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BUREAUCRATIC BARRIERS TO ENTRY: FOREIGN INVESTMENT
IN CENTRAL AND EASTERN EUROPE

Report on a meeting of management experts
held under the OECD Labour/Management Programme
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OECD LABOUR/MANAGEMENT PROGRAMME

**BUREAUCRATIC BARRIERS TO ENTRY: FOREIGN INVESTMENT
IN CENTRAL AND EASTERN EUROPE**

Report on a meeting of management experts
held under the OECD Labour/Management Programme

(Paris, 21-22 March 1994)

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Foreword

On 21-22 March 1994, a meeting was held under the auspices of the OECD's Labour Management Programme (LMP) on the subject of "Bureaucratic Barriers to Entry: Foreign Investment in Central and Eastern Europe".

This meeting was prepared in collaboration with the Business and Industry Advisory Committee (BIAC) and SIGMA, a joint initiative of the OECD/CCET and the EC/PHARE. PHARE provides most of the funding for SIGMA, which is directed at helping central and eastern European countries (CEECs) to reform their systems of public administration.

Over 40 management experts from governments, businesses, research groups, non-profit organisations, and directorates of the OECD attended this meeting. Acting in their personal capacities, the participants came from countries throughout the OECD area, and from several central and eastern European nations.

Mr. Bart W. Édes, who was designated as General Rapporteur for this meeting, drew up an overall report on the lively and far-reaching deliberations and the recommendations which ensued from the talks.

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FINAL REPORT ON THE MEETING

by
Mr. Bart W. Édes
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"The Budapest Sun"

Part I

EXECUTIVE SUMMARY

Under the auspices of the OECD Labour Management Programme (LMP), the Business and Industry Advisory Committee (BIAC) and SIGMA, a joint initiative of OECD/CCET and EC/PHARE, held a meeting in Paris of management experts on March 21 and March 22, 1994. The purpose of the meeting was to address the topic of "Bureaucratic Barriers to Entry: Foreign Investment in Central and Eastern Europe".

The programme brought together professionals from government, businesses, research institutions, non-profit organisations and the OECD Secretariat. Acting in their personal capacities, the participants expressed candid opinions on the many obstacles to economic activity caused by underdeveloped public administrations in Central and Eastern Europe, and examined the reasons for bureaucratic barriers.

They concluded their two-day meeting by proposing a number of reform priorities, and discussing possible roles that governments and the business community could play in the region to eliminate hindrances to foreign direct investment (FDI). The meeting also yielded a number of practical proposals for follow-up work, including surveys, workshops, technical assistance and research endeavours.

Key observations and recommendations of the management experts subsequently received high-level endorsement through their inclusion in the Business Declaration of the East-West Conference of Ministers of Economy, Industry and Trade. The forum and conference took place simultaneously in Warsaw, May 5-7, 1994, and attracted ministers and business leaders from 20 countries to discuss development themes.

Those gathered for the LMP meeting were unanimous in their view that foreign capital is essential in promoting market-based economies in Central and Eastern Europe. They noted that FDI brings hard currency, modern technologies, managerial know-how and jobs to the region. They also observed that FDI has a multiplier effect in stimulating the development of an indigenous private sector and in building links to enterprises and trading networks abroad. In general, transitional governments acknowledge these benefits.

Participants noted, however, that despite these widely recognised benefits, central and eastern European governments continue to tolerate bureaucratic barriers which discourage FDI inflows, stifle competition, and hinder the development of market-based economies. Further, acceptance of the status quo is believed to pose a threat to the legitimacy of public authorities and their decisions before the population, and cast doubt on the development of pluralistic and democratic institutions rooted in the rule of law.

Among the many barriers identified by participants include unclear and conflicting laws and regulations, arbitrary enforcement of rules, questionable ethical practices, and licensing delays. The management experts agreed that in order to eliminate such barriers -- and to construct professional administration capable of supporting and nurturing transition -- concerted action among various societal actors is urgently needed, with governments taking the lead.

Several reasons were offered as explanations for the persistence of bureaucratic barriers. Among them are an inadequate legal structure; absence of a systematic regulatory management system; an untrained, underpaid and unmotivated public service; competing demands on political leaders; strong interest groups with a stake in the status quo; and a lack of communication and dialogue between government and the emerging private sector.

