, the tax legislation has been revised. But low-liquid enterprises were mainly involved in the privatization process.

From all privatized objects from the beginning of privatization, until today most of the objects or 34.3% of objects were sold at auction and investment competition, 2.8% of the objects were directly sold to the address, 1.4% were converted into joint-stock companies. And the remaining 62.9% of the enterprise is transferred to the non-state sector of the economy through other forms.

Thus, Turkmenistan clearly defined the approach to solving the key issue of market transformations - the property issue and laid the foundation for a modern type of economy based on advanced ideas for expanding the production and service structures of private, cooperative, collective and mixed forms of ownership, increasing their share in structure of the economy. New forms of economic activity began to be activated, a wide class of owners and a competitive environment were formed, and the non-state sector of the economy, which was based on small and medium-sized enterprises, developed.

The government of Turkmenistan has been actively working to support small businesses. The International Bank for the Reconstruction of Development and Support of Entrepreneurship was created. In the framework of projects of private producers, the Government of Turkmenistan has allocated state soft loans. For the same purposes, foreign loans were provided. Under the Cabinet of Ministers of Turkmenistan, a fund for the development of small and medium businesses was created.

It was simplified, the procedure for the creation of private enterprises, self-employment. The decree "On the simplification of taxation of small enterprises" was issued, on the basis of which for small enterprises with a workforce of up to 15 people, value-added taxes, property and profits were abolished and a single tax was set at 30% of income. This Decree also extended to small manufacturing enterprises employing up to 50 people. As a result, the tax amount in comparison with the previous one, decreased by more than 1.5 times.

In general, a system of state support for entrepreneurship was formed, which promotes the development of competition and economic initiative. The measures taken allowed to activate the business and to achieve certain positive developments in this direction.

So if in 1991 the majority of the country's enterprises were in the hands of the state, then by 1999 there were only 18% left. That is, 82% of enterprises registered in the statistical register of enterprises are already listed in the non-state sector of the country.

Subsequently, in order to support and stimulate small medium-sized businesses to be timely, relevant and effective, and in order to achieve the goals set by the head of state, the Conceptual Basis for the Development and Support of Small and Medium-Sized Businesses and the State Program for the Development and Support of Entrepreneurship are developed and approved.

On the priority of small and medium enterprises in the development of the national economy at the present stage, the Law of Turkmenistan "On the state support of small and medium enterprises" adopted on August 15, 2009 is also evidence. Based on this law, state support for small and medium-sized businesses in Turkmenistan is carried out in 7 main areas.

In the context of the National Program for the Socio-Economic Development of Turkmenistan for 2011–2030, the country has developed a system of direct and indirect support, the combination of which contributed to the free development of small and medium-sized businesses, enhances their social activities and development rates. As a result, this contributed to an increase in the number of enterprises in the non-state sector of the economy, which is today 80.3%. The number of workers employed in them has also increased. So if, in 1991, 56% of those employed in the national economy worked in the public sector, then in 1999 63% employed in the national economy were listed in the non-state sector of the country's economy. Currently, this figure reached 75.1%. There is a steady increase in the number of entrepreneurs without a legal entity, including employees.

In order to ensure sustained high rates of economic development, to stimulate and support private entrepreneurship, to promote the growth of small and medium-sized businesses, in March 2011, the President signed a resolution and approved the "State program to support small and medium-sized businesses in Turkmenistan for 2011-2015" and "The plan of relevant activities to support small and medium-sized businesses in Turkmenistan for the period 2011-2015."

An important role in the promotion and support of entrepreneurial activities belongs to the established Union of Industrialists and Entrepreneurs of Turkmenistan, the Chamber of Commerce and Industry of Turkmenistan and public organizations.

As a result, there has been a steady increase in the volume of investments made by entities of the non-state sector of the economy in sectors of the economy and a steady increase in tax revenues from them in the state budget of the country.

Thus, at present, over 50% of the total investments in the economy fall to the share of enterprises of the non-state sector of the economy. Of these, 72.1% belong to the development of manufacturing industries, others to the development of industrial sectors and construction.

Today, Turkmenistan is a dynamically progressing country in all sectors of the national economy. The country has radically changed the structure of many sectors of the economy. Mining industries, rationally using mineral resources, provide significant foreign exchange earnings. At the same time, there is an increase in the volume of processing industries.

Due to the deep diversification of the industry structure in the country, industrial processing of almost all grown cotton is carried out. Turkmenistan has managed to become an example of the formation of a modern infrastructure around the monoculture of cotton with a deep level of processing of raw materials and high quality breeding. Being one of the world leaders in the production of raw cotton, Turkmenistan has managed to largely move away from the export of raw materials, becoming one of the first due to the creation of the textile industry from scratch.

The agriculture industry in Turkmenistan today acts as one of the important sectors of the country's economy. In this industry in 2017, over 11% of GDP was produced. Despite the fact that the country is a country with a developed crop, in the structure of gross agricultural output, the share of livestock industries in 2017 was 63.1%. At the same time, about 63% of all agricultural products are the result of the labor of private sector entities. All this ensures the country's food independence. The population of the country consumes food mainly through its own production (over 90% of the total volume of commodity resources).

Over the years of independence, the economy's dependence on the development of the fuel and energy sector has also decreased. The structure of GDP has changed significantly, as a result, the share of industry increased to 32.3%, and the share of light and food industries in industry increased to 43.9%.

The unified transport system created in the country, which is based on the idea of reviving the Great Silk Road, makes it possible to more effectively use the natural resources of Turkmenistan, develop the productive forces of all settlements, develop new territories and significantly improve the living conditions of the population.

Thus, Turkmenistan continues economic and social progress. In the process of multifaceted transformations in the country, the national model of market economy is steadily improving, taking into account the internal interests and trends of integration processes in the world.

On September 20, 2016, the Government of Turkmenistan officially approved 17 Sustainable Development Goals (SDGs), 148 targets and 187 indicators, which will be implemented over the next 15 years. The Government of Turkmenistan also included the objectives of the Agenda until 2030 and the Sustainable Development Goals in the National Program of the President of Turkmenistan for Socio-Economic Development for 2018-2024, adopted on October 9, 2017.

Although the SDGs are not legally binding, it is assumed that the government will assume responsibility and create national mechanisms that will contribute to the achievement of 17 goals.

The country has the primary responsibility for following up and reviewing progress towards the goals.

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# EVALUATING HRM PRACTICES IN PUBLIC ADMINISTRATION: THE 1ST CAF IMPLEMENTATION IN PUBLIC HOSPITAL OF SERRES, IN THE REGION OF NORTH GREECE

Maria Oikonomidou<sup>1</sup>, Ilias Konstantinidis<sup>2</sup>

## Abstract

*The organization manages, develops and releases the competences and full potential of its people at the individual and organization-wide levels, in order to support its strategy, planning and effectiveness of process operation. Thus, for the implementation of the organization's strategy, it is necessary to find the causes of the HRM problems in order to overcome the weaknesses, to avoid the threats and to exploit the opportunities of the environment. Evaluation is undoubtedly an important process of monitoring the practices that are being implemented and their impact on employee satisfaction and organizational performance. However, the evaluation needs to follow a holistic approach and a course of continuous improvement of quality in an evolving dynamic environment of continuous change and responsiveness of services to citizens and society. The need for resource utilization and accountability has led to the use of models for monitoring quality and efficiency in public administration.*

**Key words:** *TQM models/tools of Public Administration, CAF Self-assessment, HRM practices, Employees' satisfaction, Citizens' perception, and Organizational performance.*

This study explores the Human Resource Management (HRM) and its applications under the Common Assessment Framework (CAF). Moreover, the investigation examines the impact of HRM practices on public sector employees' attitudes, behavior and organizational performance in the region of Northern Greece. It is undertaken within the CAF, as the first European quality management instrument specifically tailored for and developed by the public sector itself. It is a general, simple, accessible and easy-to-use model for all public sector organizations across Europe, and deals with all aspects of organizational excellence and the principles of Total Quality Management (TQM). We rely on primary data drawn by the workforce of a Greek Public Hospital which implements for the first time CAF. A printed questionnaire was distributed to the workforce of the nursing service of Serres Public Hospital. The setting of this study is provided by, comprising all departments and focusing on nursing staff's perceptions and performance. The questionnaire is based on:

1. CAF criterion 3 distributed to the CAF self-assessment team (the CAF self-assessment team consists of 20 members who represent all the nursing staff from all sectors, departments and hierarchical levels). The self-assessment group collected documentary evidence on HRM enablers that indicate the implemented HR practices, which support employees to contribute effectively and productively to the organization's overall mission, vision and to the accomplishment of the organization's objectives. The implementation of CAF facilitates the self-assessment of HRM enablers in order to obtain a diagnosis and a definition of improvement actions.

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2. CAF criteria 7.1 distributed to all employees (220 completed questionnaires) in order to capture employees' perception concerning the HRM practices implemented. The contribution of employees should be maximized through their development and involvement and the creation of a working environment of shared values and a culture of trust, openness, empowerment and recognition. Can HRM enablers predict employees' satisfaction?

The evidence of the analysis suggests that a significant number of the variables defining the so called HRM enablers affect HRM results on employees' attitudes and organizational performance. The analysis of the data revealed the relatively medium implementation of HRM practices (Programming, Development and Empowerment of nursing staff). In addition, employees assessed their satisfaction as well as their perception on HRM Efficiency, at medium scoring levels.

Moreover, significant outcomes of the survey are the employees' demographical characteristics on their perception and attitudes. The impact assessment of their office department on their performance, after controlling the quality of HRM variables, most probably reflects the differences in the degree of difficulty of the work environment and working conditions, depending on the department, as well as the management styles among the managers of the departments. Furthermore, the analysis showed that there is a correlation between the factors under study, so that HRM practices/enablers can predetermine employees' satisfaction and their performance. Thus, human resource development and involvement are prominent enablers among the explanatory variables while their perception and performance are measured by the CAF.

Finally, public organizations communicate better their mission and organization's objectives and motivate more their workforce through the implementation of TQM under a framework. Both self-assessment group perception and employees' perception showed that CAF implementation (as a TQM tool) communicates and supports the mission and the Organization's strategy and increases the Organizational Performance. The employees at all hierarchical levels are the essence of an organisation and argue that their full involvement through CAF implementation enables their abilities in favor of the organization's benefits. CAF encourages organizations to assess themselves from different angles at one and the same time – a rather holistic approach to analysis. This means that by its very nature, involvement of the employees is vital.

## 1. INTRODUCTION

Greece faces an immense, perhaps a unique and increasingly urgent challenge. In the face of growing social and political discontent, the future crucially depends on the government's ability to link short-term austerity measures with a long term vision and structural reforms, aimed at restoring growth and improving the population's welfare. These reforms depend on a well functioning public administration. Strong measures, starting now, to improve the effectiveness, accountability and integrity of the public administration, which is "fit for purpose", are a priority. The success of reforms, such as: fiscal consolidation, debt reduction, assessment and improvement of public, is at stake. There is an urgent appeal to Greece to implement reforms, in order to make the best use of its resources for sustainable growth. However, there are strong objections and intense confrontation to the implementation phase of the basic reforms - the so called assessment or evaluation in Greek Public Administration.

The current research investigates the Human Resources Management (HRM) and evaluates the performance of public hospitals under the Total Quality Management (TQM) framework for continuous improvement of Greek public administration. One of the most important fields of public services for population's welfare is public health. Specifically, thorough a research over the international trends on HRM, it reveals the best practices in favor of customers/citizens and employees alike, as well as the organizational performance. Research findings shed enough light into the positive effects of a recognized TQM tool for evaluating HRM and adoption of the principles of excellence as well as its impact on employees' satisfaction.

Managing the organization and managing people is increasingly important in times of change. Thus, for the implementation of the organization's strategy, it is necessary to find the causes of the HRM problems in order to overcome the weaknesses, to avoid the threats and to exploit the opportunities of the environment. Evaluation is undoubtedly an important process of monitoring the HRM practices that are being implemented and their impact on employee satisfaction and organizational performance. However, evaluation should provide responsive services to citizens needs and follow a course of continuous quality improvement in an evolving dynamic environment of continuous change. The need for resource utilization and accountability has led to the use of models for monitoring quality and efficiency in public administration: EFQM Excellence Model, Balanced Scorecard, Malcolm Baldrige Award, ISO 9000 Series, Business Process Reengineering, SERVQUAL etc.

This study investigates HRM practices and their results under the Common Assessment Framework (CAF). CAF looks at the organization from different angles (citizens/customers, people and society are achieved through leadership driving strategy and planning, people and HRM, partnerships, resources and processes) at the same time: the holistic approach to organization performance analysis. This paper will aim to explain how the use of the CAF model can strengthen the level of staff participation as part of the process towards becoming a mature, high-quality and well performing organization. Overall, CAF can be perceived as a means of encouraging participation through co-decision on general policy, using direct informal participation. This means that by its very nature, involvement of the employees is vital. If people are not involved in the diagnosis of their organization and in the formulation and prioritization of the improvement action plan as the result of the self-assessment, it will be very difficult to gain their ownership of the reform afterwards.

## **2. THEORETICAL PART**

### **2.1 THEORETICAL FRAMEWORK**

The most important resources of an organization are its people. Steve Jobs (CEO) and co-founder of Apple *Inc.*, argued that: "If you want to hire great people and have them stay working for you, you have to let them make a lot of decisions and you have to be run by ideas, not hierarchy. The best ideas have to win otherwise, good people don't stay".

Modern companies face new challenges, such as increasing worldwide competition, managing change and new technology, and developing intellectual capital and containing costs at the same time. Additionally, during economic and social crisis, HRM is essential for increasing organizational performance while saving material resources. Although sources of competitive advantage such as natural resources, technology, economies of scale, and so forth, create value, the resource-based argument is that these sources are increasingly easy to imitate. If that is so HRM strategies may be an especially important source of sustained competitive advantage (Pfeffer, 1998). The concept of the HR system as a strategic asset has implications for both the characteristics and the effects of such a system. It is generally agreed that various human resources functions should be integrated into the overall strategic management process of the organization (Singh, P., 2008). All organizations will have to respond successfully to the above challenges for creating and maintaining added value. The crucial factor in effectively addressing these challenges is a motivated, well-trained and committed workforce. It is proposed that superior organizational performance is achieved when employees exert themselves on behalf of the organization (Purcell, 2009), or, to put it another way, when employees work harder, smarter and accept more responsibility (Pfeffer, 1998). According to Michail M. Dimitrios (2013) management's open communication, payment, training incentives and job security are balanced by employees' drive to higher quality and greater output. There is an increasing interest in the notion that complementary 'bundles' of human resource (HR) practices enhance organizational performance (Marchington and Grugulis, 2000) and according to advocates of this approach, impact positively on

organizational performance regardless of industry and context (Pfeffer, 1998; Huselid, 1995). Respect and fairness, open dialogue, empowerment, reward and recognition, care and also providing a safe and healthy environment are fundamental to building the commitment and participation of people on the organizational journey to excellence. Successful HRM and leadership promote people's engagement, motivation, development, and retention. In the context of TQM, it is important to realize that only satisfied people can bring the organization towards satisfied customers.

Public organizations provide services to citizens, aiming at serving the public interest rather than increasing their profits and providing quality and direct services to citizens and society. However, under economic and social crisis, the role of Public Administration is twofold: on the one hand, public sector should serve the public welfare and satisfy the citizens and society and on the other hand should undertake measures for cost reduction. Mr. Jaak Aab, Minister of Public Administration of the Republic of Estonia, refers that "In addition to citizen-driven demands, governments have to cope with the aftermath of the financial crisis, environmental and climatic issues, increasing energy costs, changing demographics, and the liberalization of trade. There is now an expectation that achieving "value for money" in the public sector is business as usual and not an exception or a one-off objective (Bosse J., Burnett M., Rongione C., Scholtens H., 2017).

This research investigates the implementation of HRM practices and their benefits for the public sector in Greece. Barney (1995) argues that HR practices provide organizations with a sustainable source of competitive advantage. HR challenges and the appropriate organizational culture and structure in order to achieve continuous quality improvement could be supported with the implementation of quality models by skillful HR managers in order to achieve quality in practice. These policies could be supported by recognized international tools for continuous evaluation and organizational improvement. These tools can motivate and develop human resources, shaping and monitoring the appropriate organizational enhancement quality culture. CAF is a TQM tool developed by the public sector for the public sector, inspired by the Excellence Model of the European Foundation for Quality Management (EFQM). According to European Commission's Expert Group on Public Sector Innovation, (2013), under CAF implementation, employees manage changes and reforms, as the result of the self-assessment, as their ownership since they can be involved in the diagnosis of their organization and in the formulation and prioritization of the improvement action plan. As a tool of TQM, CAF subscribes to the fundamental concepts of excellence as initially defined by EFQM, translates them to the public sector/CAF context and aims to improve the performance of public organizations on the basis of these concepts. These principles make the difference between the traditional bureaucratic public organization and the one oriented towards Total Quality.

According to CAF (2013), this model follows a full improvement process within the organization and has five main purposes:

1. Introduce public administrations into the culture of excellence and the principles of TQM;
2. Guide them progressively to a fully-fledged PDCA (PLAN, DO, CHECK, ACT) cycle;
3. Facilitate the self-assessment of a public organization in order to obtain a diagnosis and a definition of improvement actions;
4. Act as a bridge across the various models used in quality management, both in public and private sectors;
5. Facilitate bench learning between public sector organizations.

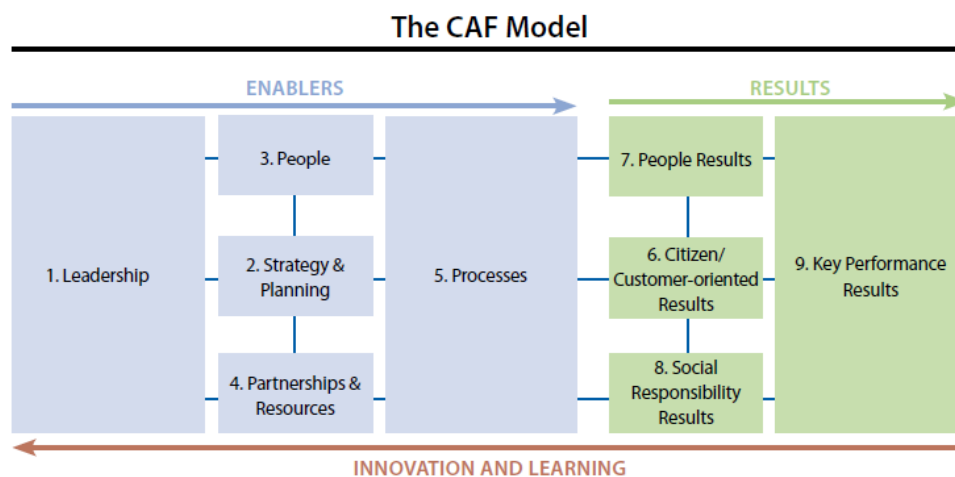
**Figure 1. Principles of excellence**



**Source: The Common Assessment Framework (CAF 2013), Improving Public Organizations through Self-Assessment**

Public Organizations that are starting to implement the CAF have the ambition to grow towards excellence in their performance and want to introduce a culture of excellence in the organization. Effective use of the CAF should, in time, lead to the further development of this type of culture and thinking within the organization.

**Figure 2. The CAF Model**



**Source: The Common Assessment Framework (CAF 2013), Improving Public Organizations through Self-Assessment**

Criteria 1-5 deal with the managerial practices of an organization: the so-called Enablers. In criteria 6-9, Results achieved in the fields of citizens/customers, people, social responsibility and key performance are measured by perception and performance measurements.

**2.2 THE MAIN CONCEPTS**

The role of HRM practices as enablers and their outcomes could be investigated under the CAF framework. Verification of cause-effect links is of fundamental importance in self-assessment, where the organization should always check for consistency between a given result

(or set of homogeneous results) and the ‘evidence’ collected on the relevant criteria and sub-criteria on the enabler side. This research sheds light into HRM practices (HRM enablers) relevant to people planning, development and involvement and their impact on employees’ perceptions (HRM results).

1. HRM ENABLERS: The CAF criterion 3 deals with HRM practices. The Assessment of HRM enablers is divided into 3 parts mentioned below, according to what the organization is doing, in order to:

a) Plan, manage and improve human resources transparently with regard to strategy and planning. A strategic and comprehensive approach to managing people and the workplace culture and environment is a key part of strategic planning in an organization. Effective HRM enables people to contribute effectively and productively to the organization’s overall mission, vision and to the accomplishment of the organization’s objectives - FACTOR ASSESSMENT/EVALUATION. This research involves regular analyses of current and future HR needs and the development and implementation of a HRM policy with objective criteria - FACTOR EQUAL OPPORTUNITIES/FAIRNESS - regarding recruitment, career development, promotion, remuneration, rewards and the assignment of managerial functions. Furthermore, it shows particular attention to the human resources needed for the development and operation of e-Government and net services - FACTOR INNOVATION AND NEW TECHNOLOGIES - (e.g. by providing the necessary training and framework).

b) Identify, develop and use competencies of people aligning individual and organizational goals. When the organization creates frameworks to allow employees to continually develop their own competencies - FACTOR TRAINING, to assume greater responsibility and to take greater initiative, so that people could contribute to the development of the workplace. This can be achieved by ensuring that they associate their own performance goals with the strategic objectives of the organization and also by involving them in the establishment of policies related to the recognition and rewarding of people - FACTOR RECOGNITION AND REWARD.

c) Involve employees by developing an open dialogue and empowerment, supporting their well-being. People’s involvement is creating an environment in which people have an impact on decisions and actions that affect their jobs. FACTOR MOTIVATION/INVOLVEMENT focuses on the ability of managers and employees to actively cooperate in developing the organization, breaking down organizational silos by creating dialogue, making room for creativity, innovation and suggestions for improving performance. The proper execution of HR policies depends upon all leaders and managers throughout the organization demonstrating that they care about people issues and wellbeing and that they actively promote a culture of open communication within transparency.

2. HRM RESULTS: The CAF criterion 7 deals with people’s/employees’ perceptions and attitudes about HRM practices. The assessment of results measures: what the organization has achieved to meet the needs and expectations of employees through the results:

✓ People’s results are the results the organization is achieving in relation to the competence, motivation, satisfaction, perception and performance of its people. It is important for all public sector organizations to systematically measure employees’ perception of the organization. The research on employees’ perception includes relevant HR factors:

✓ Results regarding FACTOR MOTIVATION/INVOLVEMENT:

People’s involvement in the decision-making process, strategic objectives and improvement activities.

✓ Results regarding FACTOR EQUAL OPPORTUNITIES/FAIRNESS:

The perception of the working conditions (e.g. how to deal with conflicts, grievances or personnel problems, mobbing in the workplace) and the organization's culture (e.g. the promotion of transparency between departments, units, etc.).

✓ Results regarding FACTOR INNOVATION AND NEW TECHNOLOGIES:

The design and management of the different processes of the organization based on new technologies, as well as the organization's approach to changes and innovations.

✓ Results regarding FACTOR TRAINING:

The perception of the career and skills development and the access to and quality of training in relation to the strategic objectives of the organization.

✓ Results regarding FACTOR RECOGNITION AND REWARD:

The perception on the organization's top and middle management's ability to implement an effective recognition policy (e.g. setting goals, allocating resources and rewards aligned with the recognition of individual and team competences and efforts).

✓ Results regarding FACTOR ASSESSMENT/EVALUATION:

The perception on the organization's top and middle management's ability to communicate organizations' mission and strategy to the workforce as well as monitor and measure employees' and organizational performance in accordance with the strategy objectives.

### **3. RESEARCH GOALS & RESEARCH FIELD**

The most important factor for implementing the measures and reforms is their adoption by the public sectors' workforce and their introduction to an appropriate organizational culture. The CAF as TQM framework aims to be a catalyst for a full improvement process within the organization, introduce public administrations into the culture of excellence and the principles of TQM and facilitate the self-assessment of a public organization in order to obtain a diagnosis and a definition of improvement actions.

This research seeks the implementation of HRM actions, under a TQM framework in public organizations and is specialized in its execution in Greek Public Administration. The hospital of Serres was chosen since it applies CAF for the first time in order to explore the practices-enablers and their results on employees and Hospitals' Performance. HRM practices and their impact on employees perception measurements results is the content of the present study. The field of this research is the nursing service due to the large number of the sample that consists of all the Nursing staff (300 employees) and their direct contact with the patients/citizens and the medical staff of the organization. The selected sample ensure an objective and representative reflection of the nursing service, taking into account parameters such as age, gender, family status, educational level, professional experience, employment category – sector – specialty, position held, duties exercised within the organization etc. In order to achieve those characteristics, this study on hospital meets the CAF implementation requirements and the sample consist of all nursing staff.

The CAF as a TQM tool includes a specific framework for the measurement and evaluation of HRM relating with the performance, efficiency and continuous improvement of a Public Organization. The main three goals, mentioned below, are relevant to HRM practices and policies used in the nursing service of Serres Public hospital and their HRM results through CAF implementation.

#### **GOAL 1**

The aim of the current research is to approve that the improvement actions on HRM, based on CAF support the organizations' mission and strategy and improve organizational performance. Furthermore, self-assessment through CAF can manage any problematic area by creating a mid-term improvement program, supporting the strategic management in prioritizing actions and outlining of the action plan, based on primary research data.

It is the first time (in 2018) that Serres Hospital implements the CAF tool according to a fully-fledged PDCA (PLAN, DO, CHECK, ACT) total quality cycle in order to identify the strengths and weaknesses of each function and service. Moreover, the Serres Hospital implements Management by Objectives and monitors the achievement of the organizations' strategy objectives at least four times a year, within the CAF framework. After the CAF implementation, the organization can further develop the policy for quality in its operation in cooperation with the Directorate of Quality and Efficiency of the Hellenic Ministry of Interior in order to develop a cooperation network and exchange information and experiences with other National and European agencies, which have implemented the CAF. It can also participate in international events concerning implementation of Total Quality Management methods in Public Administration or even use the CAF as a benchmarking tool to compare its performance with other agencies, at national and international level. In any case, the CAF can be the tool for organization's induction in Quality Systems, since this shall definitely lead them to administrative improvement in the whole range of their activity.

The 1<sup>st</sup> aim of this research is to prove that CAF can be perceived as a means of encouraging participation through co-decision on general policy, using direct informal participation, monitor HRM enablers and increases HRM Results and employees satisfaction. Thus, CAF implementation (as a TQM European tool) supports the mission, the Organization's strategy and Organizational Performance.

## **GOAL 2**

In this study, the description of the existing administrative and operational level on HRM is carried out through CAF Criterion 3. The existing HRM practices are assessed by the self-assessment group. A list, provided by the CAF self-assessment group and the Top Manager with all relevant documents, evidence-based data and information needed, is used to assess the organization. This study has the aim to detect the absence or presence (the extent HR practices exist) and to describe the HRM practices implemented through the CAF questionnaire of criterion 3. According CAF (2013), in the context of total quality management, "successful human resource management and leadership promote people's engagement, motivation, development, and retention and it is important to realize that only satisfied people can bring the organization towards satisfied customers. The 2<sup>nd</sup> aim of this research is to investigate the operational level of HR enablers/practices.

## **GOAL 3**

In this study, the perception measurements where the employees are asked directly (e.g. via questionnaires) and their satisfaction, were carried out through CAF Criterion 7. The assessment of the organization by employees themselves reveals the key words of evidence about strengths and areas for improvement, regarding the management systems used by the supervisors/managers, the main nursing procedures performed, the work responsibilities distributed, the allocation of resources, their participation in the formulation of the objectives of their department and their general satisfaction by the organizational culture and working environment. Thus, HR results come from CAF sub-criterion 7.1 which measures employees' perceptions and assesses whether they perceive the organization as an attractive workplace and whether they are motivated in their everyday work to do their best for the organization.

The 3<sup>rd</sup> purpose of this research is to approve the impact of HRM practices on HRM results and organizational performance. More specifically, aim of this research is to find correlation between core HRM practices (Enablers) and HRM results.



## **4. RESEARCH METHODOLOGY**

### **4.1 RESEARCH APPROACH & SAMPLE DESCRIPTION**

The approach of the subject was carried out with the quantitative method.

A) The depiction of the existing operational level on HRM Enablers/Practices was carried out through the assessment of CAF Criterion 3 (HRM enablers) by Self-Assessment sub-group of the Nursing service. In Serres Hospital there are Self-Assessment sub-groups one for each service: a. Nursing service, b. Administrative service, c. Medical service

In this study, the research field is referred to the nursing service of the hospital. The questionnaire CAF criterion 3 distributed to the CAF self-assessment team (20 members). According to CAF (2013) which Serres Hospital implements, the self-assessment group should be as representative of the organization as possible in order to be able to provide the most accurate and detailed internal perspective of the organization. The members of the Self-Assessment Group come from a wide range of the organization departments, from different sectors and personnel categories and have different professional experience. During the 1st CAF implementation, the top management involvement provides additional information and increase the likelihood that organization's strategy has ownership of CAF implementation process and the improvement actions identified, under the right framework.

