<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAT</td>
<td>Convention Against Torture</td>
</tr>
<tr>
<td>CEDAW</td>
<td>Convention on the Elimination of All Forms of Discrimination Against Women</td>
</tr>
<tr>
<td>CEECs</td>
<td>Central and Eastern European Countries</td>
</tr>
<tr>
<td>CERD</td>
<td>Convention on the Elimination of All Forms of Racial Discrimination</td>
</tr>
<tr>
<td>CESCGR</td>
<td>Convention on Economic, Social and Cultural Rights</td>
</tr>
<tr>
<td>CF CU</td>
<td>Central Financing and Contracting Unit</td>
</tr>
<tr>
<td>CIS</td>
<td>Community of Independent States</td>
</tr>
<tr>
<td>CMEEA</td>
<td>Council for Mutual Economic Assistance (COMECON)</td>
</tr>
<tr>
<td>CoE</td>
<td>Council of Europe</td>
</tr>
<tr>
<td>CRC</td>
<td>Convention on the Rights of the Child</td>
</tr>
<tr>
<td>CRPD</td>
<td>Convention on the Rights of Persons with Disabilities</td>
</tr>
<tr>
<td>CSOs</td>
<td>Civil Society Organisations</td>
</tr>
<tr>
<td>DCI</td>
<td>Financing Instrument for Development Cooperation</td>
</tr>
<tr>
<td>DG DEV</td>
<td>European Commission’s Directorate General for Development Cooperation</td>
</tr>
<tr>
<td>DG SANCO</td>
<td>European Commission Diectorate General for Health and Consumer Affairs</td>
</tr>
<tr>
<td>ENPI</td>
<td>European Neighbourhood and Partnership Instrument</td>
</tr>
<tr>
<td>EQF</td>
<td>European Qualifications Framework</td>
</tr>
<tr>
<td>ETC</td>
<td>European Transition Compendium</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment (s)</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GMI</td>
<td>Guaranteed Minimum Income</td>
</tr>
<tr>
<td>GMOs</td>
<td>Genetically Modified Organisms</td>
</tr>
<tr>
<td>GNI</td>
<td>Gross National Income</td>
</tr>
<tr>
<td>ICCPR</td>
<td>International Covenant on Civic and Political Rights</td>
</tr>
<tr>
<td>ICTs</td>
<td>Information and Communication technologies</td>
</tr>
<tr>
<td>IPA</td>
<td>Instrument for Pre-accession Assistance</td>
</tr>
<tr>
<td>ISCED</td>
<td>International Standard Classification of Education (UNESCO)</td>
</tr>
<tr>
<td>ISPA</td>
<td>Instrument for Structural Policies for Pre-Accession</td>
</tr>
<tr>
<td>JAEP</td>
<td>Joint Assessment of Employment Policy</td>
</tr>
<tr>
<td>JIM</td>
<td>Joint Inclusion Memorandum</td>
</tr>
<tr>
<td>MDGs</td>
<td>Millenium Development Goals</td>
</tr>
<tr>
<td>NADSME</td>
<td>Slovak national Agency for the Development of Small and medium-sized Enterprises</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non-governmental Organisations</td>
</tr>
<tr>
<td>OSCE</td>
<td>Organisation for Security and Cooperation in Europe</td>
</tr>
<tr>
<td>PHARE</td>
<td>One of the three instruments for EU’s pre-accession assistance for the EU12 (originally: Poland and Hungary: Assistance for the Restructuring of their Economies)</td>
</tr>
<tr>
<td>PHC</td>
<td>Primary Health Care</td>
</tr>
<tr>
<td>SAPARD</td>
<td>Special Accession Programme for Agriculture and Rural Development</td>
</tr>
<tr>
<td>SIGMA</td>
<td>Support for Improvements in Governance and Management (a programme managed by OECD and mostly funded by the EC)</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprises</td>
</tr>
<tr>
<td>TARIC</td>
<td>Integrated Tariff of the European Communities</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational Education and Training</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organisation</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
</tr>
<tr>
<td>WW II</td>
<td>Second World War</td>
</tr>
</tbody>
</table>
FOREWORD

In the 2004 and 2007 enlargements, twelve European countries joined the EU. For most of these countries, accession to the EU was the final step in a process of transition that had started fifteen years earlier, when the collapse of the Soviet Union opened up a window of opportunity for them to recover their economic and political independence (in some cases, their statehood), re-establish democratic institutions and the rule of law, restore private property and move towards a market economy fully integrated into the world’s economy.