While it was recognised that the specific needs of each country vary by culture, history and level of development, participants reported that bureaucratic barriers of various types and significance exist across all of Europe's ex-socialist States. And although development of a professional administration is perceived to be a long-term endeavour, the assembled experts argued that governments must take meaningful action immediately in order to support and reinforce the overall transformation process.

Participants identified several key steps needed to bring about administrative reform. These included: 1) development of a *comprehensive legal framework and processes* which are internally consistent, transparent, and provide for accountability and redress. This effort should include a declaration of values underlying government actions, and drafting of guidelines by which administrative decisions are made; 2) promotion of systems to *facilitate communication and dialogue* between businesses and the administration to nurture mutual understanding and co-operation, and to cultivate a sense of common purpose; and 3) creation of a workable *consultative and problem solving process* whereby business expertise is factored into the development and implementation of laws and regulations, and where the concerns of the business community are addressed in a responsive and efficient way.

Another vital step on the road to reform is seen to include the launching of *educational and training programmes* to cultivate a technically trained, capable and outward-looking civil service, and to promote a greater appreciation for the market system throughout society. Further, participants highlighted the need for governments to implement *incentive systems* to build morale and encourage creativity in the public service. These systems must address pay, stability and prestige simultaneously in order to be effective and long-lasting.

The management experts noted that businesses can and should play a constructive role in advancing the cause of administrative reform. Among the ways they can do this is by upholding the high standards of ethical behaviour they maintain in established market economies when engaging in commercial activities in Central and Eastern Europe. Deliberations within the International Chamber of Commerce regarding the adoption of ethics guidelines show the importance already attached to this issue by leading multinational enterprises. Various speakers proclaimed that firms also are well-positioned to transfer know-how, conduct training programmes, and assist in management development. Further, they can contribute to improving communication between governments and businesses by setting up intermediary interest structures.

The members of the Business and Industry Advisory Committee (BIAC), the official business advisory body to the OECD, can play a special role in aiding the removal of bureaucratic barriers to investment. BIAC's 33 constituent organisations in all 25 OECD countries can claim unparalleled experience in the workings of a market economy and the interaction between businesses and the public administration in such an economy. Further, with active subcommittees of domestically and foreign-owned firms in the Czech Republic, Hungary, Poland, the Slovak Republic, BIAC is well acquainted with the particular conditions in formerly command economies.

Consistent with its mandate to advise and consult with the OECD, BIAC members expressed their intention to serve as catalysts to promote public administration reform in Central and Eastern Europe. Their efforts include promoting communication between the enterprise sector and government, and examining in greater detail bureaucratic barriers to investment on a country-specific basis.

Meeting participants also highlighted potential roles for international organisations in raising the profile of administrative reform in the region through research, workshops and dialogue with governments. Such organisations also can employ technical advice, experience, values and resources to train public servants, monitor administrative standards, modernise banking systems, streamline investment laws and promotion procedures, improve tax systems, and spread awareness among opinion leaders and government officials of the critical role of foreign investment and efficient capital markets.

Part II

REPORT OF DELIBERATIONS

A. THE NEED FOR ADMINISTRATIVE REFORM

The inspiration for the LMP meeting of management experts was the widely held belief that administrative reform is a critical element in the transformation of Central and Eastern Europe. The public sector, acting on behalf of political authorities, affects every part of the economy and society. Further, the public sector's effectiveness conditions, to a large extent, economic development and sustains political and social cohesion.

The public sector is responsible for the legal and administrative environment in which private business activity takes place. It affects production decisions and costs through a myriad of regulatory controls, services, transfers, taxes and financial incentives. It alters patterns of demand by redistributing income. The public sector also is a large purchaser in the private economy and thereby affects overall resource allocation. Further, it influences national economic efficiency, the rate of technological and organisational innovation, the direction and speed of structural adjustment, and the cost to users of resources such as the environment.

Participants observed that, throughout the world, companies operate in an administrative environment. They are dependent on the public sector and, at the same time, must respond to administrative requirements to obtain export licenses, building permits, energy supplies, and standards approvals, provide statistics; and satisfy tax authorities. These obligations add costs. Where the rules are unclear or unstable, costs and risks may increase. This affects the performance of companies and indeed the economy as a whole. *Excessive bureaucratic burdens on companies may discourage new investment.* One speaker from the financial sector of an ex-socialist nation stated that while investors may tolerate an unwelcome climate for commerce in a domestic market with hundreds of millions of persons, they are much less likely to do so in smaller economies, such as those which exist in Central and Eastern Europe.