Self-Assessment sub-group of the Nursing service reflects and analyzes the current situation by collecting evidence-data based information and documents. All the members have agreed after a series of appropriate training and discussion on the rating and the appropriate documentation. A process of dialogue and discussion - indeed essential as part of the learning experience – through meetings were taken place in order to reach consensus, as it is very important to understand why differences regarding the strengths and areas of improvement and scoring exist. Finally, the group met and agreed on the strengths, areas for improvement and reached consensus regarding the final scoring.

B) Employees' perception measurements are obtained by filling out the questionnaire of CAF sub-Criterion 7.1 in a printed form. The questionnaire distributed to all employees (220 completed questionnaires) in order to capture employees' perception concerning the HRM practices implemented. The field of this research is the nursing service and consists of all the Nursing staff (300 employees). Results regarding the overall perception of the nursing staff assess whether people perceive the organization as an attractive workplace and whether they are motivated in their everyday work to do their best for the organization. It is important for all public sector organizations to systematically measure people's perception of the organization and the HRM practices. Employees' perceptions are reflected in the questionnaire replies on the application of HRM practices and procedures that support the organizational mission and strategy and their impact on employees' satisfaction.

In employees' survey, answers were subjected to processing and respective classification (a fact significantly facilitated by the "close" character of the questionnaire) by the Assessment Group and were taken into account in the final scoring of CAF Criteria. The questionnaire was used as pure as in the CAF (2017) guide and was supplemented by some demographic characteristics in order to draw conclusions from this research.

### **4.2 ANSWER SCALE**

The so called "close assessment questions" have been selected, to be answered on the basis of a proposed and predetermined list of words, since this facilitates answer processing and classification and assists the responders attention to be focused on crucial points (How to Implement CAF, 2017). The answers to each question are given on a six- grade scale (grading from the lowest to the highest level) in order to match the respective scoring scale of the CAF Criteria – Sub-criteria - Factors under analysis, so that the conclusions of answer processing can be homogenously and coherently combined with the scoring of the Assessment Group. Such scale is as follows:

NOT AT ALL (reflects the lack of any satisfaction regarding an activity, its absolute insufficiency and ineffectiveness).

VERY SLIGHTLY (reflects minimum satisfaction regarding an activity, low level of sufficiency and effectiveness).

SLIGHTLY (reflects satisfaction regarding an activity, median level of sufficiency and effectiveness).

MUCH (reflects satisfaction regarding an activity, a good level of sufficiency and effectiveness).

VERY MUCH (reflects a high level of satisfaction regarding an activity, a very good level of sufficiency and effectiveness).

ABSOLUTELY (reflects excellent satisfaction regarding an activity, an excellent level of sufficiency and effectiveness).

#### **4.3 RESEARCH QUESTIONS & HYPOTHESIS**

Analytically, this research seeks the issues below under the CAF framework:

a. CAF criterion 3 which refers to "HR ENABLERS/PRACTICES IMPLEMENTED" distributed to the CAF self-assessment team (the CAF self-assessment team consists of 20 members who represent all the nursing staff from all sectors, departments and hierarchical levels). This research investigates the specific questions below reflecting the relevant factors. HR enablers/practices deal with developing and implementing a clear policy containing objective criteria with regard to recruitment, fairness of employment, equal opportunities, promotion, remuneration, rewards, evaluation, involvement and the assignment of managerial functions. Therefore, Criterion 3 produces the following factors assessed by the self-assessment group:

1a. HR PRACTICE: ASSESSMENT/EVALUATION - question 3.16

2a. HR PRACTICE: TRAINING - questions 3.9 and 3.10

3a. HR PRACTICE: RECOGNITION AND REWARDS - questions 3.8 and 3.23

4a. HR PRACTICE: EQUAL OPPORTUNITIES/FAIRNESS - questions 3.3 and 3.5

5a. HR PRACTICE: INNOVATION AND NEW TECHNOLOGIES - question 3.7

6a. HR PRACTICE: MOTIVATION/INVOLVEMENT - questions 3.19 and 3.20

b. CAF criteria 7 which refers to "HR RESULTS or EMPLOYEES' PERCEPTIONS" distributed to all nursing staff (220 completed questionnaires from 300 distributed) in order to capture employees' perception concerning the HRM practices implemented. This research investigates the specific questions below reflecting the relevant factors. HR results deal with the satisfaction or positive perceptions of employees which should be maximized through their effective management, development and involvement and the creation of a working environment of shared values and a culture of trust, openness, empowerment and recognition. Therefore, Criterion 7.1 produces the following factors assessed by the nursing staff:

1b. HR RESULT: ASSESSMENT/EVALUATION - question 7.18

2b. HR RESULT: TRAINING - question 7.19

3b. HR RESULT: RECOGNITION AND REWARDS - question 7.7

4b. HR RESULT: EQUAL OPPORTUNITIES/FAIRNESS - questions 7.5 and 7.16

5b. HR RESULT: INNOVATION AND NEW TECHNOLOGIES - question 7.10

6b. HR RESULT: MOTIVATION/INVOLVEMENT - questions 7.3 and 7.17

#### **1. RESEARCH QUESTION**

Is there a relation between the factors 1a. HR PRACTICE: ASSESSMENT/EVALUATION (question 3.16 - assessed by the self-assessment team) and the relevant factor 1b. HR RESULT: ASSESSMENT/EVALUATION (question 7.18 - assessed by employees)?

**HYPOTHESIS 1.** There is a relation between the factor 1a. HR PRACTICE: ASSESSMENT/EVALUATION and the relevant factor 1b. HR RESULT:

ASSESSMENT/EVALUATION. The specific HR practice can predict the employees' satisfaction by this practice.

## 2. RESEARCH QUESTION

What is self-assessment teams' perception concerning the implementation of CAF (TQM measurement tool) on organizational performance - question 3.16 To what extent does the average of respondents (self-assessment group) believe that CAF supports the organization's mission and strategy and increases organizational performance?

What is employees' perception concerning the existing evaluation system for employees performance -question 7.18-?

**HYPOTHESIS 2.** Employees are not satisfied by the existing evaluation system and CAF implementation (as a tool of Total Quality Management) can support better communication of organizations' mission and strategy to the workforce as well as monitoring and measuring employees' and organizational performance in accordance with the strategy objectives.

## 3 & 4. RESEARCH QUESTION

2.TRAINING	3.RECOGNITION AND REWARDS	4.EQUAL OPPORTUNITIES /FAIRNESS	5.INNOVATION AND NEW TECHNOLOGIES	6.MOTIVATION /INVOLVEMENT
3.9	3.8	3.5	3.7	3.19
3.10	3.23	3.3	7.10	3.20
7.19	7.7	7.16		7.17
		7.5		7.3

Is there a relation between the HR enablers/practices implemented (factors-criterion 3 assessed by the self-assessment team) and the relevant HR perception results (relevant factors-criterion 7 assessed by employees)?

2a. HR PRACTICE: TRAINING - the self-assessment group assesses questions 3.9 and 3.10

2b. HR RESULT: TRAINING - employees' perception on question 7.19

3a. HR PRACTICE: RECOGNITION AND REWARDS - the self-assessment group assesses questions 3.8 and 3.23

3b. HR RESULT: RECOGNITION AND REWARDS - employees' perception on question 7.7

4a. HR PRACTICE: EQUAL OPPORTUNITIES/FAIRNESS - the self-assessment group assesses questions 3.3 and 3.5

4b. HR RESULT: EQUAL OPPORTUNITIES/FAIRNESS - employees' perception on questions 7.5 and 7.16

5a. HR PRACTICE: INNOVATION AND NEW TECHNOLOGIES - the self-assessment group assesses question 3.7

5b. HR RESULT: INNOVATION AND NEW TECHNOLOGIES - employees' perception on question 7.10

6a. HR PRACTICE: MOTIVATION/INVOLVEMENT - the self-assessment group assesses questions 3.19 and 3.20

6b. HR RESULT: MOTIVATION/INVOLVEMENT - employees' perception on questions 7.3 and 7.17

**HYPOTHESIS 3.** There is a relation between the HR practices implemented (2a, 3a, 4a, 5a and 6a factors assessed by the self-assessment team) and the relevant HR perception result (2b, 3b, 4b, 5b and 6b factors which show employees' satisfaction).

Can HRM enablers/practices (2a, 3a, 4a, 5a and 6a factors assessed by the self-assessment team) predict the relevant HR perception results (2b, 3b, 4b, 5b and 6b factors which show employees' satisfaction)?

**HYPOTHESIS 4.** The HR enablers/practices can predict the employees' positive perceptions and satisfaction.

## 5. STATISTICAL ANALYSIS

At this point it is important to mention that the questionnaire answers were statistically analyzed and was determined the grade of accuracy of the survey results conducted via this questionnaire. The grade of accuracy depends on the size of population or responders' sample, the number of questionnaires actually answered the objectivity of such answers etc. During classification, accuracy of the survey results was estimated at high levels (Cronbach  $\alpha=0.944$ ). For this reason this survey have taken into account the following:

- The size of responders' sample.
- The number of questionnaires completed. The grade of answer' s objectivity.
- The grade of answer's documentation

For the correlation of the under-investigation factors, the averages of the answers per factor were compared. This research has drawn conclusions from the results-number of most responses per answer scale were also found.

The analysis of affinity indicators (Pearson  $r$ ) among the questionnaire factors were found to positively correlate to a large extent with each other.

Conclusions were also drawn from the demographic characteristics of the employees' sample (answers of the criterion 7.1).

Then, a series of Linear Regression analyzes were performed to seek if the factors of criterion 3 related to HRM Enablers can predict the factors of criterion 7 that are reported in the HRM Results. In general, HRM Enablers factors were statistically significant variables in the employees' satisfaction estimations.

## 6. CONCLUSIONS AND DISCUSSION

Public administrations all across Europe are, more than ever before, being challenged by society to demonstrate and improve their added value to sustain and further develop the social welfare state. In these times of socio-economic crisis and austerity, the policies of effectiveness, operational performance and quality are crucial factors in responding to the changing needs and expectations of citizens and society. Greece faces an immense, perhaps unique and increasingly urgent challenge and needs to reform in depth, reconciling emergency measures with long lasting reforms. The measures and reforms under CAF (European TQM tool) framework could lead to a well functioning public administration and improve, in a holistic approach, all the operations and the structures of public bodies. There are cause-effect links of fundamental importance comparing a given HR result (or set of homogeneous results) with the 'evidence' collected on the relevant factors on the enabler side - HR practices. Moreover, employees' demographical characteristics on their perception and attitudes are significant. The impact of the department they work on their performance, after controlling for the quality of HRM variables, most probably reflects differences in the degree of difficulty of the work environment and working conditions depending on the department as well as in the management styles among the managers of the departments. Analytically:

This research sheds light into the existing evaluation system and its improvement by CAF implementation in the case of Serres Public Hospital. FACTOR ASSESSMENT /EVALUATION was assessed at high scoring level by the self-assessment team. On the other hand, the employees' perception on the existing evaluation system for their performance and its contribution on organizational performance was assessed at low scoring levels. Probably, employees' lack of satisfaction with the current evaluation system is due to the fact that they react to change, especially when it refers to their evaluation. The results from the improvement action plan after the CAF report and better communication of the core principles of Total Quality Management may help

them to overcome their fears that its new implementation causing. Finally, all the members of the self-assessment group answered that CAF implementation (as a TQM tool) communicates and supports the mission and the Organization's strategy and increases Organizational Performance. According to self-assessment scoring, measurement through CAF brings about the necessary improvements as perceived by employees and shareholders themselves.

Furthermore, the evidence of the analysis suggests that a significant number of the variables defining the so called HRM practices, affect HRM results on employees' attitudes since it showed that there is a correlation between the rest factors below, so that HRM practices can predict employees' satisfaction and organizational performance. The analysis of the data revealed that the self assessment team perception on HRM practices implementation (fairness, innovation training, recognition and motivation of nursing staff) can predict employees' satisfaction as well as their perception on HRM Efficiency.

FACTOR EQUAL OPPORTUNITIES/FAIRNESS was assessed at high scoring level by both the self-assessment team and the nursing staff. Employees' perception on the working conditions (e.g. how to deal with conflicts, grievances or personnel problems, mobbing in the workplace) and the organization's culture (e.g. the promotion of transparency between departments, units, etc.) was assessed at high scoring level. Most employees consider the handling of equal opportunities and fairness of treatment and behavior in the organization is satisfactory (160 answers much-absolutely).

FACTOR INNOVATION AND NEW TECHNOLOGIES was assessed at low scoring level by both the self-assessment team and the nursing staff. It shows particular attention should be given for improvement on development and operation of e-Government and net services (e.g. by providing the necessary training and framework). Improvement actions should be implemented in order to fill the gaps and achieve the desired results on the design and management of the different processes of the organization based on new technologies, as well as the organization's approach to changes and innovations.

FACTOR TRAINING and 3.FACTOR RECOGNITION AND REWARD were assessed at low scoring levels by the self-assessment team. On the other hand, employees' perception on the career and skills development (the access to and quality of training in relation to the strategic objectives of the organization) was assessed at very low scoring levels. The scoring levels regarding recognition and rewards of employees' perception were very low, too. Their perception on the organization's top and middle management's ability to implement an effective recognition policy (e.g. setting goals, allocating resources and rewards aligned with the recognition of individual and team competences and efforts) need to be revised through implementation of improvement actions. When the organization creates frameworks to allow people to continually develop their own competencies and identify and reward their efforts, people are motivated in their everyday work to do their best for the organization and contribute to improvement of organizational performance.

FACTOR MOTIVATION/INVOLVEMENT was assessed at high scoring levels. In addition, most employees assessed their involvement in the decision-making process, strategic objectives and improvement activities as well as the existence of mechanisms of consultation and open dialogue at medium-high scoring levels, too. This research proves that, CAF first implementation in Serres Hospital can be perceived as a means of encouraging participation through co-decision on general policy, using direct informal participation and involvement. CAF encourages organizations to assess themselves from different angles at the same time – a holistic approach to analysis. This means that by its very nature, involvement of the employees is vital. Developing and involving staff in management activities is a key part of the rhetoric of all TQM tools, which acknowledge that quality improvement can only be successful when employees have the necessary skills and authority to participate. When the organization creates frameworks to allow people to assume greater responsibility and to take more initiative, people contribute to the development of

the workplace. Moreover, involving employees by developing open dialogue and empowerment supports their well-being. Employees at all levels are the essence of a public organization and their full involvement enables their abilities to be used for the organization's benefit. Both the self-assessment team and nursing staff agree that the contribution of employees could be maximized through their development and involvement and the creation of a working environment of shared values and a culture of trust, openness, empowerment and recognition. Thus, effective management and leadership under a TQM framework enables people to contribute effectively and productively to the organization's overall mission, vision and to the accomplishment of the organization's objectives. The holistic approach of CAF simply means that all the composition elements have a reciprocal impact on each other:

- the left part of the model (the enablers – causes) and the right part (the results – effects); and
- the holistic relationship between the causes.

Finally, this research has drawn conclusions and gathered information by recording the strengths and weaknesses on HRM practices in Serres Hospital and their results on employees' satisfaction. The most important reason for using CAF is to identify internal factors for organizational performance, sustainability and continuous improvement. Thus, this study investigates the areas where best HRM practices and positive HRM results are present, as well as problematic areas with negative effects on performance that need to be improved. Allocating a score to the CAF Criteria 3 and 7.1 accomplished our purpose to identify Good Practices as indicated by high scoring on HRM Enablers and Results. High scoring on Results are usually an indication of the existence of Good Practices in the Enablers field. The results of this study form the basis for the improvement action plan and the formulation of strategic objectives of the hospital so as to be able to follow developments, to respond to continual changes of the external environment by utilizing most of its resources. Moreover, CAF assessment facilitates the benchmarking of the specific Public Organization with other similar organizations of EU Member States under the same framework.

All these measurements can be used to continuously enhance organizational learning in terms of the HRM policies. Employees at all hierarchical levels are the essence of an organization and argue that their full involvement through CAF implementation enables their abilities to be used for the organization's benefit. CAF encourages organizations to assess themselves from different angles at the same time – a holistic approach to analysis. This means that by its very nature, involvement of the employees is vital.

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## ANNEX 1 - QUESTIONNAIRE FORM

As mentioned above, CAF was used as a questionnaire in this paper. Particularly, the Criteria 3 and 7 that refer to HRM Enablers and HRM Results respectively. Each of the above criteria includes some questions, which have been defined as the factors in this particular survey. HR practices/enablers (Questionnaire Criterion 3) was assessed by the Self-Assessment group:

### **Criterion 3: HR**

Self-assessment group uses formal documents and evidenced-data-based information for answering the questions. The questionnaire is comprised by 23 questions.

Consider evidence on what the organisation is doing to...

#### *Sub-criterion 3.1 for the self-assessment group*

#### **Plan, manage and improve human resources transparently, with regard to strategy and planning:**

3.1 To what extent are the existing and future needs for human resources analyzed taking into account the needs of the Public Authorities involved?

3.2 To what extent does human resources development policy take into account future responsibilities and social criteria?

3.3 To what extent are there objective criteria relating to recruitment, promotion, remuneration, rewards and allocation of administrative functions being implemented?

3.4 To what extent is the adequacy of appropriate human resources ensured in order to achieve the mission of the organization and the balancing of tasks and responsibilities?

3.5 To what extent are the criteria for human resources recruiting, rewards, promotions ensure equal and fair treatment?

3.6 To what extent are Job descriptions used for the recruitment and development of the organization's employees?

3.7 To what extent is the necessary training and the necessary work framework for the people involved in the development and operation of e-Government services and network services provided?

#### *Sub-criterion 3.2 for the self-assessment group*

#### **Identify, develop and use competences of employees aligning individual and organisational goals:**

3.8 To what extent are the skills, abilities and knowledge required at individual and organizational level recognized?

3.9 To what extent is there an agreed policy of developing skills at individual and organizational level, taking into account special cases?

3.10 To what extent is it designed to develop modern vocational training programs for Public Organization employees based on existing personal and future operational needs?

3.11 To what extent do older employees or/and heads of the Public Organization help or guide younger people to effectively perform their duties?

3.12 To what extent is the internal mobility (within the public organization) or the external (to other) mobility of the employees promoted?

3.13 To what extent are modern training methods used? (using multimedia, on-the-job training, e-learning, social media)



3.14 To what extent are educational activities monitored in relation to costs and the resulting benefit?

3.15 To what extent is the necessity to promote female career and the necessary projects to be considered?

3.16 To what extent do you consider that the implementation of a TQM Model or Measurement tool under a framework can improve employees' and organizational performance?

***Sub-criterion 3.3 for the self-assessment group***

**Involve employees by developing open dialogue and empowerment:**

3.17 To what extent is there a culture of open communication, dialogue and encouragement of team-work in the organization?

3.18 To what extent are there any consultations held between the top management and representatives of trade unions and their results are determinant to organizational improvement?

3.19 To what extent are the appropriate conditions created for the submission and promotion of employees' suggestions, initiatives and proposals?

3.20 To what extent are the organization's goals and their assessment indicators determined upon an agreement between different levels of hierarchy?

3.21 To what extent staff surveys on employees satisfaction are being conducted and the latter are satisfied with their working conditions?

3.22 To what extent is emphasis given on the needs of socially disadvantaged workers and people with disabilities?

3.23 To what extent is a policy for non-wage benefits and rewards for employees designed and implemented?

**Criterion 7: HR Results**

The questionnaire of HR perception Results is assessed by the Nursing Staff and comprised by 19 questions.

Consider what results the organisation has achieved to meet the needs and expectations of its people through...

***Sub-criterion 7.1 for all the employees of the nursing staff***

Results of measuring the perception of employees for the organization

7.1 To what extent is the organization's activity considered to be positive for the wider social environment, within which it operates?

7.2 To what extent do you find citizens' participation in decision-making about the vision, mission and values of the organization satisfactory?

7.3 To what extent do the employees of the Public Organization know the objectives of its operation?

7.4 To what extent do you consider satisfactory the level of staff awareness of potential conflicts of interest and ethics?

7.5 To what extent is the allocation of responsibilities among the employees of the Public Organization satisfactory?

7.6 To what extent do you find the way in which the Public Organization is managed satisfactory?

7.7 To what extent do you consider that individual and team efforts of employees are rewarded by the Public Organization?

7.8 To what extent do you consider satisfactory internal mechanisms of dialogue-communication within the operational framework of the Public Organization?

7.9 To what extent do you find the administrative procedures followed by the Public Organization in its day-to-day operation satisfactory?

- 7.10 To what extent do you consider satisfactory the administrative modernization efforts made by the Public Organization?
- 7.11 To what extent is the housing space of the Public Organization and its working environment satisfactory?
- 7.12 To what extent does the Public Organization facilitate its employees in trying to address personal problems?
- 7.13 To what extent does working hours of the Public Organization facilitate the conclusion of personal and family needs of employees?
- 7.14 To what extent is working overtime in special circumstances not mandatory, but with the consent and willingness of the employees?
- 7.15 To what extent does the Public Organization address issues such as comfort, hygiene and safety at work satisfactory?
- 7.16 To what extent does the Public Organization treat employees on the basis of the principle of equality?
- 7.17 To what extent do you consider as an essential means of motivation, the involvement of employees in the decision-making process on issues of effective functioning of the Public Organization?
- 7.18 To what extent does the existing staff assessment system constitute a means of stimulating human resources and helps the effective functioning of the Public Organization?
- 7.19 To what extent does the Public Organization systematically develop the capabilities, knowledge and skills of human resources in relation to the objectives set? (eg the development of IT skills combined with the goal of increasing electronically supplied services)

**Criterion 7.1 - Demographic Characteristics of nursing staff**

Age:	[Answer:]
0	18-25
1	26-35
2	36-45
3	46-55
4	56-65
5	>65
Gender:	[Answer:]
0	Male
1	Female
Educational Level:	[Answer:]
0	Primary Education
1	Secondary Education
2	Technological Educational Institute
3	University
4	MSc – Master
5	PhD – Doctorate
Professional experience:	[Answer:]
0	0-10
1	11-20
2	21-30
3	31-40
Internal Mobility: [Have you been moved within the hospital to another department / clinic in the last two (2) years?]:	[Answer:]
0	NAI
1	OXI
Rotation: [if yes, how many years have you been completed in the previous department/clinic?]	[Answer:]
0	<2
1	3-5
2	>5
Hierarchical Position :	[Answer:]
0	Director of Nursing Service
1	Sector/Division Head of Nursing Service
2	Department Manager/Supervisor of Nursing Department
3	Deputy Department Manager/Supervisor of Nursing Department
Sector/Division :	[Answer:]
0	Pathological sector
1	Surgical sector
2	Mental Health sector
3	Laboratory sector

# POLICY MODEL FOR BULGARIA'S TRANSITION FROM CURRENCY BOARD ARRANGEMENT TO EUROZONE MEMBERSHIP

Todor Tanev<sup>1</sup>

## Abstract

*The study of the global and local aspects of Bulgaria's possible future entry into the Eurozone is partly based hereunder on the study of the evolution of the Polish, Estonian, Lithuanian and other strategies for joining the Eurozone. The reason for that is that there are fewer analyzes of the Bulgarian situation, which is still unfolding. The Polish, Estonian, Lithuanian and other cases overtake the Bulgarian one for several years. Therefore, in some places, the text below is a compilation of texts of research articles on these close cases. Poland is the largest economy among the New Accession countries in the EU. Estonia and Lithuania are small economies but used to have currency board arrangements before adopting the euro exactly as the plans for Bulgaria are. Moreover, all these countries were part of the Eastern bloc unlike Greece and this makes them useful examples. Of course, there are also historical, cultural, political and economic differences that also need to be highlighted.*

## Introduction

The decisions for Bulgaria's entry into the Eurozone are political, using economic arguments. Among the main policy issues that need to be resolved in this process are the following:

- Should Bulgaria insist on entering the Eurozone immediately, claiming that it has formally met the criteria for it, or should it wait until the country is well prepared for it whatever this means (basically, the so-called Maastricht criteria plus new criteria added to them lately by the ECB);
- Even if Bulgaria becomes prepared to enter the Eurozone, should its government insist on joining the Eurozone immediately afterwards, or it might look for ways to delay the entry, with the views of constant need for improvement;
- What degree of autonomy and discretion should be secured by the Bulgarian Central Bank and the government, in view of possible failures of the common currency, future European or global economic crises or significant problems with the liquidity of Bulgarian banks in the future;
- To what extent have Bulgaria's banking sector and government gained sufficient level of discipline, as a result of the 22-year currency board arrangements and to what extent do the general principles and instruments of the currency board, need to be preserved even after the country's entry into the Eurozone within the new law on the BNB;
- Is it necessary - and if so, in what way - to adopt special rules ensuring the stability of the banking sector in Bulgaria in Bulgaria, that stem for example from the principles of the Chicago Plan; etc.

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***The Eurozone as an economic and political objective***

The Eurozone project was simultaneously economic and political in nature from its very inception. Quite naturally, so is any decision on joining it or staying out. It is impossible to draw a line separating these two dimensions. The political and economic arguments related to the super- and supranational monetary integration and Bulgaria's participation in it should be considered always together.

In fact, the current institutional setup of the Eurozone experiences potential weakness. This may threaten its stability or involve significant costs in the long-term. The costs would probably take the form of output and employment volatility. High level of indebtedness of some member states is a fact alongside with strong structural divergence between the Eurozone countries. The latter exists mostly in terms of production structure and the quality of human capital, but also in the level of capital resources, etc.

The solutions that could limit these shortcomings are unclear so far. The future of the Eurozone is not clear in the prevailing normative documents like the reports of the European Commission or the President of the European Council. These are Strategic Risks. The economic crisis in Europe had many faces in various European economies. There is a rich literature about the nature of the crisis in Europe – its sources, mechanics, symptoms, effects and implications.

***Bulgaria's strategic goals: three tiers of definition***

Bulgaria's entry into the Eurozone is not an end in itself. It is an action of profound importance as it stems from the country's main strategic goals. Becoming a Eurozone member should foster the achievement of Bulgaria's main strategic goals.

However, there are coexistent different perspectives to the definition of the country's strategic goals.

One can assume that in a democracy, the different views on this issue are expressed by the various political parties from the entire political spectrum. The majority party has more power of definition of the national interest than the minority parties. Indeed, this is the local political tier of the national interest.

However, this is not all the truth. The economy of the country is more than just local horizon. It is related to the economy of the European Union. The latter interprets Bulgarian national interest in its entity. The EU interprets it in the context of the interest of the entire Union. As far as the EU governing institutions are politically related to the ruling party in the country, this interpretation is dependent to a certain extent to that of the ruling party. This is the global political tier of national interest.

On the other hand, there is one more view to the national interest different from the view of local political actors and global forces. This is the view of particular sub-national players – individual corporations and banks. From the political theory perspective, their interpretations should not be regarded as political. However, from a practical point of view, this is precisely what happens: specific private entities are trying to impose their private definitions of national interest by influencing political parties to act in a way that supports their own interests. This is the political micro-tier of the (somewhat distorted) national interest.

The following may be attributed to Bulgaria's strategic goals beyond the context of interests and the three tiers of their manifestation.

Bulgaria's economic growth in a competitive global economy is naturally the country's primary economic objective. Together with this fundamental goal, the long-term strategies concentrate on the growth in investment (mostly foreign), growth of the jobs market and ultimately – rise in the level of GDP per capita.

The question of the monetary integration to the Eurozone is subordinated to these goals. Becoming or not a member of the Zone is not a sign of cultural “belonging to modern civilization”, but a

strategic question of national interest. Bulgaria has problems with insufficient reforms, including the banking sector reforms that are a matter of utmost interest to solve.

We must be clear that monetary and financial sector stability is only one of many elements of a healthy economy. It is necessary but not sufficient. It will not solve all problems. These are mostly neutral experts that are in position to judge what is good for the country as a whole without regard to specific political or economic interests or both. Therefore, it is important to develop such a scholarly (not academic) viewpoint; it is politically neutral though not abstract and thus can serve practical goals in helping the formation of an adequate policy for Bulgaria.

However, from the opposite point of view, any suggestion about public interest should be synchronized with interests of the ruling party. No abstract point of view can eventually become a policy unless it is synchronized with the balance of interests. Therefore, the goal hereby is this “hybrid” policy bridging together the abstract definition of national interest with its political definitions as they appear at three parallel tiers. Experts have to judge in a cool way which features of the Eurozone are more likely to foster economic growth and which ones increase the risk of economic imbalances.