These “new” EU members, mostly aid recipients during the years prior to their accession, have now emerged as donors, and have pledged – under the Monterrey Consensus – to increase official development aid as a share of their gross national income (GNI) to 0.17% by 2010, and 0.33% by 2015.

These new donors are expected to play a significant role in the EU’s development cooperation policy, in particular because of their valuable practical experience in transitional economy, democratisation processes and other reforms shaping human development. This particular experience was already mentioned in article 33 of the European Consensus on Development, which contains a commitment by both Member States and the European Community as a whole to “capitalise on new Member States experiences (such as transition management) and to help strengthen the role of these countries as new donors”.

Since their accession to the EU, these new Member States have offered their transition expertise to developing countries (with their own resources) or in some cases in partnership with EU15, that have complemented it with donor know-how and financing. New initiatives have recently been undertaken by some Member States with a long tradition of development cooperation in order to strengthen this partnership⁵. However, the lack of a more structured and consistent approach at EU level has delayed (? hindered) the fulfillment of the intentions laid down in the European Consensus.

It is in this context that the Commission and the Member States agreed to put together a non-exhaustive “compendium” of the experiences, good practices and expertise of the EU Member States in the field of political and economic transition, including the management of external aid (as recipients, with particular emphasis on those having experienced this transition more recently) This initiative is seen as a first step in enhancing the contribution of these countries to the EU’s development policy. It is expected that by making such experience available to developing countries facing similar transition challenges, the compendium will not only increase the participation of EU-12 in such policy, but will also help build their capacity to deliver aid and to gain their public’s support for their new role as donors.

In order to draw up this this compendium (hereafter referred to as ETC), the European Commission (DG DEV) prepared and forwarded a questionnaire to all Member States, inviting them to provide information on their practical experiences, best-practice and available expertise (e.g institutional, academic or individual) in areas relevant for development cooperation, such as the core processes of political and economic transition.

This document has been produced on the basis of the
i) replies received to the questionnaire, and the analysis of documents and publications cited or referred to;
ii) clarifications and additional information obtained during brief country visits carried out in September-October 2009 to most “new” member States;
iii) the analysis of a number of additional sources of information on various aspects of the transition experience of the EU12².

¹ The “Partnership Programme” initiated by the Swedish International Development Cooperation, which focuses on cooperation in Eastern Europe and the Western Balkans, is one of these new initiatives. For instance, the Joint Assessments of Employment Policies or the Joint Inclusion Memoranda elaborated by their respective Governments and the European Commission in the final stages of their EU accession processes.
The experiences and information compiled in this document are in some cases related to the key political and economic transformations and reforms undertaken in the earlier years of the transition process. In others, such information relates to reforms undertaken or accomplished as of late 1990's, when preparations for integration into the EU was at the centre of the reform agenda in these countries. This required a second wave of reforms in many areas, so as to ensure compliance with the EU acquis and the development of the administrative capacity to implement and enforce it after accession. Reforms undertaken or accomplished after accession were also included in some replies to the questionnaire.

The information on transition experiences is presented in chapters and sub-chapters, intended to cover most of the key “areas of intervention” or support cited in relevant EU policy documents and legislation related to development cooperation, such as the Cotonou Agreement or the DCI Regulation. Other relevant Regulations governing external action instruments which include support for poverty eradication, sustainable development and progress towards MDGs (such as IPA or ENPI) are also taken into account.