Several participants suggested that public administration can provide a sturdy anchor in a turbulent sea of regional change, contributing to the type of stability considered essential by companies for successful long-term operations and growth. On the other hand, governments which tolerate administrative disorganisation encourage short-term profit-taking and disrespect for official policies. Administrative reform not only can nip such negative developments in the bud, but also spur economic development and help a country gain a competitive edge in global markets.

Examples of Barriers to Foreign Investment

Management experts reported a range of specific obstacles that deter their activities in the Central and Eastern Europe. Many cautioned, however, that the type, frequency of occurrence, and significance of obstacles varies greatly by country. An obstacle vexing companies in one country may be absent in another. Czech and Hungarian participants assigned great importance to distinguishing among countries. One businessman cited a variety of problems

confronted by firms from his OECD country doing business in different markets around the region. These problems include delays in certifying ownership of property, abuse of discretion accorded to customs officers, years-long waits for court hearings, heavy turnover in public sector positions, and slow approval of work permits for expatriate personnel.

Polish and Hungarian participants noted the frustrations and delays which accompany the transfer of ownership from the State to private hands. A manager at one leading multinational enterprise related the experience of trying to clear customs at the Slovenian border. He noted that border officials refused entry for data processing equipment on the grounds that it could not be proven that the equipment adhered to national electrical standards. The manager added, however, that those same officials were unable to identify just what those standards were. A representative of a Dutch transport association lamented delays at the border of one transitional country which cost his group's members tens of thousands of dollars monthly. Another participant highlighted the problem of delays in the completion of banking transactions, such as money transfers from companies to banks, from banks to companies, and from banks in transitional countries to banks in developed nations.

Over-regulation Versus Under-regulation

Many speakers voiced the view that bureaucratic barriers to foreign investment were not simply a matter of too much regulation. As succinctly noted by one participant, "it is not a question of less government, but better government". Several speakers said that the problem is in part due to missing laws and regulations. In the transition to a market economy, the central and eastern European nations have yet to adopt the full range of legislation appropriate for free markets and democratic pluralism. In some cases, socialist-era laws have been scrapped without replacement with new legislation, amounting to a case of "throwing the baby out with the bath water".

One speaker claimed that liberalisation may have been "excessive" in the early part of Poland's transition, asserting that the small size of that country's bureaucracy, compared to more developed countries, is contributing to adjustment difficulties. Resources to public administration are being cut, he observed, at a time when demands upon it have been growing. He cited the example that Poland has less customs officers than in the past. One Hungarian speaker reported that staff changes at ministries in his country have not always had a beneficial affect on the business climate, and that the overburdened state of the courts has lead to long delays in enforcing contracts, registering companies, and filing for bankruptcy.

The same banker reflected that in his country a formal system of negotiation used to take place with trade unions and other societal interest groups prior to the adoption of laws. In what he termed an "over-reaction" to socialism, the formal consultative mechanism was terminated without the introduction of one more suited to the new climate. A Czech participant remarked that there is a great need to fill gaps in his republic's legislative framework. He called the absence of an adequate procurement law a barrier to foreign firms interested in competing for sales to the government.

Bureaucratic Barriers Not Unique to Transitional Europe

Several speakers highlighted the fact that bureaucratic barriers were not exclusive to Central and Eastern Europe. A few offered anecdotes of administrative difficulties encountered in OECD countries, and compared similar experiences across Eastern and Western Europe. Such observations, though, have to be tempered by the very different origins of the particular barriers. In the ex-socialist States, the barriers relate to the absence of laws or the adoption of laws ill-fitted to the transitional climate. Further, rules are opaque or contradictory, mechanisms of control and redress are absent, and perceptions or the bureaucracy's role and responsibilities in a democratic State are coloured by decades of central planning. This situation stands in stark contrast to conditions in OECD States, where the rule of law is widely accepted, even if regulatory management systems do not always operate smoothly.

Nevertheless, the representative of one major international firm opined that, "I think there is as much red tape in Germany as there is in Eastern Europe." An executive at another leading European corporate concern offered that corruption can be found in the United States and currency inconvertibility in Brazil. He implied that such factors are a regular part of doing business that multinational enterprises should be able to overcome.