### *Strategic alternatives for Bulgaria*

If the ideological context is isolated, there is more than one alternative for Bulgaria’s accession to the Eurozone. Moreover, it is not just about two alternatives, one being “getting in” while the other “staying outside” the Eurozone. A considerably delayed entry into the Euro area could also be viewed as an alternative. Also, an assessment of the pros and cons of retaining the status quo needs to be included in the set of strategic alternative considerations since the “non-action alternative” is compulsory for policy analysis. Of course, there is still an opportunity for a very different alternative policy – neither status-quo, nor positive or negative about joining, but rather different – e.g., returning to the situation before the currency board (before the current status-quo).

None of the existing alternatives is predetermined. Predetermined solutions are always impaired basis of strategic governance. Any analysis supporting the decision whether and how to join a monetary block like should include not only expected positive, but also expected negative effects in the case of joining. Retaining the local currency may bring about potential benefits (e.g. exchange rate flexibility) and disadvantages (e.g. exposure to speculative attacks or higher costs of borrowing). Therefore, the decision on whether to retain an independent currency or the present currency board arrangement requires adequate evaluation of the pros and cons.

Moreover, neither the alternatives per se, nor the set of alternatives is static. Reckoning with the dynamics of change is an absolute condition for proper policy decision making. The reason for this condition is that entering the Eurozone is a particularly long-term issue. The decision on it would possibly spread over many decades. Today's alternatives will not be alternatives tomorrow, and today's preferences will not be the preferences of tomorrow.

Staying outside of the Eurozone (still not rejecting this to happen in future) does not simply mean the extrapolation of the current situation; instead, it is also dynamic. Any member state evolves together with the union. The EU to which Bulgaria joined in 2007 has changed; it will continue changing in future. Both the positive and the negative consequences will evolve and, as a result, any evaluation should be expected to do so.

The scenarios covering a wide range of time inevitably incorporate a number of speculative elements. The crisis and slowdown of the economy in Europe makes the developments in the Eurozone very dynamic. Moreover, the crisis has changed the institutions of the Eurozone. The authors of scenarios are obliged to adjust to that dynamism. They have no choice but speculate about the potential future scenarios as well as their positive and negative aspects.

An account should be taken not only of the existence of multiple alternatives as well as the fact that they are a dynamic variable. There is still another feature that determines the conditionality of the decisions related to the future membership in the Eurozone of Bulgaria. Bulgaria is a strongly

specific European country. For this reason, it does not evolve in sync with the Eurozone and will never have full synchronization with it. In this respect, Bulgaria is distinguished even from the rest of “new member states” of Central Europe whose changes appear to be more related to the changes in the Eurozone.

Therefore, it is fully legitimate to formulate speculative statements on the future evolution of the Eurozone at the time when deciding about the optimal point of entry.

### ***The initial Euro-optimism***

Like in all new accession countries, the Eurozone was perceived by Bulgarian governments, elites and regular public opinion as a land of prosperity and stability (low interest rates, no considerable risks for a mighty continental scale economy foreseen or even expected, expected constant economic growth). This perception was overwhelming Bulgaria in the years before its accession to the EU in 2007 and even after that.

There were also negative perceptions in the country. They were not, however, a matter of scepticism, but rather of negativism – a profound negative attitude toward the West. Bulgaria's belonging to the European sphere in whatever context was seen as another form of retreat to the West. However, a relative minority of Bulgarians benefiting from the old Communist regime shared these views. Neither then, nor now did this group have an organized protest potential and therefore deserves no attention. However, what deserves attention is the rather uncritical attitude towards Europe, which also affected the successive governments of Bulgaria.

Like in Poland, Bulgaria's strategy of the entry in the Eurozone is largely based on the “endogeneity argument”. It is the belief in the “ever closer” trajectory of the integrating economies. On the one hand, such an expectation of a single-colored uninterrupted advance toward “progress” is characteristic of Europe and very uncharacteristic for other cultures like the American. On the other hand, the same view was reinforced during the decades of communist ideology by disciplining a trust into an ever approaching (but never reached) state of absolute historical achievement. Naturally, such a view is ideological. It is a simplified vision of the future. It not only does not correspond to reality but also blocks the effort to develop a more critical attitude towards the future.

This endogeneity argument in the “new accession countries” like Poland, the Czech Republic and Hungary has long become obsolete. Bulgaria It continues its uncritical existence mostly in Bulgaria. However, even in these “new accession countries”, governments in the past often enough did not doubt the fully positive outcome of their countries' joining the Eurozone. It was not the political orientation of the government but rather the context of the later economic crisis in Europe that proved decisive in shaping some precaution in these countries and even Bulgaria.

All considerations regarding Bulgaria's accession to the Eurozone were focused on the economic growth paradigm especially before the economic crisis in 2007. Bulgarian governments' policy in view of the “forthcoming accession to the Eurozone” has ever since been in line with the EU Commission – considered a sort of a so-called “Yes Sir” policy. It is unclear, however, why governments have continued to be optimistic to the same extent and yet based on optimistic theory to this day after all crises and accumulated doubts. Apparently, this seems to be based on the idealistic and apparently over-simplistic ideological vision that the adoption of the Euro in Bulgaria as well as everywhere else in the EC should increase income both in the short- and long-term – with no careful research on whether this is really the case. No risks have ever been seriously considered and are still not seriously considered. Only recently is the possibility of increased risk of macroeconomic instability and slowdown in economic growth considered. However, this is not considered in an internal plan – if “something bad” happens it would be “from the outside”, and Bulgaria's lasting and only task is “to write its homework” (for to meet the Maastricht criteria), as per the words of Prime Minister Borisov.

***The commitments accepted so far and to be accepted in future***

Bulgaria, like the rest of EU new member states from Central and Eastern Europe, is formally obliged to adopt the single currency. However, Bulgaria unlike Poland does not take advantage of the derogation (in the meaning of Article 122 of the Treaty establishing the European Community). This temporary derogation does not, however, exempt any member state from the obligation to adopt the euro. Bulgaria, like most other member states from outside of the Eurozone (unlike the UK and Denmark who negotiated retaining a special status in this regard) must work towards the introduction of the euro as soon as possible.

Originally, the European and the Bulgarian side agreed upon Bulgaria's adherence to the so-called Maastricht criteria as a prerequisite of the accession of the country to the Eurozone. This should happen as fast as possible. The Maastricht single currency criteria impose limits on inflation, government debt, budget deficits, the long-term interest rate and the exchange rate between the national currency and the euro. The purpose of these criteria of convergence was to ensure the preservation of price stability in the euro area and after the accession of new countries to the currency.

With the exception of the increase in the deficit in 2014, Bulgaria formally fulfills these criteria. This is considered a consequence of the 22-year existence of a successful currency board. It might be also a consequence of the European accession and structural funds as far as Bulgaria was relatively little affected by the economic and financial crisis in the EU at the end of the first decade of the 21st century.

However, the bank crisis inside the country in 2014, when the fourth-largest bank (Corporate Commercial Bank, CCB) was bankrupt as a result of bad loans against the backdrop of Greece's financial problems, forced the ECB to consider adding more requirements to the initial set of Maastricht criteria. These would be in the area of banking sector stability and probably also in the field of necessary reforms in the judiciary. Bulgaria is likely to be accepted in the Eurozone waiting room (the so-called ERM 2 mechanism) as early as the summer of 2019. Then, probably Bulgaria will be required to become a member of the banking union and to allow auditing of a banking sector by European institutions.

European financial institutions appear to be attempting to expand their requirements related to Bulgaria's accession to the Eurozone even beyond that. The unreformed judiciary in Bulgaria is a chronic problem of primary importance. This state of affairs is expected to negatively affect the situation of Bulgaria as a potential member of the Eurozone. The ECB, the European Development Bank and other European financial authorities would hardly allow such a source of tension to penetrate the Eurozone and create problems that will recall the problems in Greece. That is why they will probably demand from Bulgaria real reforms in the judiciary and anti-corruption measures in addition to fulfilling the Maastricht criteria.

Thus, the obstacles to the next steps in joining the Zone could be political rather than economic. This, however, is subject of political analysis.

***Public perceptions of the entry into the Eurozone***

Above all, we have to distinguish between scepticism/optimism towards the EU membership and the membership of the country in the Eurozone. The government is the basic opinion leader and manipulator. However unlike the Czech Republic or Hungary, nearly all Bulgarian political parties, ruling or opposition, left, centrist or right wing, manifest their positive attitude first and foremost toward the EU membership and to a slightly lesser extent to the membership of Bulgaria in the Eurozone.

At the same time, there is no active public debate about the accession to the Eurozone. Public opinion polls repeatedly show the persistence of a paradox in mass opinion: euro-scepticism (negative attitude towards supranational monetary integration in Europe) exists alongside uncritical EU-optimism (prevailing positive opinions of Bulgarians towards the EU membership



and most other aspects of the European integration project). Thus, public debate not only differs but is also weaker and partial when compared to debates taking place in the “Vishegrad Four” countries.

For several years, opinion polls show that Bulgarians are satisfied with EU membership but somewhat hesitant about Bulgaria entering the Eurozone. The rate of scepticism/negativism about the latter however is considered weaker than in Poland and the Czech Republic (Eurobarometer of 2014). Still, like in most Central and East European countries that have not yet entered the Eurozone, there is a simultaneous enthusiasm of the population towards the European integration in general (“EU optimism”) alongside fear from membership of the single currency (“euro-scepticism”).

In Bulgaria, the latest study by Eurobarometer shows that the share of Bulgarian citizens who expect a rise in prices after the adoption of the euro is 69% and this share remains stable of the previous similar survey conducted in April 2016, barely 17% of Bulgarians expect prices to remain stable. Concerns about rising prices are shared by the majority in the other EU member states that are about to adopt the euro at some point - 76% in Poland, 72% in the Czech Republic, 69% in Croatia, 58% in Sweden and 53% in Hungary and Romania await price rises. The question is how reasonable these fears are.

This scepticism was exacerbated by the economic crisis that hit Europe in 2008, however in a much smaller scale given the later entry of Bulgaria to the EU just a year before. In addition, Bulgarians are witnessing the success of countries that have recently joined the Eurozone. In none of these have prices grown as high and as fast as previously in East Germany. However, it should be noted that Bulgarian citizens and companies are strongly influenced by the situation in neighboring Greece. The public opinion about the euro in Bulgaria differs from other Central and East European members of the EU also due to the unique economic development of the country given the positive effect of the currency board on inflation for over 20 years. The greater majority of Bulgarians perceive the entry into the Eurozone somewhat more relaxed, considering it (right or wrong) as a continuation of the existence of the currency board arrangement.

The development of public opinion in Bulgaria is somewhat surprising. While EU-optimism and euro-pessimism were high in the first years of the country’s EU membership, there has been a slow but clear move backward in both tendencies in recent years. Currently Bulgarian citizens appreciate the entry into the Eurozone relatively higher than before. At the same time their pessimism for the future of European integration is growing. The number of supporters of the introduction of the euro in Bulgaria is due to the understanding that while it will be beneficial for Bulgarian companies however it would not be such for family budgets for the first years.

Throughout the years of Bulgaria’s accession to the EU, price levels across most product groups have come closer to convergence. There is less difference in prices between Bulgaria and the countries in the Eurozone not only adjusted to purchasing power, but even physically.

The increasing positive attitude towards the inclusion of Bulgaria in the Eurozone is due to a great extent to the active and persistent advocacy of the government, which actively creates positive public opinion for the accession of the country to the Eurozone. Another powerful reason for the existing public attitudes described remains the effect of the currency board, which most of the employees consider as a source of their income stability. It needs to be mentioned that this is a personal motivation that excludes any assessment of the business.

The majority of Bulgarian citizens’ concerns are based on the view that the Bulgarian economy is unprepared and very weak. Therefore, they think, the country's inclusion in the Zone will make it economically very vulnerable to direct competition. Naturally, the other part of the Bulgarian citizens, who are nostalgic for the communist regime and therefore EU-sceptics, are simultaneously euro-sceptical.

A popular attitude, prevailing in Bulgarian public opinion, is that if joining the Eurozone appears a mistake, the fault would be of those outside and inside Bulgaria who have “pressed” it to become

a member. Therefore, the government in whose mandate Bulgaria enters the Eurozone, not the government that initially negotiated the terms of Bulgaria's accession to the EC, will bear the historical responsibility for negative consequences.

This paradox is not specific of the political elites in the country. Much of them are both EU-optimists and euro-optimists. On the contrary, another part of the elites, which originated from the former communist elites are strongly EU- and therefore euro-sceptics. Either way, in both main types of political elites in Bulgaria, EU-optimism / pessimism goes hand in hand with euro-optimism / pessimism.

### ***Perceptions of the Bulgarian government for entry in the Eurozone***

The stable pro-EU orientation of all Bulgarian governments started being manifested long before the country's accession to the EU. As a result, they consider the Euro as a main instrument for economic integration of the continent, macroeconomic stability, reduction of inflation, economic growth and international role of the single currency in making Europe "strong". Staying outside of the Eurozone is perceived as a temporary state of non-full-membership contrary to the long-time strategy of both Bulgaria and the EU.

The inevitable costs and risks of joining the Eurozone are interpreted as inferior to the benefits since decades. There is a lasting opinion among politicians from all major parties that the anticipated positive outcomes would outweigh the expected negative outcomes. They expect that the adoption of the euro would result in an expansion of economic growth and thus increased welfare. The adoption of the euro is expected also to lead to a fall of interest rates and increase in macroeconomic stability and credibility of the country, intensification of trade, growth in investment (both domestic and foreign) and ultimately – rise in the level of GDP per capita.

Bulgarian governments are EU optimistic: they do not seriously consider future crisis in the Eurozone. The country is not strongly related to the European economic structure, so Bulgaria did not suffer much from the negative consequences of the European economic crisis. No deeper understanding of the crisis is searched for despite the fact that the ruling political elites consider the economic slowdown as a "Eurozone crisis". Moreover, the Eurozone became somewhat economically stronger than before the crisis; this serves as a catalyst of euro-optimism. Overall, the Eurozone seems to Bulgarian political decision makers a good place to join than before the crisis.

Bulgarian governments view joining the Eurozone largely uncritically. No mistake following the full support for the country's entry into the Eurozone is expected. If things go wrong for some reason, its origin is expected to be only external to Bulgaria. In other words, Bulgaria is not going to be the source of any mistake in joining the Zone. If a problem occurs, it is expected to be generated in the EU.

Bulgarian governments are running a small economy at a difficult time when the country opens to global competition, a time when corruption and the crackdown of the judiciary are chronic problems. Therefore, the main contributions that the Bulgarian governments have attributed after 1989 are the entry of the country into NATO and the EU. This may explain why the current government, which rules over the last decade with brief interruptions, wants to get attributed with the same type of merit: the country's entry into the Eurozone. This is the most serious political capital that it can provide. Its ideology is that becoming a member of the Eurozone is undoubtedly the only positive step it can do.

### ***Need of exhaustive balanced consideration of all factors***

The potential opportunities and challenges for Bulgaria's Eurozone membership are not predetermined.

Accepting the condition to substitute local currency with the euro should not be interpreted one-sidedly. The Central European countries, mainly Poland but partly the Czech Republic and

Hungary as well – two countries that have accepted the same condition by becoming EU members – apparently deflect their entry into the Eurozone. They are growingly euro-sceptic without this implying that they are EU-sceptical. Any condition in an agreement may be renegotiated or executed when the consent party is ready or decides to fulfill it.

Despite the long period of low public interest to that issue until recently, Bulgaria's potential entry to the Eurozone becomes a growingly vital theme. The government is still the most active among all and defenders of a strictly pro-euro position. This is why political and economic elites (i.e. businesspersons, academics, commentators, experts, journalists and many others) refer to its views when discussing the prospects for substitution of the local currency with the euro.

There are country-specific as well as European concerns involved in the assessment of this issue. Country-related are arguments such as the future of the local labor market, real estate market, interest rates, financial system, public debt, etc. Up to now most concerns while deciding on Bulgaria's adoption of the euro are exclusively about the consequences for Bulgaria's economy. However, an adequate political decision should take into account also the effect of the Bulgarian membership in the Eurozone for the European economy. Entering the Zone is not a problem for Bulgaria alone. Bulgaria will need to meet consistently not only the EU general recommendations, but even more important, the European primary and secondary legislation regulations. Therefore all considerations must rest on the right proportion between local and European concerns.

Optimism based on positive cultural biases towards Europe must give way to realism, based on the right mix of internal and external criteria. Risks are objective and therefore should be considered on the basis of facts. Risks on the way to the Eurozone are such as lack of real economic convergence of Bulgaria with the European economy, low rate of competitiveness, structural disproportions and imbalances, inefficiencies, etc. Altogether this constitutes a package of risky challenges. The inevitable shocks and the mechanisms for absorbing them are not considered systematically.

The Bulgarian government seems very hasty to push the country into the Eurozone sooner rather than later. This political decision does not make possible all factors to be considered and compared carefully. Moreover, stable consensus develops slowly. Such is the case with Poland, where euro-scepticism took 15 years to develop. The rule of the thumb is that the longer an important decision takes to make, the more scepticism it would reflect. Poland has 3 consecutive reports on its readiness to enter the Eurozone, created in a sequence of 5 years from each other. Without being against entering the Eurozone, each next is becoming more precautionous for the country's adopting the euro. Thus, the ultimate shape of the Polish policies on the issue of admission to the Eurozone is to enter it but at an indefinite future moment. Apparently, the Bulgarian government deliberately opposes the longer process of reflection and debate just to prevent the development of euro-scepticism. It wants to achieve a great "historical" result of its overall existence at any cost – "the completion of the European integration of Bulgaria."

### ***General PROs and CONs about the entry into the Eurozone***

Even though Bulgaria plans to join the final stage of the Monetary and economic union, different arguments exist that it is still problematic enough. The Bulgarian government considers two types of risks when entering the Erosion – economic and political.

The economic threats to the stability of the Bulgarian economy after the accession to the Eurozone include:

- The possible negative consequences of macroeconomic imbalances in view of low interest rates which may lead to an excessive expansion of credit and thus potential emergence of bubbles in the real estate market;
- The expected significant raise of foreign net debt (as made evident by the accession of Estonia and Lithuania);
- The danger of divergence in business cycles (asymmetric shocks); etc.

Therefore the main negative consequence foreseen repeatedly however largely underestimated is “the loss of an independent monetary policy”, risk of a credit boom, loss of competitiveness because of the excessive growth of prices and wages, and an increase of the foreign debt. What should be considered in this context as well is the ongoing economic crisis across Europe, and the associated turbulence inside the Eurozone that has to be calculated with a greater attention.

The political risks are related with the possible loss of power and threats to interests of political actors at the three tiers above described (global, local and micro). Among the most important are:

- The loss of discretion power and at the expense of stronger control by relevant EU institutions (ECB, EC, etc.), resulting in less opportunities for independent economic policy of the government.

- The lasting decrease of popular support in view of any level of rising of prices;

- The unsatisfactory share of the total sum of the foreign exchange reserve accumulated during the currency board to be used for government projects.

What should be considered in addition is Bulgaria's unpreparedness as far as the stability of the banking sector is concerned, the high rate of corruption, and the lasting problems in the judiciary. All these risks contradict the policy recommending joining the Eurozone at the earliest opportunity, i.e. just after fulfilling the Maastricht convergence criteria, as repeated by Bulgarian government officials for years now.

However, the opposite arguments possess also certain value. Entering the Eurozone brings positive developments almost for sure if unexpected serious shocks – political and economic – do not occur. The EU integration gives Bulgaria access to the Single Market, which stimulates export growth: every emerging market is much export-dependent. The other explanation is related to the large flows of EU funds (cohesion and structural funds) which boosted public investment on an unprecedented scale. However, these two factors diminish when Bulgaria loses its competitive advantage (based on low labor costs as in the past).

This feeds optimistic expectations of many politicians as well as citizens. Social attitudes towards European integration, be it political or economic, are a function of the extent to which society benefits from integration.

However, the issue of PROs and CONs the entry into the Eurozone has another strategic aspect. This entry is not a process that is isolated from what has happened in advance that the entry builds on. The question is, how does the entry into the Eurozone affect the achievements of the currency board era in the country? Is it desirable to end its existence resulting from the end of the existence of the local currency, or quite on the contrary – can - and should – the currency board regulations continue existing after the adoption of the euro? Should the Eurozone be interpreted as a version of the currency board arrangement, and to what extent?

Countries and their monetary authorities are increasingly choosing final forms of floating or fixed exchange rates at the expense of different intermediate variants in which some form of controllable or controlled sailing (more or less), or a fixed rate in any announcements limits. The reason is that these intermediate variants are much more susceptible to speculative attacks by market players and therefore require a very serious resource in the form of foreign exchange intervention assets.

Given this, the realistic options for getting out of a currency board are either a transition to freely floating exchange rate, or taking the last step along the way to the most extreme form of fixed rates, namely joining to monetary union. Switching to a classic fixed exchange rate or some form of administered exchange rate means that it would open the door to speculation and respectively - the risk of a rapid depreciation of the currency.

This is also the opinion of the prominent Bulgarian economist Rumen Avramov, according to whom “the currency board, like any system based on clear rules, is highly vulnerable to the prospect of a change in established rules. The greatest risk comes from the opportunity to introduce a floating rate as the economy has lost its reflexes to adjust and operate in a floating exchange rate.

Publicly announced the prospect of introducing a floating rate would be equivalent to an invitation to speculative attack against the lev and would create expectations and pressure for devaluation.” In other words, the only option for a sustainable and manageable exit from the currency Council of Bulgaria is the adoption of the euro and joining the euro area. All remaining options for replacing the currency board with another currency-exchange regime will open a wide door for speculation, the very moment they start discussing officially. They will inevitably create an incentive for an attack against the lev and the tall risk of devaluation.

### *The economic PROs*

Government officials and many economists expect some of the benefits to be experienced even during Bulgaria’s entry to the Eurozone’s so-called “waiting room” (ERM 2). Bulgaria’s membership in the Eurozone may secure more fully the strategic goals of economic policy: attracting foreign investment, developing the labor market, increasing wages, and positively changing the structure of production. As a result of this, indirect achievement of other cardinal goals can be expected, such as a reduction in emigration, etc. More precisely, the PROs of Bulgaria’s joining the Eurozone as repeatedly expressed by proponents can be summarized as follows:

- The very preparation for admission to the Eurozone alone (the stay in the ERM 2) is expected to be an incentive to accelerate reforms in many sectors. The fulfillment of Bulgaria’s commitments will be of benefit to the country immediately.

- A strong “pro” argument is the success examples of other “formerly less developed” and “transition” economies such as Slovenia, Slovakia, Ireland, Estonia, Latvia, Lithuania after they accepted the Euro. One use of these examples is as an argument against sceptics’ claim that Bulgaria would follow necessarily the negative development pattern of Greece.

- Soon after Bulgaria joins the Eurozone, this would cause a strong positive impact on all economic indicators as well as the overall domestic business climate. Among the expectations of the adherents of Bulgaria’s becoming an Eurozone member is lower interest rates on loans; cheaper and more affordable financing for businesses and households; greater stability of the national economy; reduction of investment risk; increase in foreign direct investment and overall investment activity; increase the country’s credit rating, and a reduction in foreign exchange costs for businesses; a reduction in the risks to the banking system; strict external oversight over the banking system (which means minimizing the risk of affairs such as CCBs).

- Joining the Eurozone would have an effect on Bulgaria’s international image and stance – an increase of the external confidence of the country is to be expected. For each country that has adopted the euro since 2007, there is a clear increase in credit rating of the three major agencies. With the adoption of the euro, the risk for the country decreases in general and this inevitably leads to an improvement in credit rating. Moreover, joining the Eurozone leads to better evaluation of credit risk by international credit rating agencies. From the point of view of local businesses and citizens, this positively affects local credit markets by automatically leading to lower interest on loans from Bulgarian banks to local physical and legal entities. The positive effect of rising sovereign credit rating in most countries is seen with the country’s acceptance in the ERM 2. A further rise usually follows the formal adoption of the euro. The increase of the rating is further making the countries more attractive to investors. This overall effect became evident in the examples of the Baltic republics that joined the euro last after a considerable stay in the Eurozone’s “waiting room.”

- A significant improvement in the area of interest rates and access to ECB instruments is expected after joining the Eurozone. This would cause benefits from interest rates for citizens and businesses. Bulgaria’s accession to the Eurozone to benefit from two of them the above three

instruments: primary credit facility to obtain overnight liquidity under the form of eligible assets, and deposit foundation at national central banks and deposit facility as a threshold for the overnight market interest rate. Permanent ECB mechanisms would have a positive effect on the banking system institutions, and hence - on the economy as a whole, as they represent an active monetary policy instrument that is not available to the BNB because of the constraints imposed by the currency board. Access to the refinancing of the ECB's banks and the euro area money market, would result in a cheaper financial resource, both because of the higher liquidity in this market and the reduction of transaction costs, eliminating currency risk and currency conversion costs, and so on reducing interest rates on loans granted by banks. This would also be the effect of reducing mandatory minimum reserves maintained by the banks with the respective national central bank. Being outside the euro area, Bulgaria suffers the crises worse, refunds are significantly slower. In other words, joining the single currency would help to reduce the power of external economic shocks for the country as well as for faster recovery from them.

- Another PRO argument is the introduction of a Single Supervisory Mechanism and European Banking Union. This would cause positive effects on the financial sector. Apart from the easier and cheaper access to resources, the banks in Bulgaria after joining the Eurozone would be positively affected by the Single European Monetary Oversight Mechanism (EMS). This is the first pillar of the so-called European Banking Union, the other two being the Single problem banks restructuring mechanism and the European Deposit Guarantee Scheme for banks. The supervisory authority at EU level is the European Central Bank. Upon accession of Bulgaria to the euro area and the EMN, the ECB will assume responsibility for overseeing the so-called major credit institutions (if any, to meet criteria of significance), subsidiaries and branches of banking groups that are monitored at European level, plus the three largest local banks (according to assets irrespective of their size and significance criteria. Responsibility for the supervision of all other banks in the local market will continue to bear the BNB, though that it will work “in close cooperation” with the ECB and will exercise oversight across the board methodology with the ECB. In the case of Bulgaria, there are currently no banks that meet the criteria for significance. This means that the three largest banks will fall under the direct supervision of the ECB as well as those local banks which are subsidiaries or branches of the large European groups. The minimum period for which the ECB undertook direct supervision and responsibility for a particular bank on the local market is 12 months. Another thing to keep in mind is that the ECB can decide at any time or temporarily suspend the supervision of local banks while the local supervisor authority does not take the necessary measures prescribed by the ECB or definitively ceases supervision.

- A significant advantage seen by experts in joining the Eurozone is the opportunity for relying on European bank support mechanisms in case of crisis. The Zone offers so far few such mechanisms to support member states in a fiscal or banking crisis. Most are transient in nature with the aim to become permanent after restructuring. One such is the European Financial Stability Facility (EFSF) that works after a Member state has issued a request for support, a rescue program has been negotiated with the European Commission, and the IMF is adopted unanimously by the Eurogroup (the Finance Ministers in Brussels). The European Financial Stabilization Mechanism as an emergency funding program depends on the funds raised on the financial markets and guaranteed by the European Union Commission through the budget of the European Union. Other mechanisms are the Bank union which consists of a single surveillance mechanism, a single problem resolution mechanism and a single Deposit Guarantee Scheme.

- The reduction in transaction costs is traditionally highlighted as an advantage for businesses and citizens when adopting the common currency. In the case of Bulgaria, however, currency risk

for the euro does not exist because of the functioning currency board and a fixed exchange rate between the lev and the euro. However, the Bulgarian businesses and citizens will also benefit from lower transaction costs after the adoption of the euro in the country by other, non-exchange rate reasons. Among them are both the cost of conversion of the lev in euro and vice versa (the so-called conversion costs), as well the cost of bank transfer charges to the euro area.

### *The economic CONs*

- According to euro-sceptics, the euro is not a panacea for solving all problems. They claim that it contains many, and serious, risks. This would inevitably have an impact on Bulgarian economy on the long run. However, the defenders of the Euro argue that risks always exist; this means that risks would exist also if Bulgaria stays out of the Eurozone. Such risks are neither less in number nor less threatening with any connection to the size of the economy. They usually point out the Brexit as an example of such risks.

- The alleged loss of political sovereignty is an argument often repeated. The loss of the lev and the Bulgarian government's power of discretion, the independence of the national central bank would be a serious constraint to the stability and development of the economy. The euro would cause the intrusion of "non-Bulgarian economic policies" carried out by EC bureaucracies and the ECB. Moreover, the symbols of the national currency, the national central bank and the discretion power of the government are presented as the last stronghold of "national sovereignty and Bulgarian statehood."