Political reforms – reforms aimed at re-establishing democratic institutions, ensuring respect for and protection of human rights and the development of civil society – and economic reforms – transition to an open market economy – stand at the core of the process of transition experienced in the most recent member states of the EU. However, from a development cooperation perspective, poverty eradication entails a wider and more multi-dimensional approach, encompassing for example areas such as education, health and other social reforms; reforms in the fields of environmental protection and sustainable management of natural resources; reforms aimed at promoting decent work, social inclusion, gender equality and childrens’ rights; investments needed for wealth creation (such as transport and energy infrastructure); reforms aimed at securing rural livelihoods (land tenure and administration, agricultural and rural development).

It was therefore deemed useful to include information on experiences and reforms in some of those areas during the process of transition, even if such type of reforms are not specific to transition countries.

This first compendium widely reflects what the countries themselves have decided to highlight in their contributions to it. It is therefore expected to assist in the implementation of some of the EU’s commitments on aid effectiveness, in particular concerning the identification of each country’s comparative advantages, improved coordination and division of labour among Member States, as well as the enhancement of cooperation between the Commission and the Member States.
INTRODUCTION

After the end of the II WW, European countries became split into three main groups: those with democratic regimes and market economies, mostly located in the West of the continent; those with market economies but governed by authoritarian regimes that denied political freedoms (Spain, Portugal and, since 1967, also Greece); and those that in the 1940s fell into the orbit of the Soviet Union or otherwise into communist parties’ rule, in which neither democracy nor market economy were features of their political and economic system. What is more, some of these countries had lost their previous independent statehood and become integrated either into the Soviet Union itself or into other communist Federal Republics (Yugoslavia).

In the late 1950s, Western European countries with democratic institutions and market economies started a process of economic and political integration that gave first rise to an economic “community” and later on to an “European Union”, one of which characteristics is an integrated market economy (the “internal market”).

In the 1970s, the three countries of Southern Europe with authoritarian regimes managed to overcome them and move into full-fledged democratic rule; and subsequently joined the process of European integration in the 1980s. This required adjustments in their economic systems, so as to meet the common requirements and conditions and catch up with developments in this field at Community level, but otherwise the most important part of their “transitions” was political. Once the necessary political changes had been implemented these three countries were able to participate in the further development of the European Union and in the construction of its internal market. This was possible because the basic institutions of a market economy (private property, free enterprise, and a mechanism of allocation of resources mostly based in market rules) had been in place in those countries even under authoritarian rule.

For the third group of countries, and after the failure of previous attempts in some of them (Hungary 1956, Czechoslovakia 1968), the change process that is conventionally known as “transition” started in the 1980s. In some of these countries (Hungary, Yugoslavia and to a more limited extent, Poland), the communist rulers started in this decade a limited process of economic reforms. Such early reforms were aimed at the introduction of elements of market economy into the national economic systems, but without questioning the fundamentals of the socialist economy (absence of private property and of free enterprise).

However, it was the collapse of the Soviet Union in the late 1980s what gave the pro-democracy and pro-market economy forces of these countries the opportunity to replace the communist establishments that had been ruling them since the 1940s and launch a process of fundamental political and economic reforms that culminated fifteen years later (17 for Romania and Bulgaria) with their accession to an enlarged European Union.

This change process was all-encompassing and affected virtually all aspects of the public affairs as well as of the private life and activity of the citizens. The change also brought about a fundamental shift in the position and role of these countries in the international community, affecting economic relations and trade, security issues and alliances and active and full-fledged participation in the process of construction of a European Union. Last but not least, the change involved a move of these countries from “recipients” of foreign and development aid to the status of “emerging donors”, with a growing and concrete responsibility in international development assistance and cooperation for the world-wide achievement of the MDGs.