A Hungarian businessman explained that in Hungary many administrative controls are connected with foreign exchange, since the country has yet to achieve full convertibility of its currency. He added, however, that capital controls also are common in the developed part of the world, as evidenced by the extensive list of reservations maintained by OECD Member States to the Code on Capital Movements. He concluded by remarking that Hungary asserts fewer caveats to this agreement and exceptions to the National Treatment Instrument than many OECD countries.

One Western European specialist on public administration reported that the cost to firms of compliance with a single tax form in one particular Western European country runs into the tens of millions of dollars. The specialist added that administrators of such legal requirements tend to become suspicious about inquiries into their work for fear that the utility or importance of their work will be called into question.

A North American participant voiced the opinion that bureaucracies tend to be inward-looking, secretive and predisposed to regulation. Yet participants generally acknowledged that the problem in ex-socialist countries is more severe than in OECD countries given the absence of enforced rules and systems to ensure transparency, impartiality, oversight, etc.

B. THE REFORMS SOUGHT BY BUSINESS

Participants in the meeting put forward a broad array of suggestions for improving the state of public administration in Central and Eastern Europe. On the whole, they stressed the need for public administration to be rooted firmly in the rule of law. In their eyes, predictability, transparency, and completeness of the legislative and regulatory management system hold the greatest short-term importance. They believe that regulation should be designed with attention given to the input of the regulated, enforcement of rules, and the opportunity to contest decisions as conflicts arise. Embracing these principles can help to ensure competition required for a thriving private sector and a market providing freedom of choice to consumers.

In general, participants considered the enhancement of efficiency, ethics and accountability as longer term goals. Nurturing of these and the aforementioned traits is seen as an integral part of a truly professional administration, the creation of which is an ultimate goal of actors in the economy. A commonly expressed view was that *the benefits of reform accrue not only to foreign investors, but also to domestically owned enterprises*, especially small-to-medium sized firms which suffer disproportionately from poor governance.

Governments themselves have much to gain, and not only indirectly through the stimulation of economic activity by creating more business-friendly conditions. Governments also stand to benefit from the heightened respect accorded by the population to a public sector adhering to principles accepted in mature democracies. Such respect diminishes the threat that authorities will see their position and social stability undermined by popular disregard for rules considered illegitimate due to the way they are created, implemented or enforced. But making reform happen takes leadership. An official with an OECD country which set up a business/administration commission to improve government operations offered some advice based on his own experience. In particular, he stated that a key reason for the commission's success was the political support given to reform by the prime minister and leading ministries.

Participants' proposals for reform can be organised into five broad categories: 1) development of a comprehensive legal framework and processes; 2) promotion of systems to facilitate communication and dialogue; 3) creation of consultative and problem-solving processes; 4) development of training and education programmes; and 5) implementation of incentives for public servants. The key points raised during discussion of these topics are incorporated into the following sections:

Comprehensive Legal Framework and Processes

Numerous participants made the point that companies require certainty to operate effectively and to plan for the future. Businesses worry about the political risk of change in fundamental values governing the economy, a tentative commitment to the operational rule of law and enforcement mechanisms, uncertainty on the part of administrators about their regulatory duties and powers, and unclear procedures and responsibilities. Participants strongly endorsed the position that in order to reduce such uncertainties, governments must implement a comprehensive legal framework encompassing a commitment to democracy, rule of law, competition, consumer choice, transparency and a mixed economy.

Ideally, reform will find an appropriate balance between central government control, so that strategic policy goals are met, and decentralised authority permitting flexibility and responsiveness to local needs. Further, reform must modernise decision-making and rule-setting processes, and improve the capacity at the centre of government to ensure coherent policies to guide the overall evolution of the public sector. Participants stated that it is important for governments to guarantee adequate control and accountability in a way that does not curb innovation and technological development. They also indicated support for efforts to monitor and measure public sector performance within a well-developed regulatory management system.

One North American speaker suggested that leading enterprises could draw upon their personal experience to advise governments on how to restructure the administration. In recent years, large firms in numerous developed countries have undergone substantial reorganisation and streamlining to enhance flexibility and competitiveness. Some believe that the experience of these firms can be relevant for bureaucracies where there are over-staffed or wrongly staffed and have not been designed to support a free market economy and civil society. "Governments don't have experience in making this happen, but firms do," he observed. He added that the global perspective of firms also is applicable to governments in an increasingly interdependent world.