- The alleged loss of economic sovereignty is another chief argument. Bulgaria would be deprived of its own monetary policy and thus of the possibility to control its banking sector, interest rate, job market, investments market and all the rest of negative consequences of losing economic sovereignty. The government / central bank will not be capable to use the economic instrument of "planned devaluation of the national currency" following some examples such as Hungary in the 1990s. There will be no lender of last resort in the country.

- Sceptics fear that the current stable 2:1 exchange rate Lev/Euro will be lost after entering the Eurozone since the Lev needs to find its actual market exchange rate against the euro. However, proponents of the euro think that due to the freedom of exchange that Bulgaria has now, on the first day of unpegging, Bulgarians will simply start exchanging levs for Euros, so the lev will die on its own. However, this has been a fact for a long time because the currency board pegged the lev to the euro. Interestingly, the same critics are concerned that the currency board would be dropped, and thus politicians would misuse the currency reserve - a prospect that is just as likely to happen when Bulgaria is already in the Eurozone as it is today when it is still out of it.

- Sceptics argue that Bulgaria is unprepared for the strict rules of the banking union, which would prevent it from carrying out the necessary radical reforms in the public sector. On the contrary, optimists claim, the chance that these reforms will happen becomes much bigger and more realistic from now on.

- A populist negative motif often repeated and broadly shared in Bulgaria is that joining the Eurozone would bring a tremendous rise of prices "close to two times the current prices" as it might have happened in the past in East Germany. In fact, sceptics' predictions about the rise in prices are for 50%. The opposite opinion to this is that Bulgaria should not focus on pervasive risks since the risk is only one: Bulgaria to waste "the rare historical chance integrating to the monetary union it has currently".

- Another argument against joining the Eurozone is that "we" (Bulgaria) would be pressed to start helping countries in trouble once in the Eurozone. However, in fact this is Bulgaria that got

help from the EC for years so far via the European structural funds, etc. Apparently, given its current economic state, Bulgaria would need more help, for sure. (In the past communist period Bulgaria was obliged to constantly help pro-communist and pro-Soviet revolutions in Africa, Asia and Latin America – this argument is largely fed by such memories.)

- Some critics attack the Euro on its most positive side: easy loans in hard currency. They argue that easy and cheap loans offered from European banks would end up in Bulgarian government starting to take loans and dissipate money like “the Greek governments” did in the past, and Bulgaria would sink like Greece based on new big state borrowings. There is no mechanism known to stop politicians from acting so, say critics.

- There are also new arguments, mainly related to the forthcoming membership in the banking union as a condition for entry to the Zone required by the ECB. The membership of Bulgaria in the banking union would mean, according to critics of the entry to the Eurozone, Bulgaria to become almost enslaved by the European financial institutions, to become too subservient to the ECB's orders. They claim that doing so, specifically in the period before the introduction of the Euro, would be very risky. However, defenders of the entry to the Eurozone counter its critics by arguing that the worries and risks are only for those involved in bad banking who have something to hide (e.g., financing of own business with depositors' money). For defenders, the inspection and control from the outside can only be positive.

- The logics of the “pro” argument in this case is that Greece should not have been accepted in the Eurozone, not because it was less developed, but because it was accepted while being still unprepared by having not met the conditions, that these conditions were still not well formulated unlike nowadays, that Greek governments have falsified the economic indicators reported to ECB for years, that Greece suffered because of the irrational and irresponsible economic policy of its governments, etc. Another use of that argument is against opponent's motif that small and underdeveloped countries (like Bulgaria) suffer from the euro while bigger like Germany gain from it within the common market. Smaller EU member countries that later accepted the Euro became prosperous.

### ***The political CONs and PROs***

Political CONs and PROs are in fact opposite opinions about one and the same issues. They are based on presuppositions, interpretations and speculations about one and the same data, arguments or scenarios. This makes political Pros and CONs differ from economic ones. Political PROs and CONs are not objective. They are rather contextual and interpretative. Here follow some of the most systematically used ones:

- Bulgaria is still not ready to join the Eurozone despite the fact that it meets some of the Maastricht criteria as a result from the positive outcome of the successful currency board. However, some politicians who are strong supporters of Bulgaria's entry to the Eurozone argue that this fact should not be considered a serious problem. According to such government officials, one of the most important policy arguments in this context is that countries are more likely to satisfy the criteria for entry into a currency union only after having started to take steps toward economic integration rather than before that. This suggests that the convergence is likely to increase after the moment of accession.

- Staying out of the Eurozone would work for Bulgaria's independence. However, different political parties support opinions that staying outside would make the country's economy more vulnerable to Russian, American, Turkish or other influence in a time of stronger global centrifugal processes. Unlike the EU that guarantees some national political autonomy like the Baltic countries the rest of superpowers in the gravity of one or more of which Bulgaria would fall (e.g. Russia,



USA, etc.) would cause the opposite effect. The adoption of the euro is another instrument of securing such relative political autonomy of the country.

- Some politicians speculate that Bulgaria would suffer from serving the interests of the ECB, Germany, Brussels and so forth after adopting the European currency. Proponents of the entry to the Zone claim that Bulgaria would receive lasting and powerful support of EU for its accession to the Eurozone because of some “hidden” reasons like: (1) The need of a positive development in the Union to serve as “compensation” of Brexit, (2) Europe would need money for meeting the hardships of Brexit and thus would require Bulgaria’s currency reserves accumulated and therefore will support the country’s entry to the Eurozone; (3) By accepting Bulgaria to the Zone, the EU might isolate troublesome member countries like Poland and Hungary (which are outside the Eurozone), and therefore support Bulgaria.

- The end of the currency board arrangement paralleling the entry in the Eurozone would trigger fast and strong inflation claim many Bulgarian politicians mostly from the left end of the political spectrum. Quite often they are speculating with the public fears from rising prices after the changeover. Numerous right wing economists and politicians also support this view since they are strong proponents of the successful currency board that rescued Bulgaria from hyperinflation 22 years ago. The question is how reasonable these fears are. The data for inflation in consumer prices shows that most of the countries that joined the Zone over the past 10 years, reported a lower monthly inflation though on an annual basis the picture is more mixed. Obviously, inflation or deflation at the time of accession (whether it was monthly or annual) depends on many other factors – economic cycle, international commodity prices, wage growth and domestic credit, exchange rate, etc. In an analysis of 2009 the ECB concludes that overall inflation is largely unaffected by adoption of the euro. The fears of high inflation when adopting the euro are exaggerated according to proponents of its use in Bulgaria; even in the worst case scenario, they claim, inflation would remain below one percent. However, it should be borne in mind that most research show a relatively stronger inflationary effect on some services (personal services, restaurants, household services and more. under), which means that households and individuals who use these services to a greater extent will be more affected. In general this case concerns the middle class and the better-off part of the population they consume such services more often and in larger volumes.

- One powerful counterargument is that the entry to the Eurozone would inevitably cause foreign European (mostly German) banks enter Bulgaria offering very cheap loans in Euro, so Bulgarians would start taking loans mainly to buy homes and the governments would also take loans for government projects. This would make Bulgaria repeat the Greek scenario of economic collapse. However, critics of the pessimists argue, Greece and Bulgaria left 10 years ago from the same starting position of too high government debt, large deficits, macroeconomic instability; while Greece adopted the Euro Bulgaria got a currency board arrangement. In just one decade, from 1997 to 2007, Bulgaria managed to cut government debt to a low level, below 20% of GDP. This was accomplished as a result of disciplined fiscal policy and high real economic growth, and in addition there was a certain contribution from the privatization proceeds. For the Greek debt, the situation is the opposite. In other words, in good times the Greek debt remains high stable, and in bad times grows uncontrollably. In bad times the Bulgarian debt slightly grows then decreases again, while Greek debt grows a lot but does not decrease. According to Eurostat, for the past two decades, Bulgaria has achieved the largest reduction in government debt among all EU countries. This shows that there is a fundamental difference between Bulgaria and Greece largely due to the currency board arrangement. Bulgaria is the best example of budgetary discipline in the EU,

Greece is the worst example. The question unanswered is what will happen after a decision for its end is made.

- The next serious concern with getting into the Eurozone is that Bulgaria is weak and weak countries weaken after the adoption of the common currency at the expense of strong countries getting even better off (Germany considered most often in that role). However, all Central and Eastern Europe countries that have adopted the euro – the two Baltic countries, Slovakia and Slovenia – have healthy economic growth rates and accelerated them to 5%, while Poland, the Czech Republic and Hungary grew by about 4%. In other words, entry into the euro area has no negative effect on the catch process. The same is true of the fiscal indicators. Only Slovenia from the euro area countries has a debt above the limit because of the banking crisis.

- A CON argument with great importance is that the economic growth slows down due to ERM 2 and the adoption of the euro. Proponents of the entry to the Zone however claim that Slovakia for example increased its GDP per capita in terms of purchasing power parity almost twice as fast as the Czech Republic, the two countries starting 2 decades ago from a very similar point but the first having entered the Zone.

- Perhaps one of the most serious, if not the very most serious political concerns about Bulgaria's entry to the Eurozone is that the government will spend more and more irresponsibly, especially in view of the end of the currency board arrangement. One of the arguments against joining the Eurozone is the expected reduction in the interest rates on which government debt can be financed and the loosening of fiscal policy support of close-to-power businesses. This is one of the reasons Greece to find itself in the situation it has been in the last 10 years. However, the situation with the new EU Member States that have already joined Eurozone, is very different, claim critics of euro-sceptics. There was a period in which these countries join the Exchange rate mechanism (ERM 2), not the Eurozone itself. Interest rates in Bulgaria, although outside of ERM 2 are not much different from those of the latest Eurozone member states. If the government wants to spend indiscriminately because of the cheap financing, it can do so right now.

- Perhaps the greatest concern about entering the Eurozone from a currency board arrangement is whether the central bank's foreign hard currency reserve fund is going to be left to freely float. This is the 100% money with the BNB as coverage of the local currency in circulation and deposits of commercial banks, government deposit, which represents liabilities to government and is part of the fiscal reserve and liabilities to other depositors and the deposit of the Banking Department of the BNB. Some observers argue that after the adoption of the single currency these funds will be "released" and will be at least part of them may be invested in the Bulgarian economy. With the accession of the country to the euro area, the Bulgarian National Bank, as part from the Eurosystem<sup>1</sup>, is obliged to transfer part of its foreign reserves to European Central Bank. The ECB's foreign reserve management targets are: liquidity, security and return.

### ***The real problems of entering the Eurozone***

The problems of Bulgaria's entry into the Eurozone at the moment seem to be related to the following:

1. The currency and fiscal discipline of the government - should the currency board principles beyond the acceptance of foreign currency such as the ban on government borrowing from the central bank, etc. should be maintained;
2. Preserving the discipline of the central bank and especially of its Banking and Supervision department;
3. Overcoming the problems in the commercial banking sector, especially banking supervision;

4. The rules under which the portion of the accumulated bank reserve in hard currency will be spent during the currency board;

5. Etc.

Political arguments are very important in the context of entering the Eurozone. Bulgaria cannot give up its obligations as they appear in the accession to the EU treaty it signed, where it has committed itself to the introduction of the single European currency. If Bulgaria gives up the introduction of the Euro and returns to the Lev after leaving the currency board this would bring many negative consequences – economic as well as political. The Lev has gone bankrupt once already. Bulgarians are paying by using the Lev which is in fact nothing other than a “cloning” of the Euro (as Steve wrote wittily).

Some believe that the BNB has “traditions” and will therefore respect the ECB's relations. This is debatable. Rather than going back to the failed old organization of self-standing monetary policy and dubious banking supervision, it is better to accept directly subordination to the ECB and its control when the Euro is being introduced. The currency board itself is not an anachronism; as long as there is a lag in the growth of economic development, it is due to the inadequate policy of governments during the existence of the board that either stopped the reforms or lagged behind the introduction of policies that had to be taken.

Despite the success, the currency board began being viewed lately as anachronism no matter the Bulgarian Currency Board is a “modern” or “second generation” currency board which gives the central bank some autonomy to take care of the liquidity of banks within certain limits. For a number of reasons, the entry into the Eurozone is considered a progressive move now which requires Bulgaria to exit the currency board. There are various reasons for this. One of the main points is that substituting the Bulgarian currency with the Euro will fulfill the disciplinary role of the currency board by adding some instruments to BNB that would accelerate the country's economic development.

One other argument is Bulgaria's potentially problematic banking sector. Dishonest banks that are not prevented from their corrupt practices by lending to friends or just lend carelessly are too risky in the pre-accession to the Eurozone period. These practices jeopardize depositors' funds, cause banking failures or bailout, or both. So, the biggest problem for any central bank whether it is a currency board or regular central bank is that kind of banking – weak or corrupt banks. A board itself would not solve that problem as well illustrated by the famous Bulgarian CCB bankruptcy in 2014 despite the well-functioning currency board arrangement.

The discipline of the government and the central bank is not the only major problem. Bulgaria has a serious problem with banking supervision.

There exist major deficits in the system of institutions which have direct supervisory functions over the banking sector in the country. These deficits are expressed in all directions: (i) their capacity, (ii) their functions and (iii) their management. Most of the significant problems are related to their ineffective or inadequate performance.

The institutions in the system (1) apply highly formalized approach, (2) they implement their functions passively and formally and (3) they tend to transfer responsibility to others institutions. The result is a wide range of inadequate and ineffective execution of control powers in a broad range by: (1) taking partial actions, (2) being not focused on the relevant issues, (3) taking measures that are not timely, (4) refusing oversight activities, and (5) applying a highly formalized approach. Significant deficits are found in the capacity of the supervising institutions. The lack of prepared experts and financial resources is not as much the problem that stands in the foreground. The real problems are (1) the ways in which the management of the supervising bodies is constituted and (2) the lack of independence from external influences (above all political, but not only). In this connection, other underlying problems emerge: (1) the politically influenced changes of the legislation determining the criteria for selection of supervising bodies as well as the way their management is constituted; (2) the formal application of the rules and procedures prescribed, (3)

the lack of transparency and adequate consideration of members of such bodies; (4) the dominance of the political affiliation criterion over expertise in these cases.

The high degree of influence of political affiliation in the choice of leadership of formally independent regulatory institutions is indicative. Representatives of the ruling parliamentary majority are elected as heads of the three basic supervising institutions - the BNB, the Financial Supervision Commission and the Commission for Public Supervision of Registered Auditors. Moreover, in two of these three cases, the chair of the relevant parliamentary committee, which organizes the election procedure, is elected to the highest managerial position.

These are precisely the deficits in the way management of independent supervisory are elected that undermines the independence of the bank supervising process and hinders the control activities. This problem leads to the lack of supervision authority over the supervising bodies and their members who possess political protection.

### ***The official policy of joining the Eurozone***

The geopolitical choice of Bulgaria is made. Bulgaria is governed by staunchly pro-EU coalitions and the euro-sceptic views spread among the Bulgarian society are weakest among the EU East periphery countries. As far as euro-scepticism is concerned, it is most often related to EU-scepticism spread among government opponents and communist regime nostalgic circles. Practically all political parties support the entry into the Eurozone - the ruling GERB party, the balancing "Turkish" MRF, some of the right-wing "patriotic" parties, and the euro-left. Altogether the vast majority of political forces in Bulgaria support the adoption of the euro as well as most of the possible requirements for this to happen. Bulgaria according to them is in the EU and a member of NATO.

The Economic and Social Council of Bulgaria (ESC) is perhaps the main generator of arguments related to Bulgaria's potential entry to the Eurozone. This institution concentrates a wide range of expertise based on the so-called tripartite principle – generalizing on the opinions of representatives of the government, business and employed. Their opinion is that Bulgaria's accession to the so-called "waiting room" and to the Eurozone itself must be considered a leading strategic priority of economic policy and therefore immediate national goal.

The official policy justification is based on the presumption that the Maastricht criteria are the best orientation points for macroeconomic development and fulfilling them alone would bring an excellent impulse for the economy. The government's Bulgaria is governed by staunchly pro-EU coalitions and the Euro-sceptic views spread among the Bulgarian society are weakest, spread among government opponents expectation is that the very participation of Bulgaria in the Eurozone may enhance the real convergence of economic cycles of the Bulgarian economy with the rest of Europe. Forecasts were made that the transaction costs for the substitution of the local currency with the euro would be lower than the immediate profits even when the overall effect of stimulating the economy are not considered. It is expected that investment flows would become more intense which would integrate Bulgarian economy more strongly with the West. Additionally, once in the Eurozone or even in its "waiting room", the local labor market would undergo sufficient further reforms and thus get integrated with the wider European labor market. Bulgarian political decision makers expect that the country's entry to the Eurozone would bring stabilization and better protection against any future potential asymmetric shocks. This is expected to lead towards increased GDP and consequently increase of the living standard of the Bulgarians.

The government documents related to Bulgaria's entry to the Eurozone suggest that it is a question of when, and not if, Bulgaria should join the Eurozone. The government's position on this question is steady: the sooner the better because Bulgaria would be able to enjoy the benefits of the monetary integration faster. Therefore, all debate is mostly focused on the technical aspects of fulfilling the convergence criteria. Most of the negative consequences expected (like loss of independent

monetary policy, exchange rate-related instruments, etc.) are neutralized by the excessive use of political counter-arguments.

The Bulgarian government strategy of integration with the Eurozone has been focused on 4 priorities so far: (1) To orient and steer Bulgarian economic policy towards permanent compliance with the convergence criteria, in particular with regard to fiscal discipline; (2) To take additional measures to strengthen the potential of the Bulgarian economy, including in the industrial sphere; (3) To carefully prepare the country to meet the set of technical and organizational aspects of the process; (4) to support the EU integration and work for strengthening of European institutions despite Bulgaria has limited influence over institutional design in the Eurozone.

Political decisions derive from the interests of their subjects. There are no political decisions that do not stem from interests. Only those of the objective arguments used to protect subjective interests are included into the real policy that will be followed. People do not follow the objectively best plans, but those that they interpret as best. Therefore, the issue of Bulgaria's entry into the Eurozone needs to be placed in the context of the interests of all stakeholders.

Political interests have metamorphoses at three different tiers. These are the global macro tier, the local macro tier and the micro tier. What will ultimately happen is a result of the interaction between the metamorphoses of the definitions of the interests by all stakeholders at the three tiers.

### ***First "Global" Tier: Political Strategy***

The first (and highest) tier of political decision making is the *global* one. This level differs significantly from the second *local* and third *micro* levels. Here are the large themes of national interests, democratic stability or the international relations concerned with these issues. The global tier is the area of *strategic* governance where strategic decisions are made. These are decisions that produce the *long-term* effects beyond the scope of present-day partisan politics and political mandates. Global decisions are related to international relations.

In the latter sense, the effect of strategic decisions about money and banking made today comes after 10, 20 or more years. Global decisions also affect the entire nation or at least substantial segments of it. Therefore these decisions imply abstaining from direct instrumental partisan motivation and, instead, maintaining cooperative interest.

When a bank issues currency to its customers it must provide the same amount of Euro's to the BNB. From the macroeconomic point of view (and the point of view of international politics) such political behavior will ensure a higher credit rating for the country as well as more predictability and hence a rise in foreign investment. All these are conditions for strengthening the democratic order in the country in a long-term perspective. The same definitely strengthens the international image of the government (which is important for governments of small economies).

The democratic model thus supported is close to the liberal. In applying the currency board rules to the local banking system, several democratic macro-political conditions are simultaneously provided: (1) minimalized government intervention, (2) minimal pressure from external political as well as economic factors, (3) independence from a foreign coercive supervising institutions (4) maximum freedom of market actors, (5) equity and personalized risk, (6) no refinancing of banks through the state budget and stable banking sector.

The general problem at this global level is what political decisions should be made and whether they will be authentic Bulgarian or imposed more or less from outside. Above all, it is important to assess their strategic value for the next generations. This will be the political responsibility of Bulgaria's current government in view of decades ahead.

The main issues at this level would be resolved via dialogue between the Bulgarian government and the European financial institutions. The interests of both parties coincide only partially: interpretations of interests are not only incomplete but will certainly differ to the last moment.

The basic interests of the European financial institutions related to the entry of Bulgaria into the Eurozone are clearer, although they are yet to be clarified as a result of the dialogue with the

Bulgarian side. Europe wants Bulgaria to be a stable and reliable member of the community that uses a common currency. However, the problem is how this can be realized. Following the European economic crisis and the serious problems with Greece, the formal fulfillment of the Maastricht criteria does not fully represent the European interest any longer.

It is for this reason that the European institutions follow a policy characteristic of the West European continental political culture. Instead of introducing more and more liberal market decisions, they are inclined to extend the initial set of requirements with new ones. Some of the new are financial, such as the requirement for Bulgaria to join the banking union. Others are purely political, above all deep judiciary reforms and profound measures against corruption. Apparently, this European attitude is inspired by the problems that Bulgaria has in the banking sector, not in the monetary sector. As long as such serious problem exists, a satisfactory degree of stability in the banking sector can be achieved not with practically impossible political means such as those listed above but with familiar economic tools such as banking reserves on deposits.

Twenty-two years ago, Bulgaria solved its currency and inflation problems through purely market financial, not coercive measures, adopting the currency board arrangement. A similar though not the same solution is likely to be found for its banking sector for the future. As is known, the currency board is a tool that deals greatly with inflation but is inadequate in the field of prudential banking. However, there are financial instruments in this area that can be applied. They resemble the currency board arrangement but applied to banks. Such instruments are most often derived from the principles of the so-called "Chicago Plan". Currency board and prudential banking regulations can complement each other.

Bulgaria's entry into the Eurozone creates certain risks but also opportunities. The criticism that the currency board receives in the last year or two does not mean that all its principles must be disregarded after the adoption of the euro. There are international experts who recommend that the currency board regime should proceed in a new way after the adoption of the euro, and this should be enshrined in the new law on the Bulgarian National Bank. They recommend adding some of the principles of the Chicago plan to a modified version of the Currency Board in Bulgaria in order to ensure the stability of the banking sector. While currency board principles provide government discipline against central bank borrowing, the principles of the Chicago plan provide for bank discipline against bad loans and overcoming temporary liquidity problems.

What degree of freedom of the Bulgarian government will be negotiated is an important strategic issue. In this context, several issues of cardinal importance will be addressed. One of them is the degree of discretionary financial power of the Bulgarian government. Another is what conditions will henceforth guarantee the financial discipline of the government. An important question will be how much of the currency reserve accumulated during the currency board the Bulgarian government will allocate to the European Central Bank as a reserve for the new currency. It will be important to decide how to further inspect Bulgarian banks – whether with greater or lesser interference from the ECB.

National authorities of countries with troubled banking sectors should consider establishing currency board type rules on bank deposits rather than abandoning the currency board rules. The Currency board arrangement as well as the Chicago Plan based instruments are powerful means of political and economic independence, that is, discretion power so much needed by governments. Both secure discretion power and therefore an opportunity for the national government to act at the international political stage relatively independent of the influence of foreign macroeconomic and macro political institutions and pursue its geopolitical strategy. The cost would be to limit the possibility for the central bank to provide loans for government projects and to secure the liquidity of banks faced with a liquidity problem.

***Second “Local” Tier: Political Plan***

The second (lower) tier of political decision making about money and banking is the *local* one. *Tactical* political and economy decisions are made at this level. Most of Political Science is concerned with this context: political elections, political support, political parties, parliamentary struggles, government endurance and the like. Public management theory is also concerned with issues at this level such as tactical governmental decisions, public *policy*, *laws*, etc.

Ruling *parties* want to rule after their rule, therefore, breaking up with a currency board arrangement unleashes serious new opportunities that they otherwise do not have – this has not been well explored yet. The currency board and the Chicago plan instrument seem to be strongly tied to this level as well and not just with the global strategic one. Their application creates opportunity for the government that introduces them to enjoy broad public support and therefore political endurance.

The currency board and the Chicago plan guarantee depositors' money in banks. Liquidity problems would be resolved in an easier and more efficient way instead of using taxpayers' money via the state budget, a common solution imposed by jeopardized governmental regimes in the past. People are quite sensitive to the problems of justice and fairness, and both the currency board and Chicago plan provide advantages to the ruling party that dares to implement it. Moreover, the Chicago plan creates grounds for overcoming the *risks* usually faced by medium and small businesses as well as ordinary depositors. This segment is very sensitive to the issue of taking risks. They would like and support the government which unloads them from financial risks in the way they liked the governments that have introduced the currency board arrangement.

The currency board rule of one hundred percent backing can be applied only to transaction accounts (demand deposits) or can also include savings deposits or even short-term time deposits. This fits Bulgarian political culture as well. It is risk free for depositors.

It is said that the ECB has no arguments to reject Bulgaria's accession to the Eurozone because, as a result of the successful currency board arrangement, the country formally fulfills all the requirements for that. However, the problem is different – it is a matter of the second “local”, not the first “global” political tier. Bulgaria has problems with insufficient banking sector reforms, not just with the weak reforms in the judiciary. This fact is known not only by the Bulgarian political parties but also by the European political institutions. The formal implementation of European requirements does not mean that all that is needed has been fulfilled. A problem is then how Bulgaria will behave while in this waiting room and, more important, after leaving it.

A serious issue at the second “local” level is how the government will spend that part of the huge amount of hard currency that the central bank has accumulated during the currency board arrangement after Bulgaria leaves it and after it passes over the rest to the ECB against the euro when it replaces the lev. Throughout the Bulgarian Presidency of the European Council and the months until the end of 2018 this problem was among the main motives of the opposition against the government. The opposition insisted that the ECB and other EU political bodies should take sides in the dispute and curb the Bulgarian government.

***Third “Micro” Tier: Political Consent***

The Bulgarian banking system is sick due to the model of banking that was introduced and applied throughout the transition and still. It does not imply only long-term earning from a classical banking business. Some banks in the near past and possibly even today rely on high interest rate deposits for financing half-legitimate business. Sometimes money from Bulgarian banks cross boundaries reaching offshore destinations in secret.

The European Commission, the IMF and the World Bank reiterate in their reports that there is a problem with related transactions and loans to related persons and firms as well as the concentration of credits. Some suspect this is masked by the BNB Banking Division using inadequate net corrections in asset quality check, whereby corrections if real should exceed

sufficiently the banks' own equity capital and significantly over the stress tests. (The inadequateness of the central bank's operations in the CCB crisis has not been overcome accordingly.)

Bulgarian taxpayers already suffered from the notorious CCB crisis in 2014-2015. They would hardly agree to be deprived of a further great amount reaching a high as 10 billion to cover the deficits accumulated by a new wave of bad credits. This time it protests are probable in an attempt to seek publicly account from the government, the BNB and other institutions. However, the opposite is also possible: many taxpayers have a short memory and low financial culture.

Unlike the latter European taxpayers will dislike paying few billion euros for Bulgarians cheated by their own banks. They would not allow another bank crash in a country that is willing to enter the Eurozone. No European government would risk that as well. What is going on in the Bulgarian banking sector is therefore observed by the relevant European financial institutions from close.

No government that allows refinancing of commercial banks by closing eyes or secretly supporting the central bank in its refinancing activities would remain unnoticed. These actions are quickly detected. Plans of refinancing the liquidity of commercial banks through the European Central Bank seems more or less impossible. No country would be accepted to the Eurozone before enough is known about its banking sector and adequate measures are been taken. That is why governments that consciously and effectively set barriers to bad intentions gain support, and their governance enjoys stability.

A system based on the currency board and Chicago plan principles would set a protective wall between banks' monetary and payment services and their investment/credit services. Banks' investments and loans would no longer be financed by deposits used for payments. The banking sector would be safer and sounder as a result.

### **Conclusion**

In this third and final aspect of the political process, it should be pointed out that the Chicago plan creates the best opportunity for the government to cope with bank corruption by a single move. This is very efficient. However, in this way, the Bulgarian government will also overtake the actions in the same direction of the ECB and will show strength in foreign and domestic politics. For all the reasons mentioned in this paper, the Chicago plan can be considered not only as an economic but also a political instrument that provides all positive consequences for the Bulgarian government.