The transition in all these countries had two main phases or periods: the period of restoration of individual and collective freedoms, democratic institutions and the basic institutions and instruments of a market economy, open to the world (which concentrated most of the efforts of governments and societies in the first five or seven years); and a second phase that started in the second half of the 1990s in which further changes and transformations were driven and oriented towards fully meeting the so-called “Copenhagen” criteria for EU membership, including the gradual alignment of national policies and legislation in various fields to the EU common policies and legislation (the “acquis”) and
the preparation of the institutional and administrative capacities needed for an effective and efficient implementation of such “acquis” after accession.

In both phases, but especially in the first one, the Governments and Parliaments of these countries had to make fundamental decisions as to the direction and pace of reforms in all areas - particularly in what concerns economic reforms – and were confronted with difficult choices between conflicting priorities. Even if the final objectives were similar, the decisions made and the solutions adopted in each country were diverse and so was their impact and effect in the short and longer term. Therefore, the transition experience of these countries offers a wide number of lessons and a range of possible options and solutions in regards to practically all the issues and problems that countries engaged in or wanting to undertake similar change processes may face.

What follows is a non-exhaustive and summary account of reform experiences and examples of the most recent EU member states during their process of transition to democracy, market economy and integration into the EU, in a number of areas that lie at the core of the EU’s development cooperation policy and action in many other parts of the world. Many of these experiences and examples can be inspiring or interesting for developing countries engaged in the implementation of reforms of an equivalent scope and purpose; and their presentation in this compendium is intended to make them accessible and understandable to all those involved in the formulation and implementation of reform policies in various fields, namely Governments and the civil society organisations and actors engaged in development programmes and activities supported by the European Community and its member states.

In many aspects, the transition experiences included in this compendium include references and descriptions of developments and instruments that the countries contributing to the compendium consider as good or best practices, and which are frequently still in place and now put at the disposal of other countries facing similar challenges and problems. The information also includes references to the expertise resources available in the country in regards to particular reform areas, which can be mobilised for technical cooperation or for the implementation of programmes and projects supported by Community or bilateral development cooperation programmes.
I. DEMOCRACY, HUMAN RIGHTS AND POLITICAL/INSTITUTIONAL REFORMS

1. POLITICAL FREEDOMS AND DEMOCRATICALLY ELECTED INSTITUTIONS

In addition to the pursuit of national independence – which in some cases involved regaining lost statehood – the democratic forces that led the political transitions that took place in Central and Eastern Europe and the Baltic region in the 1990s wanted to catch up with the level of political and social development observed in the most advanced market economy democracies. The experience of some of these “socialist” countries with economic reforms since the early 1980s had shown that without substantial constitutional and political changes such attempts could never be successful, in terms of actually responding to the needs and demands of the population for freedom and a decent standard of living.

However, the starting point was not the same in all countries, both in political as well as in economic terms. And the correlation of forces was quite diverse in these countries and republics, not only between the power structures of the respective communist regimes and the democratic oppositions, but also in what concerns the level of organisation and the leadership and composition of such democratic forces.

On the other hand, there were no blueprints for or previous experiences with similar change processes, which were about to take place for the first time in history. And thus each country had to find its own way. Foreign assistance was made available to all these countries from the beginning of their transition, but no country could find in this assistance all the solutions to the problems that had to be tackled and resolved. The historical memory and cultural traditions – from before the communist regime - were to play a major role in the process.

In sum, these country’s experiences concerning the management of political transition were quite diverse. Some aspects of this varied experience can be highlighted:

First, the political transitions in all these countries were basically peaceful. Even though in the early stages of such transformations the threat – or fear - of an armed intervention (external or, in some cases, internal) was a factor that could have influenced the first steps, the process of political reforms was so broadly supported by the population that the risk that reforms might lead to an internal civil confrontation was almost negligible. The stage was set in all those countries for a change of political regime; the society was ready, mature and eager to support this change; and the main issue was the way in which such political and institutional reforms were to be brought about – including the key question of the leadership of such reforms - and its pace; not about their purpose and final goal.