Many comments focused on the need to change organisational structures in order to strengthen accountability, measure performance, and create an administrative environment of control which takes into consideration cost effectiveness. Consensus accompanied remarks that significant short-term strides could be made through the effective implementation of Administrative Procedure Acts, declaration of guiding principles by which government makes decisions, assessment of costs to firms of new regulations, and creation of an independent agency to monitor government actions. One public administration expert advocated the institutionalisation of auditing systems to provide for the control of expenditures and a check against corruption.

Other remarks concentrated on the need to promulgate laws of high quality and to review existing legislation and regulations for possible inconsistencies and irrelevance for a modern market-oriented democracy. For example, a Czech participant advocated an examination of his country's laws to determine where holes needed to be filled and, conversely, where over-regulation was hindering commercial activity. Another speaker mentioned Sweden which, in 1985, conducted an inventory of laws in order to ascertain which ones were still needed and which ones were not. A spokesman for a leading multinational firm cited the experience of a German commission set up to examine government reform. He indicated that the commission's thorough report still commands attention and respect over a dozen years after its release.

Privatisation was identified by several participants from around Central and Eastern Europe as an effective means to diminish bureaucratic obstacles. One Western European businessman noted that in the Netherlands a private body issues certain licenses in an efficient way that keeps delays to a minimum. Another manager added his observation that past corruption in Italy had been reinforced by political party control of state-owned enterprises. He suggested that hardening public sentiment against illegal and unethical activity in that nation's public sector was fuelling support to sell off state assets.

Systems to Facilitate Communication and Dialogue

For many, a first step to addressing bureaucratic barriers to investment is improving communication between government and businesses. A Czech manager referred to an unwelcome gap between government and the private sector, while Polish participants stated that business interests are "weak" in their country despite the significant economic role now played by the private sector.

While the government is seen as having the responsibility to open up to businesses, management experts also recognised the need for companies to better organise themselves, e.g. through the development of intermediary groups, to

convey their views to the public sector, and to work with government to forge common goals. "Blame exists on both sides," opined one Czech participant. Other comments highlighted the value of making connections at all levels of the public administration, and in promoting links between businesses and local government.

While there was agreement that business interests could be better represented, the question of how such interests should be organised stimulated considerable debate and no clear consensus. For example, some remarked that large state-owned firms exert great influence in all of the ex-socialist countries and their management does not always share the views of companies growing up with private ownership. The national profile of companies in the region's economies are changing rapidly, but private firms are only at a "nascent stage" of development, observed a speaker from a Czech firm. Further complicating organisational efforts is the fact that, as in developed countries, there exist great divisions in outlook and priorities by company size, sector, and source of ownership.

Strong opinions were voiced in the context of what international model would be right for structuring central and eastern European business interests. Participants intimately familiar with the Canadian experience spoke favourably of the Japanese model of business-government interaction, but others questioned the appropriateness of such a model for the transitional countries. Some advocated the creation of a single accredited business association on the grounds that doing so would provide for a clear and unified message from business to government.

On the other hand, some participants warned that creating such an association could risk dominance by traditional State firms with an antipathy towards reform, suppression of the interests of the small-to-medium sized business sector, and institutionalisation of powers advocating protectionism. An expert on public administration highlighted an alternative pursued in United Kingdom where government officials have turned to surveying and random contacts to ensure a representative perspective on business interests.

An additional challenge to the attempt of businesses to make their concerns known is that the practice of lobbying, acceptable in advanced democracies, has not been fully embraced by central and eastern European societies. Attempts to influence legislation are seen as "dirty" or corrupt. A Hungarian participant advised that foreign investors must be cautious in trying to change government policy in host nations. A spokesperson for a leading European business association recommended that Western businesses help their counterparts in Central and Eastern Europe in learning how to communicate with government.

Several participants highlighted the importance of reaching out beyond the business arena to find allies among other groups which have a stake in policy making. They suggested that foreign investors could team up with indigenous entrepreneurs, consumers and non-profit organisations that may support administrative reform and related goals. A speaker familiar with Romania's development argued that co-operation of all key groups in society is essential for changing attitudes about democracy and capitalism, and in advancing the reformers' agenda. Representative comments on this theme included, "citizens have an interest in administrative reform" and the "public must participate in advocating change."

The media also was seen as a potentially strong ally in promoting change, particularly by enlightening the population at large about the benefits that administrative reform can bring to the economy and citizens' lives. For

example, the meeting's chairman cited the role that the media has played in uncovering government corruption in Poland. Several spoke out for a higher public profile role for business groups on the subject of bureaucratic barriers to investment.