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# THE PROBLEMS OF THE GREEK HEALTH SYSTEM DUE TO THE ECONOMIC CRISIS

Emanuil Bembekidis<sup>1</sup>

## Abstract

*The magnitude and intensity of the impact of the crisis requires alternative policies, which must have a design based on criteria of effectiveness of interventions and equal access so that the patient as a final recipient enjoys high-quality services, even in times of economic crisis. Appropriate transparency and internal control can help optimize the exploitation of scarce resources, making it an antidote to the economic crisis. However, the fist and the will to change are always the basis for the success of any ventures.*

## Introduction

The global financial crisis has found most of the EU Member States unprepared and frail to meet the demands of the new economic reality, which has affected all areas of public policy. Regarding social policy and health policy in particular, most health systems have faced major reductions in their budgets as a result of the economic crisis. In particular, some governments have reduced the amount of public health resources, either directly or indirectly, by limiting public participation in the provision of specific health services. At the same time, in an effort to reduce the cost of public funding, they have reduced payments to health service providers, or even merged with structures, reducing hospital beds, and reducing jobs for healthcare professionals. An indicative of the impact of the economic crisis on international health policy is that since 2007, 18 of the 28 EU Member States have experienced a reduction in health expenditure (Eurofound, 2013).

In this context, Greece is unable to cope with its fiscal deficit and the current account deficit - also known as the twin deficit - in order to make its debt sustainable and in order to adopt a national plan, which included financing it by an external support mechanism, subject to a series of fiscal adjustment measures (European Commission, 2010). These measures were primarily aimed at reducing public spending through a series of structural reforms in the wider public sector, notably through reducing wage costs, increasing retirement and tax obligations for citizens, and reducing social benefits (Matsaganis, 2011).

## The impact of the crisis on the health system

The high private health costs, the high number of physicians and the disproportionate number of general practitioners and nurses which are unevenly distributed in the country, are the some of the main characteristics of the Greek health system over time (Groewnewegen & Jurgutis, 2013). At the same time, high public health expenditures - at least in relation to the strengths of the economy - and inherent structural, organizational and operational problems are observed within the system well before the crisis (Kyriopoulos, 2000). Thus, with the onset of the crisis, these failures gradually worsened the quality of health services provided, while the big rise in unemployment rates and the dramatic decline in family incomes increased the demand for public health services by testing the limits of the system. However, despite the fact that many of the

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measures adopted were necessary to rationalize the health system and address the distortions of the past, speed of implementation, poor planning and the absence of a universal reform request substantially undermined their success and did not allow the system to meet its objectives and citizens' needs.

The Fiscal Adaptation Program, set as primary public spending target 6% of GDP (maximum), thus has reduced the total health financing from €23 billion in 2009 to €14.4 billion in 2015 and the public health expenditure respectively, from €16 billion to €8.7 billion. At the same time, a remarkable decrease was recorded in public pharmaceutical expenditure, which from €5.1 billion in 2009 reached €1.9 billion in 2016 as a result of a series of rationalization measures such as mandatory e-prescription, drug price reduction, callback mechanisms and mandatory rebates, changing the supply system in hospitals and increasing patient participation in costs. In particular, institutionalized patient participation increased to 26.4% in 2014, from 14.8% in 2012, and private participation reached at 29.3% in 2014, from 20% in 2009 (Siskou et al., 2014).

At the same time, social health expenditures show an average annual reduction in the first six years of the crisis of 6.6%, thus shifting the burden on hospitals and pharmaceutical care to the already burdened households (OECD, 2016). However, while public healthcare demand for public health services has increased, public hospital funding has fallen from € 6.9 billion in 2009 to € 4 billion in 2015, and according to the latest OECD data, total public health expenditure per capita in Greece is 52.1% lower than the rest of the European Union (OECD, 2016).

One of the effects of the economic crisis on the health system is that vulnerable social groups (unemployed, elderly, immigrants, etc.), unable to cover their health costs privately, address the public structures and, above all, the hospitals, thus reducing visits to hospital afternoons and private doctors (Economou et al., 2014; Simou & Koutsogeorgou, 2014; Kondilis et al., 2013). More specifically, within five years of the crisis, the proportion of people with low incomes who failed to meet a medical need doubled (from 7% in 2008 to 13.9% in 2013) (Karanikolos & Kentikelenis, 2016).

At the same time, in the context of structural reforms and better management of resources, public hospital structures are merging, which, coupled with reduced public funding for hospitals, appears to have hampered access to health services by restricting their delivery points and on the other hand, their quality, given the great demand and deficiencies that prevail (Minogiannis, 2012; Xenos et al., 2017). Similarly, incomplete reform in primary health care has limited the choices available to citizens because it has led both to a reduction in the number of doctors in public structures and to a sharp reduction in the coverage of care provided by contracted private doctors. With these developments, it is reasonable that the scientific discussion focused on the impact of the economic crisis on health and health services in an effort to look at the extent to which the causal relationship between them is confirmed in the Greek case, of unmet health needs (Liaropoulos, 2012; Kentikelenis et al., 2012).

More specifically, it has been reported that older people and patients with chronic illnesses encounter greater difficulties in accessing treatments and health services, especially when treatment is administered in hospitals (Kentikelenis et al., 2014). In a relevant survey carried out in 2015, about 30% of the population said that while they had a medical need, they did not manage to use a health service compared to the previous year, mainly due to financial difficulties (Zavras et al., 2016).

The most important barriers to access are the difficulty of planning a medical visit due to waiting time or cost, as well as the distance from the hospital where the treatment takes place. Disparities in access to health care have also been reported in patients with cancer. In a related study conducted in 2014, 31% of cancer patients faced problems in access to their treatment in the last year, while 51% failed to schedule a medical visit in time and 44% could not cover the cost of visiting a private individual physician (Souliotis et al., 2015).

In the case of the Greek crisis, although the debate on the extent to which the impact of the austerity policies that have been implemented on the health level of the population is still open, the empirical reality shows areas where budget cuts have direct effect. In particular, a large increase in large-scale epidemics (such as malaria, the West Nile Virus, H1N1) is reported in 2010, with HIV infection among intravenous drug users rising 33 times more from 2010-2013, mainly due to of the reductions in the budgets of the work programs for vulnerable social groups (Bonovas & Nikolopoulos, 2012; Paraskevis et al., 2013).

In addition, economic dysfunction has been found to be negatively related to mental health (Efthimiou et al., 2013; Giotakos et al., 2011; Zavras et al., 2012). Findings suggest that people experiencing financial difficulties are at three times more at risk of experiencing a serious psychological disorder, regardless of their income (Efthimiou et al., 2013). Thus, in recent years, the mental health of the Greeks seems to have deteriorated as there is an increase in the use of mental health services of 120% in just three years (Karanikolos et al., 2013; Anagnostopoulos & Soumaki, 2013; Oikonomou et al., 2012).

Furthermore, men aged 25-44, with a higher level of education, married and working actively, are more likely to develop a generalized anxiety disorder. Also noteworthy is the recent debate over the relationship between the economic crisis and the increase in deaths and the number of suicides. The findings of a study on economic change in Europe over the period 1979-2007 argue that for every single percentage point of unemployment increase there is an increase of 0.79% in suicides and homicides (Stuckler et al., 2009; Falagas et al., 2009).

Moreover, a further study found that a 1 percentage point increase in male unemployment was associated with an increase in suicide by 0.72% (Reeves & Stuckler, 2015). In addition, in a study of the frequency of suicide attempts and its relation to unemployment, it was recorded that the percentage of women was at least twice as large as men, while 15.34% reiterated the attempt at the same time and 75 % within 2 years (Fountoulakis et al., 2015).

However, the prevalence of suicidal ideation and suicide attempt has been reduced in recent years to levels close to the pre-crisis levels despite the increase in depression rates (Economou et al., 2016). At the same time, although a reduction in overall mortality is observed in literature, deaths from adverse events in medical care, digestive disorders and complications during pregnancy and childbirth are statistically significant (Laliotis et al., 2016).

On the other hand, the period of the crisis also shows some positive effects, the reduction of cardiovascular disease by 4.7% on average per year and death from road accidents (Filippidis et al., 2017; McKee & Stuckler, 2016). An important role in this direction has been the gradual reduction of smoking, the increase in exercise and the limitation that this has led to sedentary life as well as the small change in eating habits with the increase in consumption of fruits and vegetables (Filippidis et al., 2017; Tarantilis et al., 2015; Dom et al., 2016).

As a result of the economic crisis, the level of services provided to the patient was altered and decreased. The state, for its part, is committed to maintaining the health status of a free social commodity and its assurance of basic medical care that responds to modern medical data. The need for a fair distribution of limited financial resources becomes all the more pressing in times of economic recession.

New health policies were born in the spirit of the crisis, which aimed, among other things, on limiting pharmaceutical spending and reducing public health insurance. To this end, the state has moved on with the mandatory application of e-prescription to control super-immunity, while setting a limit on permissible drug bundles per month. By creating a protocol that recommends specific pharmaceutical formulations, depending on the patient's history and laboratory test prices, and by adopting a law obliging physicians not to prescribe original but generic medicines, the goal is to greater savings. If the prospect of a generic Greek pharmaceutical industry is added to it, the benefit is double, as this is the attempt to keep capital in the domestic industry for re-use in the Greek market over time.

Also, in the effort to save public spending, insured persons are invited to contribute with higher participation rates while at the same time decreasing drug prices as well as the profit rate of pharmacists. At the same time, non-compensation policies on social security for certain drugs, the so-called "off-list", were needed, while some others now require special confirmation from the medical practitioner in order to compensate or even prescribe only a doctor of specific specialty.

In a further effort to reduce spending, the consolidation in 2011 of most of the insurance funds under a common large body (National Health Service Organization) was attempted to respond in order to have a single administration and central planning-organization. Today, and always in the spirit of saving resources, the insurer of EOPYYY pay for each recipe made 1 € in favor of the insurer in order to ensure the viability of the Agency. Mergers also took place at hospital and service levels or, in some cases, even closure of these units, always aiming to reduce the costs of shrinking administration and staff, reducing fixed accommodation and operating costs (Simou & Koutsogeorgou, 2014).

A significant shortage of Greek health system is the absence of a formal patient information system on the performance of health units. Consequently, neither risk nor comparison can be made. On the contrary, information is made by the mouth to mouth and is not documented. As a result, the user does not facilitate his / her choices and the suppliers have no incentive to improve their performance. Obligatory should be the use of diagnostic and therapeutic protocols. Failure to observe them will also entail similar consequences (Geitona & Kyriopoulos, 2000).

Increasing age limits, the advancement of medical science and technology and the emergence of new diseases by increasing health spending have raised the question of the sustainability of health systems. Greece is one of the countries that spend a lot on health, with the public spending department being considered one of the lowest in the OECD countries. The main sources of financing according to the Geitona & Kyriopoulos (2000), is the social security (mainly contributions from workers and employers) and general taxation and private insurance participates in micro rate, although increasingly growing. Observed the paradox that as it enlarges the concept of health, beneficiaries and scope of the right in the negative, but the positive side, the reasonable of fiscal health related and more the pervasiveness of private sector increased to all degrees of supply (Geitona & Kyriopoulos, 2000).

The multifaceted nature of health in terms of its structure and its impact on other areas necessitates not only the accounting but also the economic valuation of its costs. Examples of the past, particularly in times of financial crisis taught us that cuts in health weaken the system and add the health crisis can have more long-term impact of the financial crisis. Responding to this unfavorable development is the policy of introducing health insurance for the poor, extensive preventive policy, rationalization of the system, and concurrent policies to support the weak. The combination of private and public health services, especially in an uncompetitive environment, raises a two-fold inequality: the downgrading of public sector services and the diminishing of the overall system's efficiency, while increasing its costs.

Disparities in accessibility and the use of health services arise where market forces prevail and where demand and supply balancing are centered. Recognizing the principle of equality in patient access to health goods and services has led to the development of social security and / or the financing of health spending through the state budget. Patient and dysfunctional primary care has led to increased spending on treatment, expansion of the private sector, resulting in higher prices, rising household spending and an increasing gap in access to health services and ultimately a lack of confidence in the public system. It is therefore necessary to reorganize pre-hospital care, which will prevent more expensive therapies, operate competitively towards the private sector, reduce price inflation, exploit medical potential, strengthen household incomes, will smoothly link primary to hospital care and strengthen prevention by providing quality, security and economy (Patelarou, 2011).

The high debt of the state, in relation to insurance funds and providers of health goods and services, reinforces the under-funding of the system, the interrelationships and the possibility of securing it. The debts of insurance funds to public hospitals and the debts of the latter to pharmaceutical companies, as well as parallel exports and the lack of public sector computerization, make it more difficult to measure expenditure. The state must repay its debts to the funds and its suppliers in a timely manner, drawing up true and credible budgets (Patelarou, 2011).

One step towards change is the effort to integrate health funds for reasons of administrative flexibility and economy, strengthening their role in shaping the health market. Their active intervention in the healthcare market would promote healthy competition by choosing the most advantageous service providers. Producers' compensation should also be based on the value of the results achieved. In shaping the competitive market in the health sector, public bodies could also be involved through the creation of market volumes. Thus, with the development of competition and the increase of quality, while price reduction and given the validity of Law 4213/2013, the outflow of resources abroad for the purchase of services and of health goods with potential input from abroad (Patelarou, 2011).

It should be noted that health is an incomplete market, because the physician, because of the authority he possesses, decides on the therapeutic actions, but at the same time provides them. Also, the assumption of health costs by third parties (state or insurance) may lead to an increase in demand for health goods and services. The importance of the supply of goods and the payment of services by a third party often causes a lack of competitiveness but also overexploitation, increasing prices in health services as a result of the reduced price of the patient consumer (Karabelas & Cafcas, 2011).

The reforms that have been made in Greece have focused on the reorganization of primary health care through the establishment of the National Primary Health Care Network (PEDY). At the same time, measures have been taken to compensate for the access problems of uninsured citizens, such as the introduction of the health voucher and the universal access to the PEDY, regardless of the individual's insurance situation.

According to the recent health reforms, the new EOPYY will be called PEDY, ie the Primary Health National Network. Unlike the hospitals that will be the secondary network, EOPYY now functions as a healthcare provider, not as a provider. Essentially it will be an insurance instrument. The staff were made available and will belong to the Greek Government. Those physicians who choose to work full-time should close their surgeries. Apart from the above additional key points of the PEDY are the following:

1. Focus the EOPYY to become more efficient and less bureaucratic in its role as a healthcare buyer in conjunction with the abolition of its role as a buyer.
2. Development of a health care system in Greece, which comes from the services of EOPYY and NHS. The objective is the rational management of structures, human resources, doctors, nurses and other health professionals.
3. The EOPYY service providers are integrated into the structure and operation of DY.Pe. Excludes pharmacies of EOPYY which remain in the organization.
4. In relation to the exercise of the profession of family doctor, the only persons who can practice it are doctors of general medicine, pathology and pediatrics.
5. All staff who are engaged in another occupation are obliged to interrupt activities.
6. The opening hours are from 7am to 7pm. Health structures are shifting from 8am to 4pm and from 11am to 7pm. The timing of medical staff increases, resulting in approximately 30 appointments daily, which in theory will reduce waiting times and long queues in the future.
7. The citizens do not make an appointment, they are addressed to the health facilities of the PEDY during the hours and days of waiting, waiting for the waiting. In each unit, the attending physician will check the incidents and promptly refer the emergency to a qualified

physician. Upon completion of the telephone service, physicians will once again accept the incidents after an appointment other than the emergency, which will take precedence.

8. Prescription to unload the system will refer to family doctors, which will help in the immediate service of the patients. In terms of prescription, the procedures are transparent, speedy and cost-effective.

The PEDY and the DYPE, which are essentially the new health systems in Greece, constitute a clear proposal for the restructuring of health in Greece, but due to a lack of good planning and hasty movements, it lags behind in many areas, negatively affecting health economics, being unfair in relation to its content and function (Bouloutza, 2014).

The PEDY arrangements in relation to hospitals have burdened doctors at the service level while creating an unclear service framework, which also has an increased cost for citizens, since they could not initially find medical care at the polytheists, were all crowded in queues of hospitals, bearing in mind that they are also likely to pay a small fee, but it is difficult for them to deal with in the crisis, but it is difficult for them to face the crisis.

The aforementioned price was not paid in the first place, but there is a general lack of clarity about the future. The main problem is that at present the resources for public hospitals have been reduced, that there is essentially a transition to the other end, from over-employment to underemployment, which poses the risk of primary structures collapsing. The basic financial cost to the insured person is the cost of visiting a private doctor, as with the dismissal of external doctors and the weakening of the health care system, people must, especially those who want constant monitoring, visit private doctors to watch them, which creates an extra cost. At the same time, physicians have an increased cost because they can no longer work in the public sector and have a doctor's office, which greatly reduces their income.

This situation increases on the one hand the cost for the patient who only needs 3 or 4 different doctors to prescribe it, while on the other hand you create a gap in public primary care units, which is likely to be covered by young people and less experienced doctors who will not be so productive until they have the necessary experience, and will also cost the education system.

Another important cost for the patient and more for the National Health System is the prescription ceiling. Specifically, the prescription ceiling imposed on doctors puts a monthly limit on how many prescriptions they will issue and if they overdo it automatically locks for their e-prescription system. The overhead of a general discussion of improving or abolishing it greatly increases the cost of health for the patient and for all involved.

## Conclusions

A severe economic crisis such as this one, has a serious impact on the health of citizens by increasing rates of suicide, depression, transmitted diseases such as AIDS while creating uninsured due to the continuous increase in unemployment, burdening the operation of public units' health services due to increased demand, and thus threatens the viability of private insurance companies. Society and the welfare state are experiencing the limits of their resistance on a daily basis by trying to manage rising demand with reduced budgets for health.

On the other hand, this is an important opportunity for national understanding of policies and reforms that have been inactive for decades. The economic crisis is considered to be a catalyst that will promote reforming and improving healthcare changes, which have been postponed for many years before the crisis. In this context, the adverse environment should be transformed into supportive care by means of appropriate modernization steps.

The magnitude and intensity of the impact of the crisis requires alternative policies, which must have a design based on criteria of effectiveness of interventions and equal access so that the patient as a final recipient enjoys high-quality services, even in times of economic crisis. Appropriate transparency and internal control can help optimize the exploitation of scarce

resources, making it an antidote to the economic crisis. However, the fist and the will to change are always the basis for the success of any ventures.

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# POST-COMMUNIST TRANSITION THROUGH DEEP SOCIETAL REFORMS, OR TECHNOCRATIC PREPARATION FOR EU MEMBERSHIP: HOW HAS THE LATTER SUBSTITUTED THE FORMER IN CEE?

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## Abstract

*After the collapse of the Communist regime, the CEECs had to undergo deep societal reforms, while simultaneously pursuing a new foreign policy agenda. The desire to join the EU became the heart of this political effort, as the membership criteria, at least on the surface, seemed to correspond to the aims of the transition. Subsequently, the CEE political elites substituted due structural reforms with membership preparatory work, and the EU accession - from an instrument for achieving sustainable long-term goals, it became an ultimate goal in itself. This brought about formal, partial and superficial reforms, rule of law deterioration and façade democracy.*

## I. Introduction

With the collapse of the communist regime and the new geopolitical situation that emerged after the end of the Cold war, the post-communist CEECs faced an enormous challenge for their future development which was twofold – on the one hand, they had to undergo deep societal reforms internally which included a transition to liberal democracy, market economy and adoption of the rule of law; on the other hand, they had to pursue a new foreign policy agenda, as they needed new geopolitical, economic and security partners (Inotai 2000; O’Brenan 2004). In this context, turning to the countries of Western Europe, traditionally perceived in these societies as the embodiment of modernity and prosperity, and more pragmatically as a world of social and economic progress and stability, seemed to be the only possible solution to this dual challenge – it secured the needed foreign partnerships, but it also provided a model for progress and development (Ágh & Ferencz 2007; Katsikas & Siani–Davies 2018). Thus, joining the EU, which meanwhile had integrated the majority of the WECs under a common economic, institutional and legal umbrella, became a main goal for all CEECs. The image of the EU was, to a large extent, mythologized by both the political circles and the public at large presupposing its ability to guarantee democracy, the rule of law and economic prosperity simply by providing access to membership. Furthermore, the entry membership conditions formulated as the Copenhagen criteria, seemed to correspond at least on the surface to the aims of the post-communist transition as they were built around the same core values - democracy, justice, prosperity. It was in fact their vague, ambiguous and unclear formulation that resulted in an overlap of the two processes - transition and accession, and thus a substitute of the former by the latter. This way accession to the EU became the primary goal and was perceived as a panacea providing a solution to all existing problems. It was thus accompanied by high expectations for economic and social progress (Ágh & Ferencz 2007; Dimitrov 2016; Katsikas & Siani–Davies 2018).

Twelve years after Bulgaria and Romania (the last two countries from the Fifth Enlargement) joined the EU; however, it is obvious that the current state of the different Eastern European

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countries does not match the initial expectations. Most of them experience problems such as corruption, organised crime, and economic instability, rule of law deterioration, ethnical conflicts, and nationalistic movements (Racovita & Tanasoiu 2012). In addition to that, Bulgaria and Romania are still not integrated to all EU structures – they are neither part of the Schengen Area, nor the Eurozone, and remain subjects to post-accession conditionality. All of above certifies that the countries are still not prepared to meet the full responsibilities of the membership, and at the same time they have not completed the much needed societal reform yet.

**Problem:**

***The aim of this paper is to identify the reasons for the incomplete post–communist transition and the superficial, partial and reversible “Europeanisation” in CEE through the relationship between the two processes.***

A case-study analysis will explore into the specific approach how the EU membership preparation was conducted in Bulgaria, as part of the common tendency in the region. In particular, the paper will analyse the initial vision of Bulgaria’s political elites towards EU membership, and the essence of the subsequent work that was done to get the country ready. The analysis, making use of the empirical facts from a research process focused on the Bulgarian accession to the EU, will examine the following two-fold hypothesis:

***The ultimate goal of deep societal reforms in the post-communist transition was reduced to EU accession. In its turn, in the course of EU membership preparations, the technocratic rule transfer and compliance with EC's recommendations held the upper hand over structural reforms.***

An important clarification is due: This paper does not aim to provide an evaluation of or exploration of the faults of the process. The aim of this analysis is to find an explanation of the logic that led to the specific results. Due to the unprecedented character of the process and the lack of preliminary knowledge, about the way it should be conducted, the desire to expedite the events not surprisingly became a main dominator. Furthermore, these factors were complemented by the deep socio-economic crisis, which marked the starting point of the accession process, The understandable impatience to complete the transition, as early as possible, determined a course of political behaviour which aimed to minimise the scope and the degree of complexity of the task. The paper will focus on providing an in-depth understanding of this political behaviour and the process itself, rather than on the abstract search of an ideal alternative.

The paper will prove that in the course of transition, two substitutes were made – firstly, the overall societal transformation was substituted by preparation for EU membership, because at that point of time, it seemed that the goals of the post-communist transition and the Europeanization substantially coincide. On the second level, the preparation itself was substituted by technocratic work of writing strategies, preparing policy documents and harmonising laws rather than conducting actual reforms, whereas the focus was on ‘the political will’, since it was assumed that implementation would swiftly follow suit the moment a government would have had expressed its political will in the form of a strategy or program. This way, the EU membership from an instrument for achieving reform goals became the final goal in itself; hence, the “compliance” to the EU requirements - from an instrument for achieving membership, became “a main goal”; and the “rule transfer” and paperwork - from means for achieving “compliance”, also became a goal – self-evident and self-sufficient. However, this sequence of reductions of the tasks of the due societal transformation was enhanced decisively by the absence of substantial and substantive long-term goals.

**Justification of the country case selection:**

The selection of Bulgaria as a case study for the analysis has a particular value. Bulgaria, along with Romania, was one of the last countries from the Fifth Enlargement. Throughout the entire process, it seemed that Bulgaria and Romania were just “lagging behind” (due to the more unfavourable local conditions, while most of the candidate states were advancing, more or less, well with their preparation. However, both countries were moving in the right direction along with the others and would have been able to “make up for the lagging” (Yanakiev 2010; Schimmelfennig & Sedelmeier 2005). This logic was based on the widespread institutionalist approach to the process, which steps on the belief that the EU has an unconditional potential to produce “Europeanisation” due to its “transformative power” backed by an implicit “power asymmetry”, existing between the member states and the candidate states (Grabbe 2006, Sedelmeier 2011; Dimitrov et al. 2013). However, this is not the entire story.

From today’s perspective, twelve years after the accession of Bulgaria and Romania, there is some serious proof demonstrating that this was not just a “lagging behind”, but an early evidence of the unfitness of the policy approach towards “Europeanisation” in these countries (Maniokas 2004). It was an early symptom of the upcoming crisis that has been manifested through the different social, economic and political problems the countries have been experiencing today. In this sense, the case study of Bulgaria, as the most symptomatic example, is expected to provide a wide range of data and proof for analysing the overall logic of the approach and its fitness to the context of the post-communist CEECs (Dimitrov et al. 2013). Even if we assume that the 10-year period (1997-2007) was simply “not enough”, the question is why it was not enough and why the continuation of the accession through conditionality (which later on was converted into a post-accession conditionality for Bulgaria and Romania in the form of a Cooperation and Verification Mechanism) did not work either? The short answer to this crucial question is that the accession process was meant to substitute the Europeanization of the acceding countries, while the latter historical process, according to the Copenhagen criteria, should have been accomplished already in order for the EU-nization to be successful.

This is not a matter of historical interest only. In terms of societal and cultural specificities, from all EU members from CEE, Bulgaria is considered closest to the countries of the Western Balkans, which are currently undergoing their membership preparations. Thus, the case of Bulgaria will be the most applicable one to provide guidance and recommendations for the approach towards this upcoming enlargement (Veleva 2018).

**Clarification of relevant terms:**

The terms “Europeanisation”, “conditionality” and “compliance” will be used widely in this paper and thus need to be clarified as the existing academic literature does not offer a single, widely accepted definition for them.

For the purpose of the current analysis, Radaelli’s (2004) definition of Europeanisation will be used, according to which “Europeanisation consists of a processes of: a) construction, b) diffusion and c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things' and shared beliefs and norms, which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and subnational) discourse, political structures and public policies” (Radaelli 2004). This broad and substantive definition is widely used in the analysis of these processes in both Western European countries and the “newcomers” from the CEE. The problem is that the EU fundamentally relies on the embeddedness of its core values in the societies it encompasses and on the fluent operation of the set of institutions, which guarantee the respect of these values. However, in the case of the Fifth Enlargement of the EU, Europeanization implies the need to create anew the entire set of these institutions – a task for which there were no *aquis* at all. This is to say, in this particular case, the “the rule transfer” could not mean authentic Europeanization.

While the term “Europeanisation” refers to the macro–framework of the EU enlargement policy, the central instrument for conducting “Europeanisation” in the “EU toolbox of enlargement” is “conditionality”.

“Conditionality” will be understood as “a process of interaction between multi–level actors, perceptions, interests, different rewards and sanctions, temporal factors, institutional and policy compliance” (c). The value in this definition is that it presents conditionality not as a process of transferring rules from a stronger to a weaker party but as a complex interaction on multiple levels reflecting the interests and subjectivity of a multitude of actors. It sets grounds for understanding the logic behind the emergence of the central role of this mechanism exactly in the context of the Eastern enlargement. In the course of the Fifth enlargement conditionality surprisingly arose to the status of a main leverage because the burden of the deep Europeanization transformed the governments of the acceding countries into ‘reluctant regimes’ (Grabbe 2006). Hence, a coercive device was in need because the EU did not have any of this kind. In this particular case conditionality began to mean compliance with EC’s recommendations since this institution was the “locomotive of enlargement” (Hughes et al 2005).

A new definition for the term “compliance” is offered, which reflects the overall meaning applied to this term by the different explorers of the process of “Europeanisation”. For the purpose of this paper, “compliance” is understood as “incorporation of the EC’s recommendations in the local policies”. This is the lowest and narrowest level of interaction between the candidate states and the EU, which has to do with the EC’s requirements in regard to the law approximation, mainly, and the creation of institutional capacity for its application.

As the empirical analysis will show, a dual transformation has taken place in the course of the membership preparation of the CEECs – firstly, the enlargement policy conducted under the charge of the European Commission has been reduced by the logic of conditionality to “compliance” with the recommendations, while conditionality itself has become the only instrument for Europeanisation in the candidate countries. At least the formal logic of this substitution and reduction was that the EC, in its orchestration of the accession process, should have been guided by the set of Copenhagen criteria, which in their turn should have covered both the free market and democracy transitions that were assumed to be at least the post-communist transition core. The fact that the latter process was a bad service remained unnoticed during the accession period. The Europeanization through the EU accession process received a heavily one-sided, implicit neoliberal interpretation (Grabbe 2006) prioritizing the integration in the Free Market of the Union.

The problem is, however, whether this narrow, sector-specific goal was sufficient as a reform of the post-communist world of the CEECs. The fundamental crisis of the rule of law systems in countries like Hungary, Poland, Romania and Bulgaria gives justification to a negative answer to this pertinent question.