Second, differences can be observed between the countries in which political transformation resulted from a negotiation between the holders of the communist power and the representatives of the democratic forces (Poland, Hungary, Czechoslovakia) and those in which these first key changes came about in a more sudden and radical way (Baltic States and Slovenia, on one side; and East Germany and Romania, on the other side). Two elements seem to have favoured more radical and sudden initial changes: the “immobility” or resistance to change in the existing political “establishment” (Romania, East Germany and, to some extent, Czechoslovakia); and the presence of a strong and broadly shared nationalistic sentiment as part of the desire for changes. (Baltic States, Slovenia, and to a great extent also in Eastern Germany).

Third, the experience of these countries also shows that, while basic fundamental changes can be introduced in a relatively short period of time, the building up of the complete legal and institutional system of a modern and developed democracy governed by the rule of law is a long-term process.

In the first years of their transition most of these countries’ efforts were aimed at the building up of the basic democratic and market economy institutions and in this period each country chose its own way and pace. However, in the second half of the 1990s (and in particular, as of 1997-1998) the objective of joining the European Union became the main driving force for the subsequent reforms. Many of the reforms that had not been considered a priority in the first years of transition became high in the reform agenda; and in a number of areas the real transformation started only when the countries were
confronted with the need to meet the accession criteria (set by the European Council in Copenhagen). At the same time, the assistance received from the EU became much more accession-driven; and this assistance played a major role in helping these countries implement a second wave of reforms, which touched upon many areas.

In a certain way, the process of preparations for EU membership led the reform processes in all these countries to some degree of convergence, since, at the end of the day, joining the EU involves the full acceptance of a common legal system that, although flexible to a great extent in what concerns the national legislation and institutional set up, is based upon common principles, values, objectives and standards.

At the date of their accession to the EU, all these countries were already meeting the so-called “political criteria” for membership. They had all established and consolidated democratic institutions, operating under the rule of law; human rights – including the rights of minorities – were not only recognised by the constitutions and the legislation, but also made effective and guaranteed through a number of institutional arrangements; and their civil societies, which had also played an important role during the process, were now sufficiently developed and organised.

As in the more developed countries of Western Europe or other continents, reforms – some of them very important – have continued to be designed and implemented after accession to the EU. However, it can be stated that the “transition” of these countries to democracy and market economy had been completed on the date of their accession.

POLAND
In Poland, economic problems through the 1980s led to the rise of a strong independent trade union (Solidarnosc) which spearheaded the opposition to the Communist party rule during that decade. The main demands were elimination of censorship, freedom of the press, access of the opposition to the media, dissolution of the nomenclature and monopoly organisations, freedom of association, independent territorial self-governance, economic reform, etc.

In 1988, Solidarnosc set up a Citizens’ Committee, made up of opposition representatives, and managed to get the State accepting them as a political partner, with whom changes in the system were to be discussed and agreed. During the “Round Table” talks, which were held between February 6 and April 5 1989 and focused on three major areas – economic and social policy, political reforms and economic pluralism – the Citizens’ Committee put forward the demands already made by Solidarnosc in 1980-1981. The talks concluded with an agreement on the gradual liberalisation and democratisation of the regime, including free elections to be held in the same year. However, the Solidarnosc-led opposition decided not to bid for power after the elections, because of “the worsening economic crisis, the power of the army and the security forces, as well as uncertainty concerning the position of Moscow” and instead, accepted an arrangement that would keep it as opposition for a transitional period, during which legislative changes curbing the power of the Polish United Workers’ Party would be introduced.3

However, the landslide victory of the Solidarnosc-led opposition in the elections held on June 14 and 18 1989 (all the 260 seats elected for the Sejm and 99 out of 100 in the Senate) prompted Solidarnosc to change its strategy and demand the position of Prime Minister. On August 1989, Polish President Wojciech Jaruzelski charged the candidate proposed by Solidarnosc (Tadeusz Mazowiecki) with the task of forming a new Government; and this new Government (in which the opposition secured half of the 24 seats) started work in September.