Practical examples of communication between the public and private sectors already can be found in the region. For example, the representative of the Czech Foreign Investment Agency noted that Czech authorities meet twice yearly for frank, closed-door exchanges with members of the business community. A speaker from Hungary noted that in his country an association of international companies has established close and co-operative links with the key economic ministries and has had some success at influencing the drafting of legislation through personal contacts and quiet diplomacy.

Consultative Process and Problem Solving

Beyond the issue of communication between business groups and the government, and among various other actors in society, many participants identified a need for improved government consultative mechanisms involving business interests. Indeed, speaker after speaker expressed frustration at the lack of input companies have had in the development and implementation of laws and regulations.

Such concerns contributed to vocal support at the meeting for the appointment of a "business ombudsman" at a power centre within government. This official would champion the concerns of businesses and take problems of the private sector to higher levels for resolution. Participants looked favourably upon the Dutch example whereby draft legislation is run through a committee in which labour and business representatives offer their views prior to final action by parliament. A representative of Poland's BIAC Subcommittee expressed the intention of his organisation to set up a consultative forum to interact with government.

Some speakers also recommended the strengthening of foreign investment agencies in the region. Practically all central and eastern European countries have an office or agency to provide information to foreigners and to help them navigate their way through the bureaucratic maze. However, the effectiveness of this "reception site" is diminished by the presence of several such agencies at various levels of government. Further, poor communications and co-ordination with other agencies and ministries, and an unclear delineation of responsibilities, also hinders their supportive role to foreign investors.

Training and Education

More than one speaker emphasised the critical need of training and education for decision makers, public servants, emerging business interest groups and the population at large in Central and Eastern Europe. A consensus was realised that such efforts must aim at developing a culture of entrepreneurship and creativity within and outside government. A representative of one non-profit group said "(making) people understand the new competitive environment is key (to change)." A businessman from an OECD country added that leading firms in Western Europe believe that "the first priority must be given to training."

A solid consensus backed the proposition that raising the skill level and altering the attitude of public servants are critical components of reform.

"Our civil servants must understand their roles," stated a participant with experience in Romania. A Polish speaker advocated the development of skills to deal with change. Another participant with a background in investment promotion advocated the introduction of "fresh blood" into the administration in order to help change mentalities while technical training is conducted. Another speaker reported on philanthropic work in several formerly socialist countries to support institutions teaching public administration, and advise local governments on their new roles and responsibilities.

One speaker cautioned, however, that while education of public servants is important, foremost consideration must be given to changing negative working environments which can undo the accomplishments of training. Developing bureaucratic cultures open to innovation, entrepreneurial activity and democracy is thus vital.

The necessity of educating societies not well-versed on the workings of capitalism and democracy also received attention from participants. Toward this end, one businessman from an OECD country proposed the airing of television programmes in the region to promote self-reliance. A Czech participant stressed the importance of training young people.

A few management experts advocated an active role for private firms in this broad arena. Some mentioned current or proposed programmes in OECD countries offering training to public servants within private sector enterprises. On a broader level, a representative of a prominent business association proposed "burden-sharing," whereby governments would concentrate on the task of education in general while businesses focus on training workers.

Incentives for Public Servants

Participants recognised that there is a great deal more to the process of reform within the administration than just changing the attitudes or skill levels of public servants. They acknowledged that working conditions must be improved as well. This involves addressing morale, pay systems and prestige for public employees. An important element in this effort is the implementation of a public service law to give greater confidence and assured rights to administration staff. One suggestion made in light of limited government resources is to employ less workers and pay those employed higher salaries.

The poor environment for public servants is a major contributing cause to bureaucratic barriers, as explained in the following section.

C. REASONS FOR BUREAUCRATIC BARRIERS

Participants at the meeting agreed that despite the recognition in all quarters that administrative reform is an integral component of the transition in Central and Eastern Europe, the topic has received insufficient attention. While hundreds of laws and regulations have been introduced in the region, this has often been done without sufficient consideration for their quality, consistency, and appropriateness for the economic and political climate, nor for the capacity of the administration to ensure this implementation. Effective implementation of Administrative Procedure Acts is an unfulfilled task in many transitional countries, and bureaucrats are untrained in the role of the market and in the accepted role of an administration in a democratic State.