This is exactly where the empirical study should begin – how come the one-sidedness of the Europeanization effort passed unnoticed at the end of the 1990s when it was up to the political class to decide on the goals and orientation of the national policies of reforms.

### **Method:**

The paper will provide a qualitative analysis of empirical evidence collected through 46 in-depth, semi-structured interviews, conducted with highest level politicians (prime ministers, deputy prime-ministers, ministers], diplomats and experts who have participated in Bulgaria’s preparation process for EU membership). The analysis will cover the participants’ answers to the following question:

*“At the start of the negotiations process, was there a clear vision of the aims of Bulgaria’s accession to the EU, outside the broad idea of keeping up with the other post-communist states?”*

And the following supplementary question:

***“Do you remember an official forum during which this vision has been discussed?”***

## **II. Research Approach**

The process of preparation for EU membership is an active one, constructed through the interaction of the multi-level actors involved – as a result, it is uncertain, constantly changing and evolving with time, along with the participants in it (Dimitrov 2013; Hughes 2005). Therefore for the purpose of this paper, the social constructivist approach to Europeanisation will be considered the most adequate one for performing the analysis. Hence, the central role will be placed on the actors in the process.

Behind the process of interaction between Bulgaria and the EU, there is a complex structure of actors who find themselves in a position of dependence on each other. From the side of Bulgaria, on the first place, there are the different governments which are in charge of the country during the different periods of its preparation for membership. They must, on the one hand, defend the national interest, while on the other hand, the governmental one – winning over party opponents; retention of power; securing electorate for the next elections; access to financial means; solution to tactical and strategic tasks; securing external partners. These governments themselves are composed of different political parties, each of them representing its own interest, on the one hand, and the interest of its voters, on the other. The actual parties are formed by people, and each person participates in the process with their own interests, ideologies, views. In the meantime, the opposition with its interest to win the next election; the alternative political parties, each of them composed of the same complex structure of actors having their interests and preferences, are all active participants in the field of interaction. Moreover, each party’s own position is defined to a considerable degree by the political success or failure of the opponent, and is therefore constantly changing, which affects the overall picture.

During the whole time, there is a team of experts engaged with the preparation of the country – some of them, political figures, others, administrative personnel. The non-governmental sector with its interests, the trade unions and the Bulgarian society as a whole, are all active participants in the field of the European integration. A distinction should be made between the different layers of society, and the variations in the interests on the basis of different sectoral or regional belonging.

On the EU side, another complex structure of actors and interests can be identified – in the first place, the individual member states, each of them defending their own interest which might be a mutual one, a group one or an individual one. Inside those countries there is a variety of actors to be found – the national governments, the regional representative bodies, oppositional political forces, all other political parties with the personal interests of their members, civil organisations, and the societies in general and its different layers.

Within the EU there is also a complex institutional structure to be found (Hix 1999). Every EU institution should be seen as an individual actor in the process but they find each other in a constant interaction and a position of dependence on one another – the Commission orchestrates the process and defines the enlargement policies but it is dependent on the Council of the EU – the authority of the Commission comes from the Council and the Commission’s recommendations are always voted in the Council. The Council, on the other hand, is dependent on the Commission on the one hand, due to its possession of expertise and on the other hand, due to its image as the only “objective” actor in the process – the Commission’s reports are supposed to be perceived as objectively depicting the preparedness of each country – and the decisions of the Council can be presented as objective and fair only by referring to the Commission’s expertise. But the EC is not a sole actor as well – it is also composed of a variety of divergent interests – its own interests to endorse its role as a leading institution in the EU structure clash with the interests of the member states – on the one hand, the common interests as the Commission’s mandate is voted by the member states with the aim of preserving the common interest, but on the other hand, the national interests as the representatives of the Commission are also representatives of the different member

states. On the next level, the ideological and party interests, and the individual interests and views of each participant meet in the field of interaction as well.

The process becomes even more complicated considering that in addition to the complex structure of actors, there is a complex structure of fields of interaction between them – formal and informal. Formally the EU member states communicate with Bulgaria as a potential candidate state mainly through the publication of opinions voted by the Council. The countries act also through diplomatic means – either through the embassies or directly through the mission in Brussels.

The European Commission – the main institution conducting the communication between the candidates and the member states – has various fields of influence. On the one hand, it exerts its influence through the preparation of periodic documents, giving its assessment to the candidate countries in terms of economy, representative democracy, the rule of law, the progress achieved towards the Copenhagen criteria and the state of preparedness of the individual CEECs, giving recommendations. Another field of influence is the practice to send experts who can support the Bulgarian institutions in their reform efforts with advice and mentoring. Throughout the process the Commission's role and power grow tremendously to a position where this institution has the final say in a growing number of decisions – financing; structural and cohesion processes; reform policies etc.

Other fields of influence are the rest of the candidate countries, especially those who find themselves ahead in the process from which Bulgaria obtains informal information, tips and know-how.

From the Bulgarian side, the governments can formally defend the Bulgarian interest and present potential concerns mainly through the mediating institution – the European Commission. But the conduct of national reform policies is another field of influence – the policies can obediently follow the Commission's recommendations, but just formally with no substance; they can be conducted in such a way that would lead to real Europeanisation, or they can show open resistance.

In the case of Bulgaria specific decisions of certain governments have turned out to be decisive for the course of the process, when the geopolitical context has allowed that.

Of course, the non-formal ways of influence through the personal contacts between the participants in the process on the Bulgarian side and the side of the Commission or member states cannot be missed out. Due to the complex character of the process, there has been an opportunity for a personal influence in several occasions.

### **III. Analysis**

Throughout the analysis of the contents of the registered answers, 425 different aspects of the individual interpretations were identified. This in itself shows the huge importance of the personal perceptions, values, ideas, goals that shape the understanding of the process itself and its vision and end goal. The wide spectrum of interpretations testifies for the substantive importance on the question under consideration, yet, at the same time, it is a testimony not only of the complexity of the subject-matter but of the extraordinary high level of nebulosity of its political definition. Obviously behind the registered variance of opinions stands the lack of coherent, forged through public discussion, understanding of the stakes, goals and the means for their achievement.

These 425 aspects were grouped and organised in a hierarchical order showing the position of dependence between each of them. The order reflected the active character of the process described above. Following the central role of the actors and the significance of the interaction between them as determining the course of the process, all aspects were grouped around them. On top of the hierarchy were placed the two main actors - the EU as an integral actor on one side, the Bulgarian country on the other and the interaction process in the middle. Underneath, the hierarchy followed the number of different actors within each of the two integral ones, and subsequently, the different levels of interactions.



Then the groups considered most relevant for testing the initial hypothesis were selected. With regard to the initial problem and hypothesis in this paper, all aspects that provide knowledge about the logic of the process and the initial vision of the actors and its involvement throughout the interaction process were considered relevant. In concrete terms these were the answers that give insight about the starting position, the end goal, the vision, the specific tasks, the approach towards the working process, and the motivation for membership.

The aspects which did not fall within these categories were left aside. These included the broader geopolitical picture; parallels with other CEECs; competition between the CEECs; relations with the different Western countries; analyses of the negotiation chapters and others.

In order to test the initial hypothesis, these groups were classified in a way that allowed studying the degree of clarity, concreteness and instrumentality in the understanding of the accession process process by the different actors. To achieve this, the answers falling under the different categories were classified as specific vs. abstract; conscious vs. implicit; clear vs. unclear; value-based vs. instrument-based; debated vs. implicit; EU-focused vs. country-focused; technocratic vs. reform-oriented and planned vs. coincidental.

Then the number of times each answer which falls under one of the chosen categories appears in the text was counted, and the sum of the usages of all aspects that fall under the same dimension of the answer was calculated.

The results were placed on axes each side of which presented one of the extremes – for example clear and unclear vision; technocratic and reform-oriented preparatory work.

The end results of this experiment present completely conclusive and convincing empirical findings:

First of all, taking a look at the end goal of the process, it is quite obvious that according to the participants, it is membership rather than actual societal reform. This is how the axis looks like:

### **End goal**

membership ————x————— reform

In concrete terms, the answer that the aim of the processes was “membership” or “accession” was found 107 times in the interviews, while the answer “reform” or “transition” – 20 times.

Moving to the next level, the results are equally conclusive in regard to the clarity of the process and the goals, their specificity and the instrumentality of the process:

### **Opening position**

specific —————x————— abstract

conscious —————x————— implicit

clear —————x————— unclear

**End goal**

**Dimensions:**

value-based ————— x ————— instrument-based

specific ————— x ————— abstract

clear ————— x ————— unclear

**Vision**

debated ————— x ————— implicit

**Motivation**

value-based ————— x ————— instrument-based

As the results show, the membership preparation has been conducted in an unclear atmosphere with implicit goals and tasks and a value-based approach – the EU was mythologized, understood as a “return to Europe where the country naturally belonged”, turning to “the other world” where the bright future of Bulgaria is a given.

Considering this, it is not surprising that the final result was perceived as coincidental, rather than planned:

**Result**

planned ————— x ————— coincidental

Moving to the next level, the actual preparatory work and the tasks that needed to be completed, there is a clear tendency towards technocratic work and preparation “on paper”, and focus on meeting the EU-imposed criteria, rather than focus on the reforms needed in the country.

**Tasks**

EU-focused ————— x ————— country-focused

technocratic ————— x ————— reform-oriented

**Preparatory work**

technocratic approach —x————— reform-oriented approach

In complete accordance with these results, a few interesting observations deserve to be pointed out. Firstly, it is interesting to note that while almost all of the respondents stated that there must have been a forum where the vision had been debated, in fact only one of the 46 interviewees was able to refer to a specific one. All the other participants could not remember and were unable to provide an example. Apparently, as the results also indicate, the membership preparation was conducted without a debated and well-defined vision and aims.

The other interesting observation is in regard to the certified predominance of the values in the perception of the EU membership – while the ideal of “returning to Europe” appeared in the interviews in 38 different formulations – “to return to the place where the country naturally belongs”; “to re-establish the European image and identity” “to join the world of progress and prosperity where Bulgaria’s natural place is” etc., one of the specific instrument-based dimensions of the membership which is traditionally perceived as one of the main benefits too – the free movement – appeared as accent number 134. This is quite conclusive in regard to the centrality of the values dictating the course of membership preparation. This is meant to be The Achievement of the EU accession – both a symbolic victory, a fundamental breach with the communist past, a benefit for everyone (or at least for the young generation), but not a practical premise for doing business. This is how an instrument is transformed into an end-goal in itself because of the value accent placed on it.

Apparently, as there was no clear instrumental goal for the EU preparations process shared by the participants, the value-based understanding prevailed. This led to a unification of the otherwise separate processes – post-communist reform and Europeanisation, as they seemed to correspond to the same ideals and to be derived from the same values – democracy, prosperity, and success. The focal point was the end of the past, not any concrete future in particular. There was much work to be done in the direction of membership preparation – meeting the Copenhagen criteria which also seemed to correspond to these values and ideals, but also a variety of technocratic tasks required by the EC. As a result, the political effort was focused towards joining the EU, and this became the primary goal, completely substituting the aim for deep societal reforms.

In the course of the processes, the task itself was minimised – it became obvious that the Commission did not possess instruments and expertise to conduct deep reforms and Europeanisation. Neither was there an incentive on behalf of the EC to look after such a result. Taking the ownership over the success of the Eastern enlargement the Commission had its own stake to minimize the job of preparation in order to make the membership feasible. The experience of the institution from previous enlargements was in achieving market integration and legal harmonisation, and using this experience, the focus of the Fifth enlargement became the same – market integration (Maresceau 1997; Dimitrov et al. 2013; Veleva 2018). With the advancement of the process it started to become evident that the local countries, perceived until then as partners desiring reform, Europeanisation and EU membership, have become reluctant to undertake policies that would harm their own interests (Grabbe 2006) – an obstacle completely unexpected within the institutionalist interpretation of the enlargement as a “constant success story” (Dimitrov 2016). This is how “conditionality” became the primary mechanism of the Eastern enlargement – it was imposed as a measure to insert influence based on the assumption of “power asymmetry” between the parties (Smith 2003). But it was also an instrument for solving political questions that could not be solved with a different means – How many countries should be allowed to join?; Which ones?; How prepared should they be? The contradiction embedded in this instrument doomed it to ineffectiveness, at least in achieving long-term sustainable goals. This way through conditionality the process was simplified once again, this time to “transfer of rules” as conditionality mainly measured the harmonisation of the legislative systems (Dimitrov 2016). As a result, after a series of transformations and reductions, the final goal of the post-communist transition became the adoption of the EU law to the national law.

In other words, the hypothesis formulated in the beginning of the paper: *the end goal of deep societal reforms in the post–communist transition has been reduced to EU accession. In its turn, in the course of EU membership preparations the technocratic rule transfer and compliance with EC's recommendations held the upper hand over structural reforms* was validated.

#### IV. Conclusion:

The analysis conducted above provides a very clear picture of the way Bulgaria's preparation for EU membership was conducted. The results show that with the lack of a clear vision, the value-based motives for joining the Union prevailed to the instrument-based ones which led to technocratic preparation for the accession, targeted to the Common market accession mainly, rather than societal reforms. This was possible because the logic of the accession process was reversed even in the understanding of the EU actors, not only among the local political class. The Copenhagen membership criteria presuppose that a society needs to be "Europeanised" – to have functioning economy, representative democracy and rule of law – and based on this to start integrating to the EU structures through law harmonisation. The Eastern Enlargement, however, was conducted in the opposite way – the membership preparation was perceived as an instrument for Europeanisation; and the bureaucratic preparation replaced the reform policy. As one of the respondents noted, "the strategic thinking was substituted by written strategies and documents". Thus, the EU membership became an end goal without having any substance other than simple law approximation, or broadly speaking - "rule transfer". This way, the post-communist transition and deep societal reform expected to emerge along with the membership, were substituted by paperwork and the notorious "political will" for reforms embodied in strategies writing and obligations taken (but not fulfilled). This "unfinished business" of both transition reforms and Europeanization explains to a great extent the variety of social, economic and political problems the CEECs face today.

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## POLICIES AND CHALLENGES FOR SOCIAL ENTREPRENEURSHIP OF EU COUNTRIES

Ruslan Martinov<sup>1</sup>

### *Abstract*

*Social enterprises (SE) address poverty, social exclusion, and unemployment as key social challenges; create jobs, generate tax revenue, benefit society. Public policies support SE development and generate value for community. Policy design helps SE scale their impact by strategies such as franchising, mergers, acquisitions, diversification, organisational growth to extend to new markets, locations, products, services. Policy makers help SE overcome challenges; use social clauses and contracts, focusing on markets, finance and skills. Financial support by public funds, loans, equity or quasi-equity, subordinated debt from banks, hybrid funding sources, foundations remains essential for SE.*

### **Social enterprises in Bulgaria**

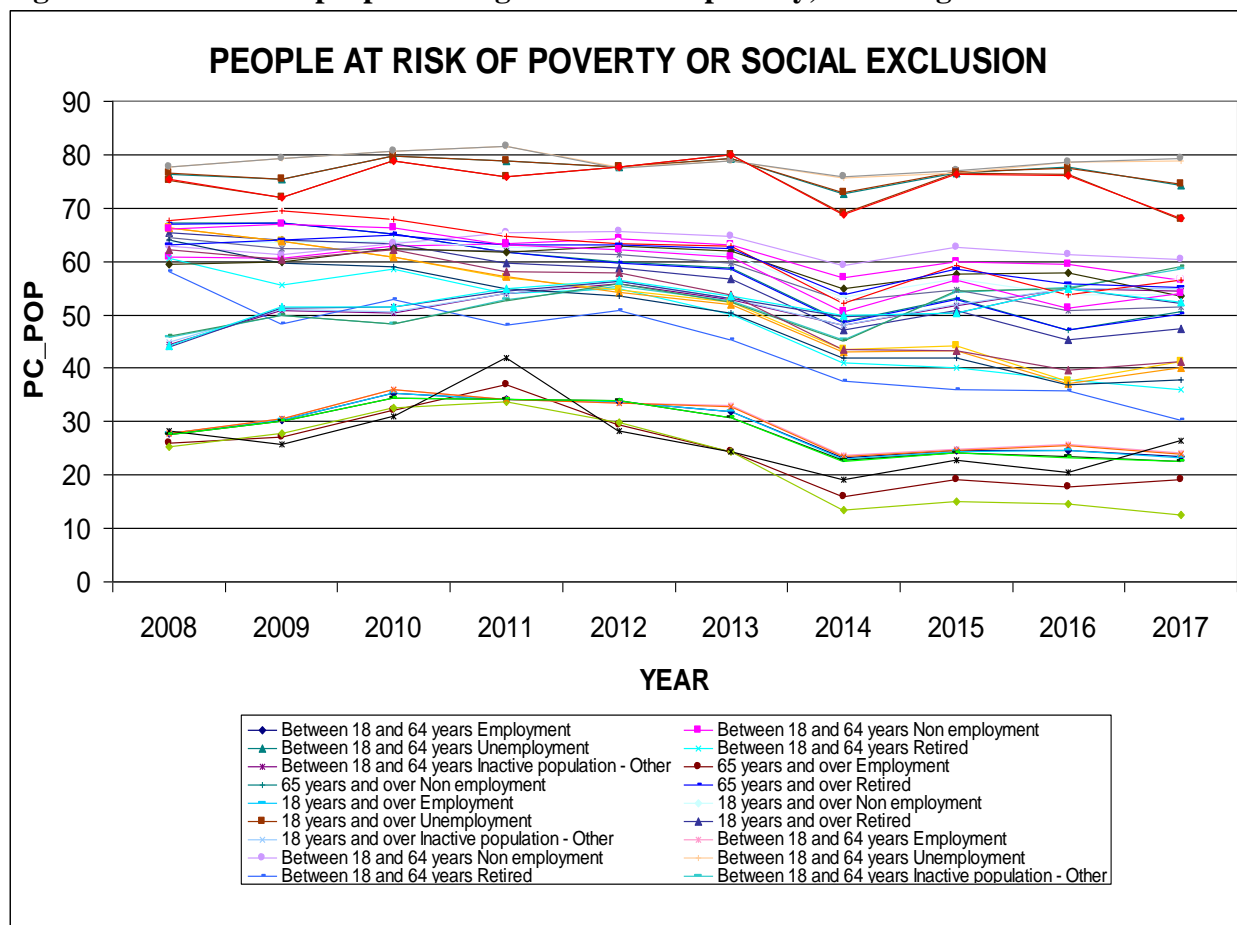
According to NCI data [Financial statement, 2018], the activity rate of the working population aged 15-64 reached 71.6% in the third quarter of 2017. Despite the high activity rate, some 101.7 thousand persons aged 15 to 64 belong to the discouraged; 2 696.7 thousand persons are out of the workforce due to inactivity. The outlook for 2018-2019 is expected to be moderately positive due to a limited supply of jobs. Statistics for people in Bulgaria at risk of poverty, following the data of NCI are presented on Figure 1.

About 4800 enterprises in 2014 have identified themselves as social enterprises, of which 2 194 are non-profit and 2526 are non-financial enterprises, according to NSI data, the overwhelming part being micro-enterprises and small enterprises. About 2/3 of non-financial enterprises make a profit and their turnover average to BGN 150,000 annually. The minimum threshold set for reinvestment for a social purpose is BGN 7500. Of the self-identified as social enterprises in Bulgaria, about 25% are commercial companies as a legal form, of which are created under the Cooperatives Act, the Non-Profit Legal Entities Act or under the Obligations and Contracts Act. In 2017, more than 36 000 were employed in the self-identified as social enterprises in Bulgaria, or over 1% of the total employed, the majority being representatives of vulnerable groups. For the EU, about 6.5% of employees are in enterprises of the social and solidarity economy. A register and a certified system for social enterprises have to be created in 2019. The government's government program for Bulgaria envisages for 2017-2021 (measure 54) the share of 2% of GDP for the development of social entrepreneurship as a quantitative indicator [Financial statement, 2018].

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**Figure 1. Statistics for people in Bulgaria at risk of poverty, following the data of NCI.**



Source: data NCI

The Program for Governance of the Republic of Bulgaria for the period 2017-2021 identified goal 41: Improving the quality of life of population groups through the development of the social economy and through transparent, socially responsible business practices "and measure 154 which formulates quantitative an indicator of nearly 2% of the country's GDP for the development of social entrepreneurship. Thus, it is underlined that the development potential of these enterprises has not been reached. Almost 2% of the country's GDP should be achieved by 2021 through the activities of enterprises in the social and solidarity economy. [Measure 154: Formation of an environment that brings about 2% of GDP to the social economy enterprises, Government Program for the Government of the Republic of Bulgaria for the period 2017-2021] [Report on the Full Preliminary Assessment, 2018].

Under the Human Resource Development OP 2014-2020 the social and solidarity economy is placed in a separate Investment Priority 4: "Promoting social entrepreneurship and professional integration in social enterprises and promoting the social and solidarity economy in order to facilitate access to employment" under Priority Axis 2: "Poverty Reduction and Promotion of Social Inclusion". For a scheme: The development of social entrepreneurship has been allocated a financial resource of BGN 15 000 000 [Report on the Full Preliminary Assessment, 2018].

The law regulates the social relations related to the social and solidarity economy, the types of subjects and the measures for their promotion, as well as the terms and conditions for the activity of the social enterprises. The law aims to promote the development of the social and solidarity economy as an economic sector with special rules for:

1. improving the access to employment and training for acquiring or improving the professional qualification;

2. creating conditions for support of the persons on social inclusion and independent living;
3. reducing social inequality and sustainable territorial development.

The social and solidarity economy is a form of entrepreneurship aimed at one or more social activities and / or social objectives pursued by enterprises, including through the production of different goods or the provision of services in cooperation with state or local authorities or independently.

The principles of the social and solidarity economy are:

1. Advantage of social-economic goals;
2. association for public and / or collective benefit;
3. publicity and transparency;
4. independence from the state authorities;
5. participation of members, employees in making managerial decisions.

The subjects of the social and solidarity economy are cooperatives, non-profit legal entities for socially beneficial activities and social enterprises.

The social enterprises shall be entered in the register of the social enterprises under the conditions and by the order determined by this law and by the rules for its implementation [LAW ON SOCIAL AND SOLIDAR ECONOMY ENTERPRISES, 2019].

### **Strategies for scaling the social enterprise impact**

Since 1982 the OECD programme on Local Economic and Employment Development (LEED) has advised governments and communities to respond to economic change and problems: contribute to the creation of jobs through policy implementation, innovative practices, stronger capacities and integrated strategies [Policy Brief on Scaling, 2016]. Statistical data on severely materially deprived people in EU countries, following Eurostat, are presented on Figure 2.

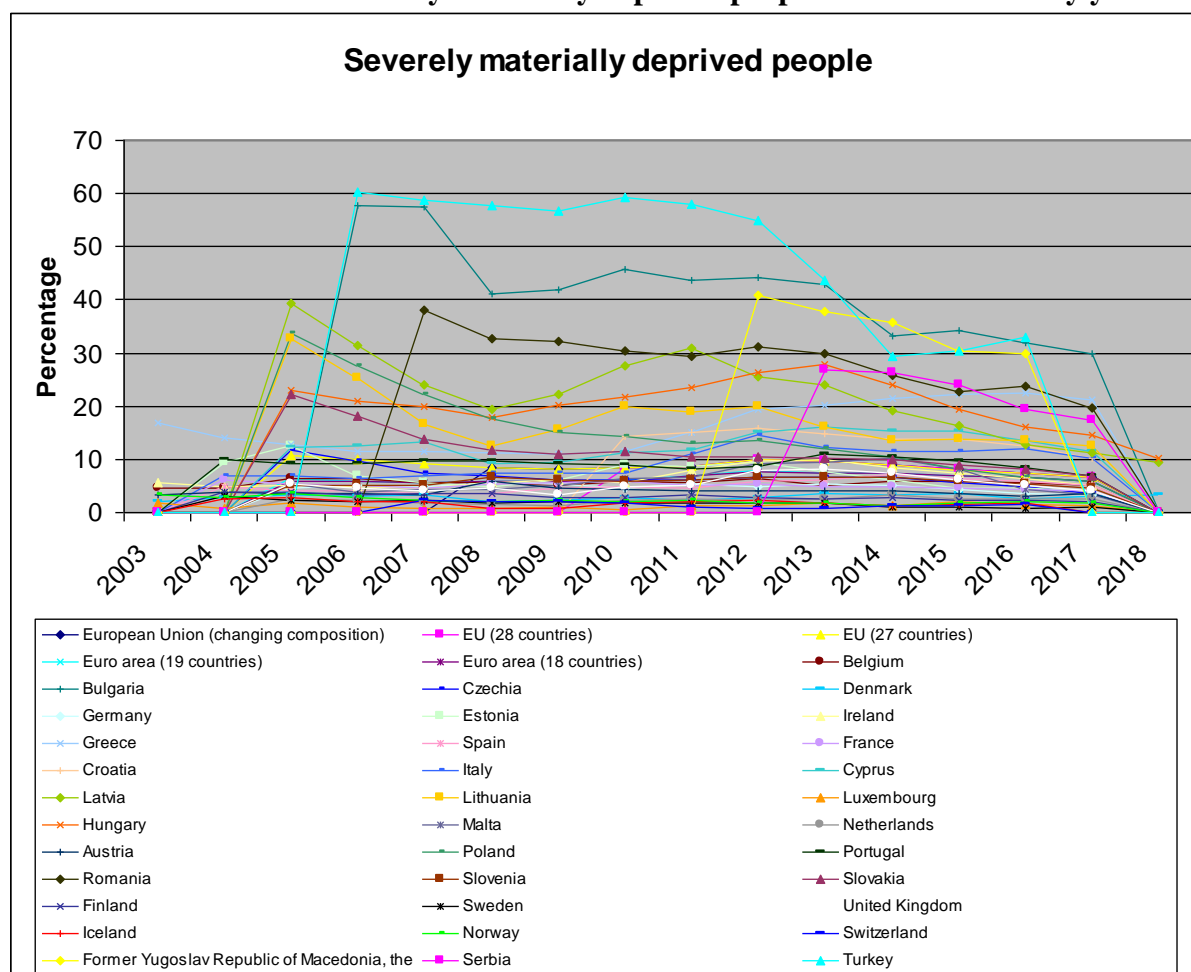
In European level, the definition of a social enterprise includes:

- an entrepreneurial dimension (with earned income generated by the sale of goods/services on the market);
- a social dimension (social aim and delivery of products/services);
- a governance dimension (accountability, participation and transparency).

The degree of development of social enterprises varies significantly across EU Member States. In Italy, France and the United Kingdom the social enterprises are well integrated in both the welfare system and market with social added value. In Bulgaria, Croatia, Czech Republic, Romania and Slovenia the social enterprises are still at an early stage of development, invisible and isolated. The policy makers have to help social enterprises scale their impact.



**Figure 2. Statistical data on severely materially deprived people in EU countries by years.**



Source: Eurostat.

**Scaling impact through expansion**

Scaling social impact is a challenge for all committed to supporting social enterprise development such as public agencies, networks of social enterprises, communities, researchers. Policy design has a significant role in helping social enterprises scale their impact, by considering different strategies. Franchising, mergers and acquisitions play a significant role - especially for social enterprises with more than 250 employees. Social enterprises could use all means: organisational growth, mergers, acquisitions and diversification to extend to new markets and locations or through new products and services. Policy makers should also highlight successful cases. A policy design should facilitate the creation of partnerships and enhance knowledge sharing among social enterprises and conventional enterprises (including through open sources and channels). Policy makers can help social enterprises overcome different challenges by focusing on **markets, finance and skills**. Social enterprises obtain partially their revenues from the markets.

**Finance**

Financial support from various streams remains essential to social enterprises during their scaling trajectory. Public funds or subsidies could help to scale their impact by replicating a proven model and build their organisational structure. Loans (equity or quasi-equity, subordinated debt from commercial and co-operative banks) are appropriate for social enterprises with consolidated business models. Other sources of funding are the hybrid funding sources, social-impact investing or venture capital, depending of their development stage or scaling pathway. Foundations also

provide financing, multi-year support, non-financial support, network involvement, organisational capacity building and performance measurement (OECD, 2014; OECD, 2015).

### ***Challenges of financing of SE***

Finance is the main barriers to scaling (requires EUR 100 000 to EUR 500 000 (Financing Agency for Social Entrepreneurship, 2015)). The early-stage social enterprises are not able to cover more than 75 % of their operating costs with revenues and thus could not reach their full potential. Foundations grants with their complex procedures are often difficult to access.

Social enterprises need favourable conditions to scale. The main strategies are:

- Encouraging national and local authorities to use social clauses and reserved contracts;
- Engaging conventional enterprises and corporations to adopt a social responsibility;
- Help in financing, connect SE with investors;
- Policies and initiatives (campaigns, awards, labels, media exposure, enhance social enterprises' visibility) which can help them generate resources – but also inspire others to replicate their models.