Hence, Poland was the first country among the central and eastern European countries (CEECs) to re-establish democracy after 44 years of communist rule. After the re-establishment of democratic rule in 1989, Lech Walesa (the leader of Solidarnosc) was elected President in 1990 and the first full-

---

3 According to the agreement reached in the “Round Table”, only 260 (35%) of the seats in the lower chamber of the Parliament (Sejm) and all the seats in the upper house (Senate) were to be subject to free and democratic election.
fledged parliamentary election was held in October 1991. Parliamentary elections in 1993 saw a swing back to the left, with the postcommunist Democratic Left Alliance (SLD) receiving the majority of votes.

CZECHOSLOVAKIA
In Czechoslovakia, the first stage of the so-called “Velvet Revolution” was reminiscent of the events happened in East Germany, with “squares crowded with demonstrators demanding the end of communist hegemony and free elections”; but this was followed by a historic compromise negotiated in a “round table” between the opposition and the communist rulers of the state (mirroring the Polish and Hungarian models).

The political change was triggered by the violent police crackdown on a students’ demonstration held in Prague on November 17, 1989. Immediately after, students, intellectuals, artists, dissident groups and even some communists ad members of the “National Front” parties created the “Civic Forum” (OF) in Prague. In Bratislava (the Slovak capital) a similar civic movement, the “Public Against Violence” (VPN) was established. The goal of both OF and VPN was to open a dialogue with the state (the Communist party) on the liberalisation and democratisation of Cechoslovakia.

Under the pressure of wide civic mobilisation and of a general strike on November 27, the Communists, represented by the Federal Prime Minister Ladislav Adamec, accepted to hold talks with the opossition movements.

The immediate results of these talks were the release of political prisoners, the elimination of constitutional articles on the leading role of the Communist Party in society, the legalisation of opossition groups, unrestricted access to the media, etc. However, although OF and VPN demanded major changes in the government’s composition and policy, at this early stage they were not willing to get involved in the process themselves. Hence, on December 3 Prime Minister Adamec formed a new Government, still dominated by members of the Communist party (15 out of 20 seats).

This was strongly contested by the population and forced the OF, after the voluntary resignation of Prime Minister Adamec, to take a major responsibility in a new Government to be chaired by a communist reformer (Marián Calfa). The OF took seven key economic and legislative ministerial seats on this new “Government of National Understanding” (but not the positions of Interior and National Defence). The appointment of this new Government coincided with the resignation of the last Communist President of the country (Gustáv Husák), which raised the issue of the election of a new President. Under the existing constitutional arrangements, the President was to be elected by the National Assembly, still fully composed of communist deputies. Moreover, OF and VPN were proposing two different candidates (OK Vaclav Havel and VPN Alexander Dubcek) and the majority of the Assembly was rejecting both of them and advocating for a constitutional reform allowing for immediate popular election of the new President. The impasse was broken by hasty negotiations with all parties involved, led by the communist Prime Minister, and before the end of the year (December 28) Vaclav Havel was elected (still by the communist dominated Assembly) President and Alexander Dubcek became Speaker of the Federal Assembly.

In January 1990, the composition of the Federal Assembly was restructured, with the “forced” resignation or dismissal of 122 out of its 242 members, who were replaced by representatives of the opossition (OF and VPN) and some unaffiliated personalities. A similar process was followed in February in the Czech and Slovak National “Councils” and, from that point, decision-making on the legal and other changes needed was moved from the “round-table” to legislative bodies. Parliamentary democracy was thus restored in Czechoslovakia under an unchanged Constitution and before free elections could have been held. In late January, the federal Assembly passed a “small act on political parties”, which allowed a pluralist political system to emerge. An Election act, based upon the agreement forged at the round-table, was passed in late February and the first free elections for both the Federal Assembly and the two National Assemblies of the Czech and Slovak Republics were held in June 1990, for a mandate of just 2 years, to be centered in the key task of drafting and adopting new Constitutions (Federal and National). The democratic political movements that had been
born spontaneously in November 1989 (OF and VPN) triumphed in these first elections, although the Communist Party was still voted by 13-14% of the population.