The bureaucracies in the region are inherited from authoritarian regimes where the administration existed for the purpose of implementing the directives of a single ruling party which was intertwined and inseparable from the government. The socialist period had left a legacy of regarding law as a formal expression rather than an instrument to accomplish change. Participants observed that there are inconsistencies and quality defects which have created the scope for discretion by public servants lacking an understanding or commitment to the rule of law as practised in the OECD region. The inherited socialist bureaucracies bear little resemblance to the structures existing in modern, democratic States where the free market holds sway. Yet changing these bureaucracies is no easy task.

Indeed, reform is a risky and unwelcome process for public servants and others whose lives are made uncertain by such reform. Narrow but vocal interest groups throughout Central and Eastern Europe advocate retention of the status quo. Regulatory systems are particularly hazardous for reformers because they are permeated with advantages for multiple interest groups, both within the administration and the private sector, some of whom may be expected to oppose virtually any proposed reform. Political support and direction is needed to overcome resistance to reform, and to shield reform efforts from aggrieved interests.

A Formidable Task

To properly integrate into world economy, governments in Central and Eastern Europe must adopt legislation that supports a market economy and conforms to international norms and standards. The entire legal framework in these countries has had to be rewritten and thousands of laws and regulations have been adopted in five short years. Parliaments have been overburdened with new legislation passed to respond to the needs of a burgeoning private sector and a national eagerness to integrate into Western institutions.

In a brief time, laws and regulations have been passed regulating accounting, bankruptcy, banking, incorporation, concessions, competition, and dozens of other aspects of a market-oriented economy. The rapid pace of rule-making has contributed to the inconsistencies in legislation and regulation that have frustrated business persons, especially foreigners used to doing business in developed markets. Further, those implementing the legislation have been overwhelmed by alien concepts and obligations. The bureaucracy has not been set up against foreigners, noted one Hungarian participant, but rather is a problem of "maturity" (or, more precisely, a lack of it).

Even OECD governments, which already have well-established laws for supporting internal and external commerce, are challenged daily by the growing complexity of life and demands of society for new regulation (e.g. in areas such as environmental protection, personal privacy, and modern communications). These challenges are all the more significant in countries which have not yet come to terms with "the basics" of free market regulation and the common characteristics of democratic pluralistic systems.

Further, control systems related to oversight that exist in the OECD region are not yet in place or not functioning well, leading to a misallocation

of resources and personnel. While the governments in the region have assigned people to oversee administrative matters including reform, their task often is hindered by poor communications with important economic ministries. Further, those responsible for administrative issues often lack strong and sustained political support.

Conflicting Demands

One banker working in an ex-socialist country asserted that democracy does not always go hand-in-hand with prompt change in bureaucratic practices hindering business. Whereas an authoritarian regime may be able to elicit prompt changes, a system designed to be responsive to a varied electorate and its diverse needs and rights is not one that moves quickly.

Other participants noted that governments have many competing demands, and decision makers do not perceive that the benefits of undertaking reform outweigh the costs, including the diversion of time and resources, and the antagonising of entrenched interests. One speaker argued that it is at times difficult to reconcile the needs of firms and administrations. While fulfilling one objective of government (e.g. tax collection) the administrative may undermine another (facilitating commerce). A representative of a non-profit group promoting reform spoke of the political risk assumed by reformers if they propose an agenda that unsettles too many voters. A Czech speaker argued that his government simply did not care about administrative reform until quite recently.

A further explanation for the inattention to public administration reform is the belief that such reform has limited backers. Beyond a certain strata of the business community, including especially foreign investors, few are outspoken advocates of change. (According to one observer with experience in Bulgaria, foreign investors are the *only* driving force behind institutional reform in that country). Further, as a Polish manager explained, foreign investment is a touchy political and social issue and local firms are not uniformly convinced that such investment is beneficial. Participants attributed these circumstances to a lack of education of both decision makers and society at large regarding the broadly distributed gains of reducing bureaucratic barriers.

In addition, there are vested interests in society that have a stake in the status quo, despite potential degenerative effects it may have on the health and well-being of the country. State-owned firms with privileged access to decision makers and public sector commercial opportunities are not eager to see a curtailment of their privileged position. Political appointments often run deep into the bureaucracy, and ruling forces are not eager to trim staffs for fear of the impact on government popularity, or the creation of social instability in a climate of high and often rising unemployment.