Thus, policy makers can help social enterprises select the most suitable strategy by promoting open sources and networks, stimulating knowledge transfer and supporting pilot projects [Policy Brief on Scaling, 2016].

### **The Europe 2020 strategy**

The Europe 2020 strategy, designed as the successor to the Lisbon strategy, was adopted by the European Council on 17 June 2010. It is the EU's common agenda for this decade — placing emphasis on promoting a growth pact that can lead to a smart, sustainable and inclusive economy, in order to overcome structural weaknesses, improve Europe's competitiveness and productivity, and underpin a sustainable social market economy [Eurostat regional yearbook 2016].

The Europe 2020 strategy seeks to achieve the following five targets by 2020:

- Employment — increases the employment rate among those aged 20–64 to at least 75 %.
- Research and development — increase combined public and private investment in R & D to 3 % of gross domestic product (GDP).
- Climate change and energy sustainability — reduce greenhouse gas emissions by at least 20 %.
- Education — reduces the rate of early leavers from education and training to less than 10 %.
- Fighting poverty and social exclusion — lift at least 20 million people out of the risk of poverty and social exclusion.

The European Commission adopted seven flagship initiatives in order to drive progress towards these Europe 2020 goals:

- Smart growth — the digital agenda for Europe, the innovation union, and youth on the move, the latter ended as of December 2014;
- Sustainable growth — resource efficient Europe and an industrial policy for the globalisation era;
- Inclusive growth — an agenda for new skills and jobs, and the European platform against poverty and social exclusion.

### ***Employment package***

In April 2012, the European Commission launched the employment package 'Towards a job-rich recovery' (COM (2012) 173 final). This focused on the potential for structural, labour market reforms promoting job creation through to 2020 [Eurostat regional yearbook 2016]. The employment package builds on the Europe 2020 agenda for new skills and jobs:

- supporting job creation, including social enterprises and business start-ups;
- harnessing the potential of job-rich sectors;

- mobilising EU funds for job creation — through the European Social Fund (ESF);
- reforming labour markets;
- investing in skills,
- moving towards a European labour market.
- promoting social dialogue and the involvement of social partners in the development of employment and social policies.

### ***Entrepreneurship 2020***

The European Commission adopted an Entrepreneurship 2020 Action Plan (COM(2012) 795 final) at the start of 2013 [Eurostat regional yearbook 2016]. The plan is built on three main pillars:

- entrepreneurial education and training to support growth and business creation;
- the creation of an environment where entrepreneurs can flourish and grow;
- reigniting the culture of entrepreneurship in the EU and nurturing the new generation of entrepreneurs.

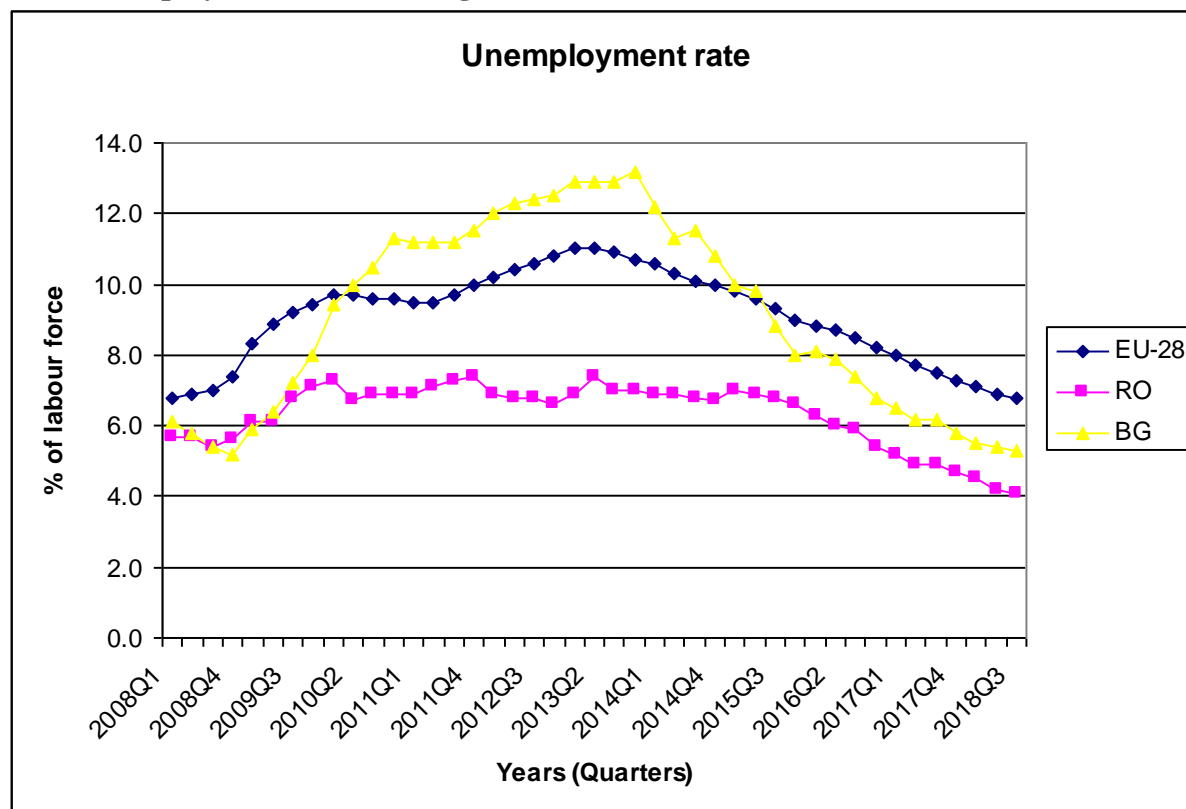
### ***The European social fund (ESF)***

**The European social fund (ESF)** aims to improve employment and education opportunities, as well as the situation of the most vulnerable people, for example, those at risk of poverty. During the period 2014–20, more than EUR 80 billion has been earmarked for human capital investment in the EU Member States. The ESF will focus on supporting four thematic objectives: promoting employment and supporting labour mobility; promoting social inclusion and combating poverty; investing in education, skills and lifelong learning; enhancing institutional capacity and an efficient public administration [Eurostat regional yearbook 2016].

### **EUROPE 2020 TARGET: lifting at least 20 million people out of the risk of poverty or social exclusion**

Almost one quarter (24.5 %) of the EU-28 population was at risk of poverty or social exclusion in 2014, equivalent to 122.2 million persons. In this context, it appears very unlikely that the Europe 2020 target — which foresees lowering the number of people in the EU-27 in at risk of poverty and social exclusion by at least 20 million — will be met.

In 2014, around 40 % of the populations of Romania and Bulgaria were facing the risk of poverty or social exclusion. The risk of poverty or social exclusion in Romania, Bulgaria and Poland falling between 2008 and 2014 by 4.0 percentage points in Romania, 4.7 points in Bulgaria, and 5.8 points in Poland. The unemployment rate for Bulgaria, Romania and EU-28, following the Eurostat data, is presented on Figure 3.

**Figure 3. Unemployment rate for Bulgaria, Romania and EU-28**

Source-Eurostat.

The European platform against poverty and social exclusion addresses the adequacy and sustainability of social protection and pension systems and the need to ensure adequate income support in old age and access to healthcare systems [Eurostat regional yearbook 2016].

**European Economic and Social Committee (EESC) considers that** [INT/770 Financial ecosystem/social enterprises]:

- access to finance as one component in the full ecosystem needed for the development and growth of Social Economy Enterprises (SEE);
- ideal financial ecosystem for SEE includes features such as a multi-stakeholder approach, hybrid and patient capital solutions with guarantee schemes;
- ensure that financial regulation enables the development, promote research on the societal added-value of investing in SEE;
- social economy is an investment priority in the current Investment Plan for Europe;
- providing a supporting factor in the Capital requirements regulation. Bank lending to the social economy would benefit greatly from this, with no impact whatsoever on public finances;
- financial support from the EU level must be coupled with the EC providing guidance, training and capacity building for governments and key stakeholders;
- Member States should act as co-investors to support the establishment of ethical funds, social innovation funds and social venture capital funds and facilitate public guarantee schemes. Opportunities of tax rebate on income as well as other tax incentives;
- SEEs must themselves take initiatives in developing instruments such as auto-capitalisation, crowdfunding and engaging in social finance partnerships.

Member States must develop and implement national action plans for the social economy based on a broad stakeholder approach including representatives from civil society. The EESC stresses the need to see access to finance as one component in the full ecosystem needed for the development and growth of Social Economy Enterprises (SEE). The real potential of SEE can only

be realised if access to finance is integrated into a **tailored and fully integrated ecosystem** together with components such as legal frameworks, business development and various support, demonstrating that **social investment is both financial and non-financial investments** [INT/770 Financial ecosystem/social enterprises].

#### *Using a range of finance sources*

- **Public funding** remains a key finance source in many MS and for many SEEs.
- **Private finance** instrument vary from traditional instruments such as commercial banks, business angels and venture capital to such as donations, venture philanthropy and social impact investors.
- **Individuals' interest** to invest into SEE initiatives especially at community level. Crowdfunding platforms, donations and philanthropy provide a key finance resource for SEEs.
- **The social economy sector** itself generates funds in the form of retained earnings often encouraged by the tax relief system.
- **Specialised financial institutions, social, ethical and cooperative banks** as well as social venture philanthropy provide instruments specifically designed for SEE.

Consideration must be taken when building a marketplace or platform for these **instruments** and incentives to attract capital must be evaluated.

The heart of social finance is **social impact measurement** to demonstrate the social impact created in parallel with financial return. This is the only way to capture the full value created by the SEE activity and the full scope of Return on Investment (ROI) – both social and financial [INT/770 Financial ecosystem/social enterprises].

#### *An ecosystem based on blended capital*

Particular attention should be given to **hybrid forms of financing**. The hybrid capital combines public grants, philanthropic funds, donations with equity and debt/risk-sharing instruments. Financing instruments of a hybrid capital nature include recoverable grants, forgivable loans, convertible grants and revenue share agreements. Hybrid capital often involves close interplay between public and private capital and a common policy objective but also co-dependence balancing interests between stakeholders. Other finance solutions, suitable for SEE are **patient forms of capital**.

**SEEs must themselves take initiatives** in developing instruments such as auto-capitalisation, crowdfunding and engaging in social finance partnerships via own resources [INT/770 Financial ecosystem/social enterprises].

The Social Pillar is given welcome prominence. It should be made clearer how it will be put into practice, how resources can be made available through European Social Funds and other European instruments and how that will be financed at EU and Member State level. There are references to areas where new policies have been proposed, including fair taxation, the banking union and the functioning of the euro area. Full involvement of the social partners and civil society would be beneficial. The 2019 Annual Growth Survey is set in the broader context of 22 consecutive quarters of economic growth, including social inclusion [European Economic and Social Committee. ECO/481, 2019].

## **Conclusions**

Social enterprises as new way of doing business address poverty, social exclusion and unemployment that are key social challenges. Social enterprises create jobs, generate tax revenue and benefit the society. Public policies support social enterprises to develop and generate value for the community. Policy design is helping social enterprises scale their impact by considering different strategies. Franchising plays a significant role for social enterprises. A variety of strategies such as organisational growth, mergers, acquisitions and diversification are used to scale their impact to new markets, locations, products, services, or revenue-generating activities. Policy

makers can help social enterprises overcome challenges, by focusing on markets, finance and skills. Financial support from various streams remains essential such as public funds, loans, equity or quasi-equity, subordinated debt from commercial and co-operative banks, emerging hybrid funding sources, foundations. Funders of social enterprises cannot always assess the impact of their investment. National and local authorities have to use social clauses and reserved contracts to help social enterprises to overcome different challenges.

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Доклад за ЦЯЛОСТНА ПРЕДВАРИТЕЛНА ОЦЕНКА НА ВЪЗДЕЙСТВИЕТО НА Законопроект на Министерския съвет на Закон за предприятията на социалната и солидарна икономика. СОФИЯ, октомври 2017- март 2018. [Report on the Full Preliminary Assessment of the Impact of a Bill of the Council of Ministers on the Law on Enterprises of the Social and Solidarity Economy. SOFIA, October 2017 - March 2018]

## ЗАКОН ЗА ПРЕДПРИЯТИЯТА НА СОЦИАЛНАТА И СОЛИДАРНА ИКОНОМИКА

В сила от 02.05.2019 г. Обн. ДВ. бр.91 от 2 Ноември 2018г., изм. ДВ. бр.17 от 26 Февруари 2019г. Проект: 802-01-30/06.08.2018 г. [LAW ON SOCIAL AND SOLIDAR ECONOMY ENTERPRISES. Effective from 02.05.2019 Prom. SG. issue 91 of 2 November 2018, amend. SG. issue 17 of 26 February 2019 Project: 802-01-30 / 06.08.2018.]

# THE IMPACT OF HRM PRACTICES TO EMPLOYEES' SATISFACTION AND ORGANIZATIONAL PERFORMANCE IN PUBLIC ADMINISTRATION: THE CASE OF THE ADMINISTRATION SERVICES OF EDUCATION IN THE REGION OF NORTH GREECE

Maria Oikonomidou<sup>1</sup>, Ilias Konstantinidis<sup>2</sup>

## Abstract

*Greece faces an immense, perhaps unique and increasingly urgent challenge. It needs to reform in depth, reconciling emergency measures with long lasting reforms. The contribution of employees should be maximized through their development and involvement and the creation of a working environment of shared values and a culture of trust, openness, empowerment and recognition. The current research investigates the human resources management (HRM) and evaluates the performance of administrative agencies of education, one of the most important fields of public services for population's welfare. This study examines the impact of HRM on employees' attitudes, behavior and organizational performance in public sector. The questionnaire used is based on the Common Assessment Framework Criteria (CAF), as a European Total Quality Management (TQM) tool. CAF model subscribes to the principles of excellence and deepened further for the public sector: results orientation, citizen/customer focus, leadership and constancy of purpose, management by processes and facts, people development and involvement, continuous learning, innovation and improvement, partnership development and social responsibility. Principle five, 'People development and involvement', is obviously the most relevant to this paper and stresses that 'People at all levels are the essence of an organization and their full involvement enables their abilities to be used for the organization's benefit.*

**Key words:** Management in Public Organizations, Total Quality Management models/tools of Public Administration, HRM Evaluation, HRM Results, Organizational performance.

We rely on primary data drawn by an e-questionnaire based on CAF Criteria relevant to HR enablers and results and distributed to all the employees of the administration services of primary and secondary directorates of education, in the region of North Greece. The public organization under study doesn't implement any Management Model or Measurement tool in order to assess HRM practices and organizational performance. CAF Criteria Questions are used only to capture employees' perception on HRM practices implementation and HRM Results as follows:

1. CAF criterion 3 completed by all administrative employees (**141 completed questionnaires**) from all hierarchical levels. The setting of this study is provided by the questions on HRM enablers and indicates the comparison between the perceptions of the administrative staff and the manager director as well as the managers of the departments about HR practices implemented. This study investigates the communication of the vision, mission and the organizations' strategy and objectives to the employees without the implementation of a TQM model (for example CAF),

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2. CAF criterion 7.1 completed by all administrative employees (**141 completed questionnaires**) from all hierarchical levels of the organization in order to capture employees' perception concerning the HRM enablers (practices implemented). Can HRM enablers (criterion 3) predict employees' satisfaction (criterion 7.1)?

The evidence of the analysis suggests that a significant number of the variables defining the so called HRM enablers affect HRM results but the perception of administrative staff is quite different in comparison with that their managers' perception. The analysis of the data revealed that employees assessed lower implementation of HRM practices (Programming, Development and Empowerment of administrative staff) in their services compared with their managers' assessment. Developing and involving staff in management activities is a key part of the rhetoric of all TQM tools, which acknowledge that quality improvement can only be successful when employees have the necessary skills and authority to participate. In addition, their satisfaction was assessed at medium scoring levels.

The findings seem to be relevant with the demographical characteristics of the sample. Employees' demographical characteristics are significant on their perception and attitudes. After controlling for the quality of HRM variables, the impact of the department they work is not significant on their performance.

Finally, it is significant that the majority of the employees agree (very much & absolutely) that the implementation of a quality model could improve their satisfaction and organizational performance. Probably, the primary data revealed that public organizations which don't implement TQM models and measurement tools under a framework, cannot communicate their mission and organization's objectives, motivate their workforce and manage to keep satisfied their employees. This survey agree with others which demonstrate that internal reasons such as increasing participation and involvement, as well as strengthening employee sensitivity towards issues of quality, were important factors for institutions to decide to implement TQM tools, alike CAF.

## 1. INTRODUCTION

The criticism of the Greek public administration regarding the waste of resources and the lack of performance evaluation, require the compliance with the specific objectives and strategic framework of the European Community Package 2014-2020 on Education and Lifelong Learning and the adoption of Quality Management and the implementation of Performance Measurement Systems. Greece faces an immense, perhaps unique and increasingly urgent challenge. It needs to reform in depth, reconciling emergency measures with long lasting reforms. The current research investigates the human resources management and evaluates the performance of administrative agencies of education, one of the most important fields of public services for population's welfare. Strong measures, starting now, to improve the effectiveness, accountability and integrity of the public administration so that it is "fit for purpose" are a priority. The success of reforms such as fiscal consolidation, debt reduction, assessment and improvement of public administration is at stake.

This research identifies the predominant Human Resources Management principles (HRM) for continuous improvement of Greek public administration of education. Specifically, a thorough research over the international trends on HRM reveals the best practices and measures in favor of customers/citizens and employees alike, as well as the organizational performance. All these measures should be monitored by a coherent Public Management within a holistic approach in order to be implemented across all over Greek Public agencies/services of education. Finally, this research sheds enough light into the employees satisfaction by the HR practices/enablers implemented through the use of the Common Assessment Framework (CAF) Questionnaire in order to evaluate and compare HRM practices and HRM Results. CAF is a total



quality management tool developed by the public sector for the public sector, inspired by the Excellence Model of the European Foundation for Quality Management (EFQM).

HR policies and the appropriate organizational culture and structure in order to achieve continuous quality improvement could be supported with the implementation of quality models by skillful HR managers in order to achieve quality in practice. These policies could be supported by recognized international tools for continuous evaluation and organizational improvement. These tools can motivate and develop human resources, shaping and monitoring the appropriate organizational enhancement quality culture. HRM practices should be implemented and evaluated by a holistic approach of management for quality enhancement on education all over Greece. It is an urgent for Greece to implement reforms in order to make the best use of its resources for sustainable growth. However, there is intense confrontation and strong objections to the implementation one of the basic reforms so called assessment or evaluation in Greek Public Administration. Assessment is undoubtedly an important process in order to the HRM policies be monitored and their results on employee satisfaction and organizational performance be evaluated. The need for resource utilization and accountability has led to the use of models for monitoring quality and efficiency in public administration: EFQM Excellence Model, Balanced Scorecard, Malcolm Baldrige Award, ISO 9000 Series, Business Process Reengineering, SERVQUAL etc.

This study investigates the presence or absence of HRM practices and their results in Public Agencies that don't implement any Model or Measurement Tool for monitoring quality and performance under a Framework. This study seeks to approve that HRM practices and their HR results should be monitored, analyzed and assessed within a holistic approach under a TQM framework in order to be implemented across all over Greek public schools and Public agencies of education. Public organizations should also implement TQM models and measurement tools under a framework in order to communicate their mission and organization's objectives and their employees are involved in the diagnosis of organizational performance and in the formulation and prioritization of the improvement action plan as the result of the self-assessment.

## **2. THEORETICAL PART**

### **2.1 THEORETICAL FRAMEWORK**

We live in a world of constant changes. Decision making in public administration is influenced by many factors – demographic change, climate change, constraints of public finances, demand for better public services and bigger social benefits or technological transformation are just some of them. The unprecedented crisis in economic growth has put Greek public services under tremendous financial pressure. Greek governments are also faced with long-term issues such as the ageing society, mounting social security and healthcare costs, high youth unemployment, brain-drain and a public service infrastructure that sometimes lags behind the needs of modern citizens and businesses. Under these conditions, new public management principles and quality management are critical for the continued provision of such public services, in both quantity and quality. In addition, the most important resource of an organization is its people. It is worth mentioned that the roles people play, the processes through which they interact and the relationships that they build are crucial to the success of strategy.

The aforementioned challenges have created a series of HRM reforms in Greek Public Administration.

The strategic plan of the Greek Ministry of Administrative Reforms has set the optimal use of HRM as a major factor in administrative reform (laws 4354/2015, 4440/2016 & 4369/2016 and Gov. Gazette 1882\_B\_2018). According to HRM strategy action plan the following targets were formed:

- Implementation of a unified public sector wage grid to apply to the state sector, local authorities and other agencies, with remunerations reflecting productivity and tasks (law 4354/2015).

- Establishment of permanent staff mobility mechanism. An electronic platform posts the jobs and skills required by the candidates requested per public service (law 4440/2016).
- Simplifying the staff classification system (laws 4354/2015, 4369/2016).
- Implementation of job descriptions (laws 4440/2016 & 4369/2016).
- Re-designing the selection system and the role of high-level executives. Particularly important are the establishment of a National Register of Executives of Public Administration and the definition of the terms, conditions and the registration of objective qualifications. According to this, all executives in the Public Sector will be staffed by members of the Registry (laws 4440/2016 & 4369/2016 and Gov. Gazette 1882\_B\_2018).
- Implementation of a modern system of human resources performance evaluation. The electronic evaluation of civil servants applied to the electronic platform of the Human Resources Register of the Hellenic Public Administration is mandatory. Moreover, the evaluation is two-way and the supervisors and managers are evaluated by their direct subordinates (Gov. Gazette 1882\_B\_2018).
- Improvement of employees training
- Strengthen the conditions for the further development of high-level executives in the public sector

For the above HRM strategy execution and the involvement of all public agencies, the structures are evaluated, new organizational charts are issued and job descriptions are created and electronic platforms are used. Each employee has a full image through the mobility platform of the positions to be filled and those who define the job descriptions and the whole process is governed by the principles of equality and transparency.

More specifically in the field of education, in a highly interconnected world, where technological progress is surpassing our expectations and putting high pressure on education systems, OECD countries as Greece, need to continue improving their education outcomes. Greece results from the OECD Program for International Students Assessment (PISA, measuring the performance of 15-year-old students in reading, mathematics and science) are close to the OECD average, it is lagging behind many countries, and it has not shown improvement in recent years (OECD, 2017).

In Greece, there are few national assessments of student learning and no external evaluation of schools, nor appraisal of teachers. School outcome data need to be handled carefully, and teachers and education leaders need to have ownership of the evaluation culture so that is not seen as something unfamiliar and punitive. Some public bodies potentially have evaluation and monitoring responsibilities, but at present this function is relatively undeveloped. Greater freedom and autonomy for schools in Greece need to be balanced by evaluation and accountability, which in turn will depend on the evidence available, particularly of learning outcomes according to national standards. More and better data can also help advance equity and social considerations. Evaluation and assessment processes should involve teachers, managers and leaders in order to be catalyst in developing and owning the culture of evaluation. Involving teachers and the administration bodies in school policies and practices is an essential component of modern education governance. This is especially important in practices and policies around evaluation and assessment, both in building a culture of evaluation in the system and in incorporating a broader perspective in decisions about what does and does not work (Nickel, S., 2011). Yet devising the policies is just the first step; implementation and ownership by teachers and leaders of management in education are critical to their success. The supervision system should reinforce collaboration and self-assessment among educators, and change the role of school inspectors, leaders and public education agencies. Key elements of success would be including clearly defining goals, steps to achieve the goals and development plans. A quality-assurance system under a recognized Quality Management framework that involve the entire school community as

well as the public administration of education will help all the stakeholders to be more receptive to these kind of reforms. The teaching staff and the administrative staff should participate in training provided by the new assessment system in order to demonstrate clear communication between governance levels and a high degree of trust among stakeholders, as well as establish learning networks among schools aided the exchange of knowledge and provided peer support during the implementation. Integrating teachers in the change process (e.g. by organizing pre-planned visits to classrooms), and a willingness to adapt the implementation strategy to local contexts greatly facilitated the implementation and acceptance of the program in schools.

The common elements required for successful policy implementation are: communication, collaboration, and a willingness to take part in the change process. Establishing a set of shared priorities is also important, especially for smaller municipalities or schools which have to deal with the crisis and budgetary cuts. However, building a culture of evaluation has its own specific challenges. One of the biggest initial barriers is a lack of trust: trust in what is being communicated, and also trust that evaluation could be used for improvement rather than punitively. The most successful systems work on all of the elements together, to steer the system, build trust, and use the strength and expertise of their administrative bodies, schools and teachers to make reform happen (Hopfenbeck, T. et al. 2013).

Evaluation is the systematic determination of significance and progress of a policy, program or projects in causing change. It is distinct from monitoring which is the process of collecting evidence for evaluation. Evaluation is a critical component of policy making, at all levels. Evaluations allow informed design and modifications of policies and programs, to increase effectiveness and efficiency. Central agencies can provide capacity for the education system to improve and hold the various stakeholders accountable. Many central agencies should be introduced to co-ordinate complex systems of evaluation and assessment. With many set up as independent agencies to ensure autonomy in evaluation, their tasks include organizing the design and operation of evaluation activities, providing technical expertise and support, and monitoring education (Lioudaki N., 2016). In most countries, more analysis and research would be possible with existing data, both undertaking key analyses within government, and sponsoring and encouraging academic research. Another possibility is to require the existing research, evaluation and administration agencies and the IEP (Institute of Educational Policy) to include thematic national evaluations among their responsibilities. These could cover key topics, such as the professional development of teachers, shadow education, bullying and harassment in schools, and the development of all-day schools, improvement of management in public education, reviewing practices across a sample of schools in the country and offering national level reports to inform the development and implementation of reforms and best practices (KANEP/GSEE, 2015). For example, France introduced the National Council for the Evaluation of the School System (OECD, 2013) as an independent body with the aim of providing evaluations and evaluation summaries in an international perspective, providing expertise on methodology and evaluations, and promoting an evaluation culture for education professionals and the general public OECD (2015).

According to OECD (2011) education review of Greece focusing on reforms, among the underlying issues exist the two key factors below that can contribute to raising the quality of education:

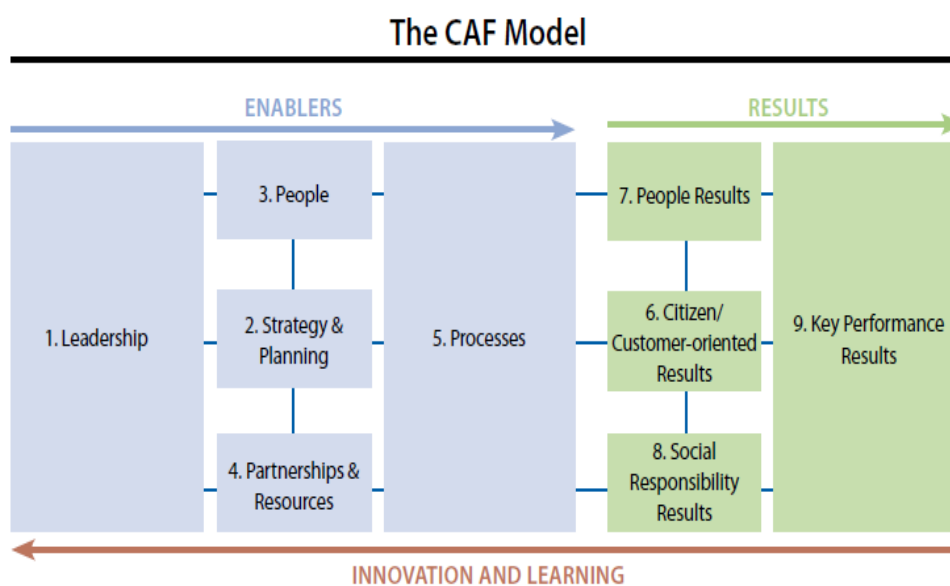
1. Training and development for effective school leadership (Chapter 4).
2. Procedures for the reliable monitoring of the implementation of reforms at all levels of education (Chapter 5).

Greek government should address the aforementioned international challenges and follow a number HRM of policy options in line with international best practices. This research investigates the implementation of HRM practices and its benefits for public sector in Greece. The

current study sheds light into the administrative services of education and their potential to propose measures so that schools can have the capacity and the support to deliver high quality education by advancing devolution and professional autonomy; ensuring a smooth transition between schools and further learning opportunities or the labor market; developing school leadership; providing and developing assessment and evaluation capacities; and ensuring that high quality schooling is available to all students.

These challenges could be supported by recognized international tools for continuous evaluation and organizational improvement. These tools can motivate and develop human resources, shaping and monitoring the appropriate organizational enhancement quality culture (Staes, P., Thijs, N., Stoffels, A., Geldof, S., 2011). HRM policies and practices should be monitored by a coherent Public Management within a holistic approach in order to be implemented across all over Greek Public agencies/services of education. This research sheds enough light into the employees satisfaction by the HR practices/enablers implemented through the use of the Common Assessment Framework (CAF) Questionnaire in order to evaluate and compare HRM practices and HRM Results. CAF is a TQM tool developed by the public sector for the public sector, inspired by the Excellence Model of the European Foundation for Quality Management (EFQM). CAF (2013) model follows a full improvement process within the organization and two of its main purposes are to facilitate the self-assessment of a public organization in order to obtain a diagnosis and a definition of improvement actions as well as to facilitate bench learning between public sector organizations.

**Figure 1. the CAF Model**



**Source: The Common Assessment Framework (CAF 2013), Improving Public Organizations through Self-Assessment**

The nine-box structure identifies the main aspects requiring consideration in any organizational analysis. *The model:* consists of the cause-effect relationship between the enablers (causes) and the results (effects), as well as the feedback from the latter to the former. Criteria 1-5 deal with the managerial practices of an organization: the so-called Enablers. These determine what the organization does and how it approaches its tasks to achieve the desired results. In criteria 6-9, Results achieved in the fields of citizens/customers, people, social responsibility and key performance are measured by perception and performance measurements. Verification of cause-effect links is of fundamental importance in self-assessment, where the organization should always

check for consistency between a given result (or set of homogeneous results) and the ‘evidence’ collected on the relevant criteria and sub-criteria on the enabler side.

## 2.2 THE MAIN CONCEPTS

HRM practices as enablers and their HR results could be investigated through the CAF questionnaire. This research sheds light into HRM practices (HRM enablers) relevant to people planning, development and involvement and their impact on employees’ perceptions (HRM results).

1. HRM ENABLERS: The CAF questions of criterion 3 (CAF, 2013) deal with HRM practices. The Assessment of HRM enablers is divided into 3 parts that mentioned below: what the organization is doing to...

a) Plan, manage and improve human resources transparently with regard to strategy and planning

A list of questions assesses whether the organization aligns its strategic objectives with its HRM policies - FACTOR ASSESSMENT/EVALUATION. This research involves regular analyses of the development and implementation of a HRM policy with objective criteria - FACTOR EQUAL OPPORTUNITIES/FAIRNESS - regarding recruitment, career development, promotion, remuneration, rewards and the assignment of managerial functions. Furthermore, it shows particular attention to the human resources needed for the development and operation of e-Government and net services - FACTOR INNOVATION AND NEW TECHNOLOGIES - (e.g. by providing the necessary training and framework).

b) Identify, develop and use competencies of people aligning individual and organizational goals

An important component of criterion 3 is assessing how the organization creates frameworks to allow people to continually develop their own competencies. This can be achieved by making sure they associate their own performance goals with the strategic objectives of the organization and also by involving them in the establishment of policies related to the training and rewarding of people - FACTOR TRAINING and FACTOR RECOGNITION AND REWARD.

c) Involve employees by developing open dialogue and empowerment, supporting their well-being

A list of questions focuses on the ability of managers and employees to actively cooperate in developing the organization, breaking down organizational silos by creating dialogue, making room for creativity, innovation and suggestions for improving performance. The proper execution of people involvement by creating an environment in which people have an impact on decisions and actions that affect their jobs. Depends upon all leaders and managers throughout the organization demonstrating that they care about people issues and wellbeing and that they actively promote a culture of open communication within transparency - FACTOR MOTIVATION/INVOLVEMENT.

2. HRM RESULTS: The CAF questions of criterion 7 (CAF, 2013) deal with employees perceptions about HRM practices. The assessment of HR results measures: what the organization has achieved to meet the needs and expectations of employees through the results of...

a) A list of questions assess the perception measurements of the workforce where employees are asked directly (e.g. via Questionnaires), whether people perceive the organization as an attractive workplace and whether they are motivated in their everyday work to do their best for the organization. The investigation on employees' perception includes relevant HR factors (HELLENIC MINISTRY OF INTERIOR, 2006):

Results on FACTOR MOTIVATION/INVOLVEMENT:

People’s involvement in the decision-making process and improvement plans, as well as the existence of mechanisms of open dialogue.

**Results on FACTOR EQUAL OPPORTUNITIES/FAIRNESS:**

The perception of the working conditions (e.g. how to deal with conflicts, grievances or personnel problems, mobbing in the workplace) and the organization's culture (e.g. the promotion of trust etc.).

**Results on FACTOR INNOVATION AND NEW TECHNOLOGIES:**

The design and management of the different processes of the organization based on new technologies and the organization's approach to changes and innovations.

**Results on FACTOR TRAINING:**

The perception of the career and skills development (systematic career and competency development, the access to and quality of training in relation to the strategic objectives of the organization).

**Results on FACTOR RECOGNITION AND REWARD:**

The perception on the top and middle management's ability to implement an effective recognition policy (e.g. setting rewards aligned with the recognition of individual and team competences and efforts).

**Results on FACTOR ASSESSMENT/EVALUATION:**

The perception on the organization's top and middle management's ability to communicate organizations' mission and strategy to the workforce and measure the strategic objectives (e.g. monitoring, measuring, improving the employees' and organizational performance in accordance with the strategy objectives).

**3. RESEARCH GOALS & RESEARCH FIELD**

The most important factor for implementing the measures and reforms is their adoption by the public sectors' workforce and their introduction to an appropriate organizational culture. HRM practices and their impact on employees' perception measurements results is the content of the present study. The research field is the administrative employees of public educational services because they could have a catalyst role on the assessment implementation due to their direct contact with the school managers (internal customers) and the whole local society on educational issues. The selected sample ensures an objective and representative reflection of the administrative service, taking into account parameters such as age, gender, family status, educational level, professional experience, employment category – sector – specialty, position held, duties exercised within the organization etc. In order to achieve those characteristics this study meet the CAF implementation requirements and the sample consist of all administrative staff. The CAF questionnaire, as a tool in this study, includes a specific framework for the measurement and evaluation of HRM relating with the performance, efficiency and continuous improvement of a Public Organization.

The main goals, mentioned below, are relevant to HRM practices used in administrative directorates of public education and their HRM results.

**GOAL 1**

The aim of the current research is to investigate the perception of the administrative staff on HRM based on TQM Models or recognized measurement Tools (like CAF) in order to support the organizations' mission and strategy and improve organizational performance. As mentioned above, administrative directorates of public education don't implement any Management recognized Model or Measurement tool. After the CAF questionnaire completion, the public educational agencies could manage any problematic areas on HRM practices by creating a mid-term improvement program, supporting the strategic management in prioritizing actions and outlining of the action plan, based on primary research data.

The 1st aim of this research is to approve that TQM Models (like CAF) can be perceived by the employees as a means of encouraging participation through co-decision on general policy,

using direct informal participation. Thus, this study sheds light into employees' perceptions on Quality Management Models implementation for public sector and their positive effects on the mission, strategy and Organizational Performance under a TQM framework.

## **GOAL 2**

In this study, the depiction of the existing administrative and operational level on HRM was carried out through CAF questionnaire of Criterion 3. The existing HRM practices are assessed by all managers and employees. This research has the aim to detect the absence or the presence (the level of HR practices extent -low/medium/high) and to describe the HRM practices implemented through the CAF questionnaire of criterion 3 relating to: a. Planning, management and improvement of human resources transparently with regard to strategy, b. Identifying, development and using competencies of people aligning individual and organizational goals, c. Involving employees by developing open dialogue and empowerment, supporting their well-being. According CAF (2013), in the TQM context, "successful HRM and leadership promote people's engagement, motivation, development, and retention and it is important to realize that only satisfied people can bring the organization towards satisfied customers. The 2nd aim of this research is to investigate and compare the managers' perception with the rest administrative staff on the extent that HR practices implemented.

## **GOAL 3**

In this study, the perception measurements where the employees are asked directly (e.g. via questionnaires) about HRM practices and their satisfaction is carried out through CAF Criterion 7. The assessment of the organization by employees themselves reveals the key words of evidence about strengths and areas for improvement. This research has the aim to investigate employees/administrative staff perceptions, regarding the management systems used by the supervisors/managers, the main administrative procedures performed, the work responsibilities distributed, the allocation of resources, their participation in the formulation of the objectives of their department and their general satisfaction by the organizational culture and working environment. Thus, HR results come from CAF sub-criterion 7.1 which measures employees' perceptions and assesses whether they perceive the organization as an attractive workplace and whether they are motivated in their everyday work to do their best for the organization. The 3rd aim of this research to find correlation between core HRM practices (as Enablers) and HRM results. HRM results refer to the satisfaction of employees by HRM practices.

## **4. RESEARCH METHODOLOGY**

### **4.1 RESEARCH APPROACH & SAMPLE DESCRIPTION**

The approach of the subject was carried out by empirical research and the quantitative method was used. The public organization under study doesn't implement any Management Model or Measurement tool in order to assess HRM practices and organizational performance. We used the CAF Criteria Questions only to capture their perception on HRM practices implementation and HRM Results. The sample consists of the Chief and the department managers of the directorates of administrative services of public education as well as the rest administrative staff in the region of North Greece. We compare their perceptions through their answers of the CAF questionnaire.

A) Empirical research sheds light into management actions and HR practices. Employees' perceptions (141 completed questionnaires from 200 employees) on HR practices/enablers implementation were obtained by filling out the questionnaire of CAF sub-Criterion 3 in an electronic form (Google forms).

B) Employees' perception measurements were obtained by filling out the questionnaire of CAF sub-Criterion 7.1 in an electronic form (Google forms). The selected sample ensures an objective

and representative reflection of the administrative service, taking into account parameters such as age, gender, family status, educational level, professional experience, employment category – sector – specialty, position held, duties exercised within the organization etc. In order to achieve those characteristics this study meet the CAF implementation requirements and the sample consist of all administrative staff.

It is important for all public sector organizations to systematically measure people's perception of the organization and the HRM practices. Employees' perceptions are reflected in the questionnaire replies on the application of HRM practices and their impact on employees' satisfaction. In this' survey, answers were subjected to processing and respective classification (a fact significantly facilitated by the "close" character of the questionnaire). The questionnaire was used as pure as in the CAF (2017) guide and was supplemented by some demographic characteristics in order to draw conclusions from this research.

#### **4.2 ANSWER SCALE**

The so called "close assessment questions" have been selected, to be answered on the basis of a proposed and predetermined list of words, since this facilitates answer processing and classification and assists the responders attention to be focused on crucial points (How to Implement CAF, 2017). The answers to each question are given on a six- grade scale (grading from the lowest to the highest level) in order to match the respective scoring scale of the CAF Criteria – Sub-criteria - Factors under analysis, so that the conclusions of answer processing can be homogenously and coherently combined with the scoring of the Assessment Group. Such scale is as follows:

**NOT AT ALL** (reflects the lack of any satisfaction regarding an activity, its absolute insufficiency and ineffectiveness).

**VERY SLIGHTLY** (reflects minimum satisfaction regarding an activity, low level of sufficiency and effectiveness).

**SLIGHTLY** (reflects satisfaction regarding an activity, median level of sufficiency and effectiveness).

**MUCH** (reflects satisfaction regarding an activity, a good level of sufficiency and effectiveness).

**VERY MUCH** (reflects a high level of satisfaction regarding an activity, a very good level of sufficiency and effectiveness).

**ABSOLUTELY** (reflects excellent satisfaction regarding an activity, an excellent level of sufficiency and effectiveness).

#### **4.3 RESEARCH QUESTIONS & HYPOTHESIS**

Analytically, this research seeks the issues below under the CAF questionnaire:

a. Investigation of questions of the criterion 3 (37.1 to 37.22) which refers to "HR ENABLERS or HR PRACTICES IMPLEMENTED". This research investigates the specific questions below reflecting the relevant factors. HR enablers/practices deal with developing and implementing a clear policy containing objective criteria with regard to recruitment, fairness of employment, equal opportunities, promotion, remuneration, rewards, evaluation, involvement and the assignment of managerial functions.

Therefore, HR enablers produce the following factors under investigation:

1a. HR PRACTICE: ASSESSMENT/EVALUATION - perception per hierarchical level on question 37.11

2a. HR PRACTICE: TRAINING - perception per hierarchical level on question 37.9 and 37.10

3a. HR PRACTICE: RECOGNITION AND REWARD - perception per hierarchical level on question 37.8 and 37.22

4a. HR PRACTICE: EQUAL OPPORTUNITIES/FAIRNESS - perception per hierarchical level on questions 37.3 and 37.5



5a. HR PRACTICE: INNOVATION AND NEW TECHNOLOGIES - perception per hierarchical level on questions 37.7

6a. HR PRACTICE: MOTIVATION/INVOLVEMENT - perception per hierarchical level on question 37.18 and 3.19

b. Investigation of the questions of criterion 7.1 (37.23 to 37.41) which refers to "HR RESULTS or EMPLOYEES' PERCEPTIONS". This research investigates the specific questions below reflecting the relevant factors. HR results deal with the satisfaction or positive perceptions of employees which should be maximized through their effective management, development and involvement and the creation of a working environment of shared values and a culture of trust, openness, empowerment and recognition.

Therefore, HR results produce the following factors under research:

1b. HR RESULT: ASSESSMENT/EVALUATION - perception per hierarchical level on question 37.40

2b. HR RESULT: TRAINING - perception per hierarchical level on question 37.41

3b. HR RESULT: RECOGNITION AND REWARD - perception per hierarchical level on question 37.29

4b. HR RESULT: EQUAL OPPORTUNITIES/FAIRNESS - perception per hierarchical level on question 37.27 and 37.38

5b. HR RESULT: INNOVATION AND NEW TECHNOLOGIES - perception per hierarchical level on question 37.32

6b. HR RESULT: MOTIVATION/INVOLVEMENT - perception per hierarchical level on question 37.25 and 37.39

## **1. RESEARCH QUESTION**

1a.FACTOR ASSESSMENT/EVALUATION - question 37.11

1b.FACTOR ASSESSMENT/EVALUATION - question 37.40

Is there a relation between the factors 1a? HR practice: ASSESSMENT/EVALUATION-question 37.11 and the relevant factor 1b. HR result: ASSESSMENT/EVALUATION-question 37.40?

What are the chief's & department manager's perceptions comparing to employees' perceptions? What is employees' perception concerning the implementation of TQM Models and TQM measurement tools (like CAF) on organizational performance? To what extent does the average of respondents believe that CAF supports the organization's mission and strategy and increases organizational performance?

**HYPOTHESIS 1.** There is a relation between factor 1a. HR practice: ASSESSMENT/EVALUATION and the relevant 1b.FACTOR ASSESSMENT/EVALUATION. This HR practice can predict employees' satisfaction.

**HYPOTHESIS 2.** Managers have different perceptions on HR practice: ASSESSMENT/EVALUATION and the relevant result in relation to those of employees. Top and middle management fail to communicate the organization's mission and objectives without the implementation of a quality model or measurement tool. Total Quality Management Models and measurement tools support the mission and the Organization's strategy.

**3 & 4. RESEARCH QUESTION**

2.TRAINING	3.RECOGNITION AND REWARD	4.EQUAL OPPORTUNITIES/FAIRNES S	
37.9	37.8	37.5	HR PRACTICES
37.10	37.22	37.3	
37.41	37.29	37.27 & 37.38	HR RESULTS
5.INNOVATION AND NEW TECHNOLOGIES	6.MOTIVATION /INVOLVEMENT		
37.7	37.18		HR PRACTICES
	37.19		
37.32	37.25 & 37.39		HR RESULTS

Is there a relation between the HR enablers/practices implemented (factors-criterion 3) and the relevant HR perception results (relevant factors-criterion 7)? What are the chief & department managers' perceptions comparing to employees' perceptions?

2a. HR PRACTICE: FACTOR TRAINING - questions 37.9 and 37.10

2b. HR RESULT: TRAINING - question 37.41

3a. HR PRACTICE: RECOGNITION AND REWARD - questions 37.8 and 37.22

3b. HR RESULT: RECOGNITION AND REWARD - question 37.29

4a. HR PRACTICE: EQUAL OPPORTUNITIES/FAIRNESS - question 37.3 and 37.5

4b. HR RESULT: EQUAL OPPORTUNITIES/FAIRNESS - question 37.27 & 37.38

5a. HR PRACTICE: INNOVATION AND NEW TECHNOLOGIES - question 37.7

5b. HR RESULT: INNOVATION AND NEW TECHNOLOGIES - question 37.32

6a. HR PRACTICE: MOTIVATION/INVOLVEMENT - questions 3.18 and 3.19

6b. HR RESULT: MOTIVATION/INVOLVEMENT - questions 37.25 & 37.39

**HYPOTHESIS 3.** There is a relation between the HR practices implemented (2a, 3a, 4a, 5a and 6a factors) and the relevant HR perception result (2b, 3b, 4b, 5b and 6b factors) but managers have different perceptions on HR practices and results in relation to those of employees. Top and middle management fail to steer the workforce and communicate the organization's mission and objectives without the implementation of a quality model or measurement tool.

Can HRM practices (2a, 3a, 4a, 5a and 6a factors) predict the relevant HR perception results (2b, 3b, 4b, 5b and 6b factors concerning employees' satisfaction)?

**HYPOTHESIS 4.** The HR practices (2a, 3a, 4a, and 5a and 6a factors) can predict the employees' positive perceptions and satisfaction.

**5. STATISTICAL ANALYSIS**

At this point it is important to mention that the questionnaire answers were statistically analyzed and was determined the grade of accuracy of the survey results conducted via this questionnaire. The grade of accuracy depends on the size of population or responders' sample, the number of questionnaires actually answered the objectivity of such answers etc. During classification, accuracy of the survey results was estimated at high levels (Cronbach  $\alpha=0.865$ ). For this reason this survey has taken into account the following:

- The size of responders' sample.

- The number of questionnaires completed. The grade of answer's objectivity.
- The grade of answer's documentation

For the correlation of the under-investigation factors, the averages of the answers per factor were compared. This research has drawn conclusions from the results-number of most responses per answer scale were also found. The analysis of affinity indicators (Pearson  $r$ ) among the questionnaire factors were found to positively correlate to a large extent with each other. Conclusions were also drawn from the demographic characteristics of the employees' sample (answers of the criterion 7.1). Then, a series of Linear Regression analyzes were performed to seek if the factors of criterion 3 related to HRM Enablers can predict the factors of criterion 7 that are reported in the HRM Results. In general, HRM Enablers factors were statistically significant variables in the employees' satisfaction estimations.

## 6. CONCLUSIONS AND DISCUSSION

In these times of socio-economic crisis and austerity, the policy effectiveness, operational performance and quality of public services are crucial factors in responding to the changing needs and expectations of citizens and enterprises in Greece. Greece faces an immense, perhaps unique and increasingly urgent challenge and needs to reform in depth, reconciling emergency measures with long lasting reforms. The measures and reforms that meet the requirements of accountability and evaluation could lead to a well functioning public administration.

This research approved that HRM policies and practices affect people results and have positive impact on organizational and employees' performance in the case of the Directorates of Primary Public Education in the region of North Greece. This research sheds light into 1. HRM practices/enablers relevant to people planning, development and involvement and 2. Their impact on employees' perceptions (HRM results). There are cause-effect links of fundamental importance comparing a given HR result (or set of homogeneous results) with the 'evidence' collected on the relevant factors on the enabler side - HR practices. The evidence of the analysis suggests that a significant number of the variables defining the so called HRM practices affect HRM results on employees' attitudes.

HR Result on 1b.FACTOR ASSESSMENT/EVALUATION was assessed at very low scoring level both by positions at high and low hierarchical level. Employees from all hierarchical levels are not satisfied by the existing assessment system and argue that it is not a means of stimulating HR and helps the effective functioning of the Public Organization. HR Enabler/practice on 1a.FACTOR ASSESSMENT/EVALUATION was assessed at high scoring level both by positions at high and low hierarchical level, which shows that all employees agree that the implementation of a Quality Management Model could contribute to a better Public Organization's functioning. Thus, top and middle management fail to communicate the organization's mission and objectives without the implementation of a quality model or measurement tool. Effective management and leadership under a TQM framework enable people to contribute effectively and productively to the organization's overall mission, vision and to the accomplishment of the organization's objectives. TQM is a holistic and systemic approach with a horizontal orientation that includes all employees. This survey agree with others which demonstrate that internal reasons such as increasing participation and involvement, as well as strengthening employee sensitivity towards issues of quality, were important factors for institutions to decide to implement TQM tools, alike CAF.

HR Result on b.FACTORS: TRAINING, RECOGNITION & REWARDS and INNOVATION were assessed at very low-low scoring level both by positions at high and low hierarchical level. In addition, employees from all hierarchical levels are not satisfied by the existing development-training and rewarding system and argue that the HRM practices fail to promote innovation and new technologies.

Moreover, the analysis of the data revealed that the directors and the department managers (positions at high hierarchical level) of the Directorates of public educational services assessed the

relatively high implementation of HRM practices on a. FACTORS: EQUAL OPPORTUNITIES & FAIRNESS and INVOLVEMENT & MOTIVATION in their services and their perception about HR Results ranged to the same scoring levels. On the other hand, the analysis of the data revealed that the administrative employees (low hierarchical level) assessed lower implementation of HRM practices (on same factors) in their services compared with their managers' assessment. In addition, their satisfaction was assessed at medium scoring levels. The evidence of the analysis suggests that the perception of administrative staff is quite different in these factors comparison with that their managers' perception.

Furthermore, employees' demographical characteristics on their perception and attitudes were of high significance. After controlling for the quality of HRM variables, was found that the impact of the department they work on their performance is not significant.

Finally, this research has drawn conclusions and gathered information by recording the strengths and weaknesses on HRM practices in Directorates of Public Education and their results on employees' satisfaction. Thus, this study investigates the areas where best HRM practices and positive HRM results are present, as well as problematic areas with negative effects on performance that need to be improved. Allocating a score to the CAF questions on Criteria 3 and 7.1 accomplished our purpose to identify Good Practices as indicated by high scoring on HRM Enablers and Results. Very low to medium scoring levels on Results were found which indicates the lack of HRM practices implementation in order to contribute to employees' satisfaction and improve organizational performance. The results of all these measurements can be used as basis to the implementation of a TQM Model or a recognized measurement tool and the formulation of HRM policies in order to continuously enhance organizational learning and quality at the administrative services of education.

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## ANNEX 2 - QUESTIONNAIRE FORM

As mentioned above, CAF was used as a questionnaire in this paper. Particularly, the Criteria 3 and 7 that refer to HRM Enablers and HRM Results respectively. Each of the above criteria includes some questions, which have been defined as the factors in this particular survey.

HR practices/enablers (Questionnaire Criterion 3) were assessed by the Self-Assessment group:

### **Criterion 3: HR**

Self-assessment group uses formal documents and evidenced-data-based information for answering the questions. The questionnaire is comprised by 23 questions.

Consider evidence on what the organization is doing to...

#### ***Sub-criterion 3.1 for the self-assessment group***

#### **Plan, manage and improve human resources transparently, with regard to strategy and planning:**

- 37.1 To what extent are the existing and future needs for human resources analyzed taking into account the needs of the Public Authorities involved?
- 37.2 To what extent does human resources development policy take into account future responsibilities and social criteria?
- 37.3 To what extent are there objective criteria relating to recruitment, promotion, remuneration, rewards and allocation of administrative functions being implemented?
- 37.4 To what extent is the adequacy of appropriate human resources ensured in order to achieve the mission of the organization and the balancing of tasks and responsibilities?
- 37.5 To what extent are the criteria for human resources recruiting, rewards, and promotions ensure equal and fair treatment?
- 37.6 To what extent are Job descriptions used for the recruitment and development of the organization's employees?
- 37.7 To what extent is the necessary training and the necessary work framework for the people involved in the development and operation of e-Government services and network services provided?

#### ***Sub-criterion 3.2 for the self-assessment group***

#### **Identify, develop and use competences of employees aligning individual and organizational goals:**

- 37.8 To what extent are the skills, abilities and knowledge required at individual and organizational level recognized?
- 37.9 To what extent is there an agreed policy of developing skills at individual and organizational level, taking into account special cases?
- 37.10 To what extent is it designed to develop modern vocational training programs for Public Organization employees based on existing personal and future operational needs?
- 37.11 To what extent do older employees or/and heads of the Public Organization help or guide younger people to effectively perform their duties?
- 37.12 To what extent is the internal mobility (within the public organization) or the external (to other) mobility of the employees promoted?
- 37.13 To what extent are modern training methods used? (Using multimedia, on-the-job training, e-learning, social media)
- 37.14 To what extent are educational activities monitored in relation to costs and the resulting benefit?
- 37.15 To what extent do you consider that the implementation of a TQM Model or Measurement tool under a framework can improve employees' and organizational performance?

#### ***Sub-criterion 3.3 for the self-assessment group***

#### **Involve employees by developing open dialogue and empowerment:**

- 37.16 To what extent is there a culture of open communication, dialogue and encouragement of team-work in the organization?

- 37.17 To what extent are there any consultations held between the top management and representatives of trade unions and their results are determinant to organizational improvement?
- 37.18 To what extent are the appropriate conditions created for the submission and promotion of employees' suggestions, initiatives and proposals?
- 37.19 To what extent are the organization's goals and their assessment indicators determined upon an agreement between different levels of hierarchy?
- 37.20 To what extent staff surveys on employees' satisfaction are being conducted and the latter are satisfied with their working conditions?
- 37.21 To what extent is emphasis given on the needs of socially disadvantaged workers and people with disabilities?
- 37.22 To what extent is a policy for non-wage benefits and rewards for employees designed and implemented?

**Criterion 7: HR Results**

The questionnaire of HR perception Results is assessed by the Nursing Staff and comprised by 19 questions.

Consider what results the organization has achieved to meet the needs and expectations of its people through...

***Sub-criterion 7.1 for all the employees of the nursing staff***

Results of measuring the perception of employees for the organization

- 37.23 To what extent is the organization's activity considered to be positive for the wider social environment, within which it operates?
- 37.24 To what extent do you find citizens' participation in decision-making about the vision, mission and values of the organization satisfactory?
- 37.25 To what extent do the employees of the Public Organization know the objectives of its operation?
- 37.26 To what extent do you consider satisfactory the level of staff awareness of potential conflicts of interest and ethics?
- 37.27 To what extent is the allocation of responsibilities among the employees of the Public Organization satisfactory?
- 37.28 To what extent do you find the way in which the Public Organization is managed satisfactory?
- 37.29 To what extent do you consider that individual and team efforts of employees are rewarded by the Public Organization?
- 37.30 To what extent do you consider satisfactory internal mechanisms of dialogue-communication within the operational framework of the Public Organization?
- 37.31 To what extent do you find the administrative procedures followed by the Public Organization in its day-to-day operation satisfactory?
- 37.32 To what extent do you consider satisfactory the administrative modernization efforts made by the Public Organization?
- 37.33 To what extent is the housing space of the Public Organization and its working environment satisfactory?
- 37.34 To what extent does the Public Organization facilitate its employees in trying to address personal problems?
- 37.35 To what extent does working hours of the Public Organization facilitate the conclusion of personal and family needs of employees?
- 37.36 To what extent is working overtime in special circumstances not mandatory, but with the consent and willingness of the employees?
- 37.37 To what extent does the Public Organization address issues such as comfort, hygiene and safety at work satisfactory?

- 37.38 To what extent does the Public Organization treat employees on the basis of the principle of equality?
- 37.39 To what extent do you consider as an essential means of motivation, the involvement of employees in the decision-making process on issues of effective functioning of the Public Organization?
- 37.40 To what extent does the existing staff assessment system constitute a means of stimulating human resources and helps the effective functioning of the Public Organization?
- 37.41 To what extent does the Public Organization systematically develop the capabilities, knowledge and skills of human resources in relation to the objectives set? (e.g. the development of IT skills combined with the goal of increasing electronically supplied services)

#### Criterion 7.1 - Demographic Characteristics of nursing staff

Age:	[Answer:]
0	18-25
1	26-35
2	36-45
3	46-55
4	56-65
5	>65
Gender:	[Answer:]
0	Male
1	Female
Educational Level:	[Answer:]
0	Primary Education
1	Secondary Education
2	Technological Educational Institute
3	Higher Educational Institute University
4	MCs - Master
5	PhD - Doctorate
Professional experience:	[Answer:]
0	0-10
1	11-20
2	21-30
3	31-40
Hierarchical Position :	[Answer:]
0	Administrative Employee
1	Department Manager
2	Chief/Director