The Beleaguered Public Servant

The people that work in these administrations are not trained in the ways of the market and are not briefed on how they should interact with the population at large. The idea of *public servant* as understood in developed countries is absent. Further, they have received little formal education in essential practices such as accounting, managerial techniques, computer programming, record-keeping, interpersonal skills, etc.

One speaker highlighted the problems of training government workers. Schools of public administration in the region lack the curriculums and qualified staff to train students for public service positions. Newly elected officials at the local level often are well-respected professionals in a particular field, but know nothing of the operations of municipal government and its regulatory responsibilities. He noted that those now responsible for making complex decisions were for years accustomed to acting at the behest of higher officials issuing detailed directives accompanied by little room for discretion.

Compounding the ignorance of capitalism and of basic skills is an unhappy working environment which does not nurture them. Further, the society's view is coloured by the old role of the administration and society holds public servants in low esteem. Strained budgets yield little in the way of increased pay, the lines of communication with colleagues and supervisors are frayed, and public servants' duties are very compartmentalised. The opportunity to contribute to decisions that affect their work and responsibilities is limited and sporadic.

Not surprisingly, morale has suffered severely. Bureaucrats are anxious about their future as agencies and ministries are created, merged and dismantled. Their protections and rights under the law are suspect and uncertain while decision makers attempt to influence or coerce them politically. The concept of a professional and apolitical public service is slow in gaining acceptance around a region where for decades politics pervaded every decision throughout society, not just in the administrative realm.

In addition, wages are low compared to those in many parts of the private sector. In some cases, compensation is just a fraction of that offered by multinational firms. Tight state budgets offer little hope for heightened compensation or substantial new hires, and workloads have increased exponentially in line with the explosive growth of the private sector and of new laws and regulations to implement and enforce.

These factors have combined to produce a brain drain that has compounded the problem of an ill-trained and undereducated work force. As a Hungarian participant noted, it is not unusual for public servants to put minimal effort into their state-paid jobs in part to conserve energy and time for second jobs held elsewhere in order to make ends meet. The resulting low level of motivation explains the inattention given to the needs of the public, including companies, that depend upon the machinery of government in their daily lives.

D. FUTURE STEPS FOR BUSINESS, GOVERNMENT AND INTERNATIONAL ORGANISATIONS

Building upon the deliberations throughout the meeting, participants arrived at a consensus that future work was needed to better ascertain the nature of bureaucratic barriers in Central and Eastern Europe as well as to discover possible solutions. At the same time, however, it was felt that sufficient information and experience already could be called upon to undertake specific steps toward development of a professional public service. A number of suggestions were made for actions that could be taken by business groups -- nationally or multinationally --, governments and international organisations to ameliorate the problem of bureaucratic barriers to investment.

Roles for Central and Eastern European Governments

In that governments control the bureaucracies that are hindering investment, participants deemed it logical that they assume the greatest burden in the reform work ahead. In the short-term, governments can set values for decision making, enforce provisions of Administrative Procedure Acts, appoint a business ombudsman to assist in problem solving, and open themselves up for regular communication with business interests.

Participants also proposed that the region's governments appoint an independent agency to provide oversight, institute cost accounting, share draft legislation with business groups, and estimate costs of new legislation to the private sector. Speakers also stated that governments should conduct an inventory of laws currently on the books, enhance educational efforts, and interact with Western governments to gain from their experience and know-how regarding administrative reform.

Organising Business

Many of the recommendations for national and international business associations involved organisational matters, such as setting up country-specific focus groups and mobilising national groups to liaison with government. More generally, management experts noted that firms are well-positioned to transmit know-how (from West to East), conduct training programmes, and assist in management development. Country-specific surveys or roundtable discussions on business attitudes toward administrative reform, privatisation and foreign investment climates also received endorsements from various speakers.

International Organisations

In light of the difficulty that central and eastern European governments and the business sector have experienced in "coming together" to jointly address their problems, it perhaps is not surprising that many see a role for international bodies to facilitate dialogue and encourage governments in Central and Eastern Europe to raise the priority of administrative reform. Participants also recommended that organisations sponsor research and workshops on specific themes connected with administrative reform in the region, and provide technical assistance and training. They also recommended that international organisations co-operate with the business community to monitor public attitudes of the bureaucracy and administrative reform, actual progress in reform, and business perspectives on bureaucratic barriers over time.

Part III

ANNEX: LIST OF MEETING PARTICIPANTS AND AFFILIATIONS

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