Post election talks culminated in the re-election of Vaclav Havel as President in July 1990; and the first free local elections were held in November 1990 (one year after the revolution).

In the first six months of the political transition (until the first democratic elections), the “Government of National Understanding” and the restructured Federal Assembly and National Councils implemented a number of political and economic reforms, including the abolition of the death penalty, freedom of assembly and association, amendments to the press Act and the Civil Code, acts on equal standing of all forms of ownership, on joint-stock companies, on small enterprises, on state-owned companies, etc.

In the international sphere, in these early months an agreement was signed with the Soviet Union on the withdrawal of the Soviet troops from Czechoslovakia, the Council of Europe granted the country the status of special observer and a first agreement on trade and economic cooperation with the European Community was concluded.

HUNGARY

Hungary's transition to a Western-style parliamentary democracy was one of the first and smoothest among the former Soviet block countries. In 1988 the Hungarian Parliament – still fully controlled by the Hungarian Socialist Workers’ Party (MSZMP) - adopted a "democracy package," which, among others, included trade union pluralism, freedom of association, assembly and press, a new electoral law, the reform of the law on political parties, and a radical revision of the Constitution.

A national consensus on the need for and the exact methodology of democratic transition was reached in the framework of national roundtable negotiations held in Spring 1989, which brought together three sides: 1) the ruling Hungarian Socialist Workers’ Party, 2) the democratic opposition represented by the “Opposition Roundtable” (formed in March 1989 by the political parties established after the law adopted in 1988), and 3) the so-called "third side", consisting of various social organisations and trade unions linked to the Communist government.

In October 1989, the National Assembly passed constitutional and other legislative amendments agreed at the national tri-partite negotiations (including the abolition of the Presidential Council, elections for parliamentary deputies and President of the Republic, and rectification of unjust sentences related to the 1956 revolution). The amendments also dropped the word “People’s” from the name of the country and declared the Republic of Hungary an independent state based on the rule of law.

In the meantime, in an extraordinary congress also held in October 1989, the Hungarian Socialist Workers’ Party (MSZMP, the ruling communist party) was dissolved and the Hungarian Socialist Party was established as its successor. The new party gave up its monopoly on power and declared its advocacy of a pluralist parliamentary democracy, mixed ownership, a socially-oriented market economy and civic self-determination.

The first free parliamentary elections were held in March and April 1990, with the opposition right-wing Hungarian Democratic Forum taking 43% of the votes.

SLOVENIA

After the death of Josip Broz Tito (1980), under whose rule the actual “autonomy” of the SFR Yugoslavia’s “federated” republics and autonomous “provinces”, formally recognized, was limited in practice, power gradually started to devolve from the center to the federated republics; and the Communist Party itself became more and more decentralised.

In Slovenia, the first democratic election took place in 1989, for the election of the person who would occupy the position of Slovenian representative to Yugoslavia’s collective presidencial body and
rotatory Presidency. An independent candidate (Mr. Janez Drnovsek) defeated the official candidate of the Communist Party.

In April 1990, free parliamentary elections were held for the first time in two of the SFR Yugoslavia's federal republics (Slovenia and Croatia). New political groupings, clearly in the path of democratization, won those elections. Although these political formations advocated national identity and sovereignty, in the beginning this was meant to be achieved still within the framework of a federative or confederative Yugoslavia.

But Serbia leadership's uncompromising pressure to change the structure of power in the SFR – back to a “centralized federation” under the preminence of Serbia – was felt as a threat and gave a push to Slovenian (and Croatian) demands for independence. In the second half of 1990, pro-independency movements grew, compounded with the popular reaction to the brutalities unfolding in Kosovo, which autonomy had been abolished by the Serbian authorities and in which martial law had been established. In a referendum held in December 1990, a large majority of Slovenians voted for independence; an independence which timing and conditions were to be negotiated with the federation (at that time presided over by Serbia) in the ensuing six-month period.

Events precipitated in June 1991, when after Slovenia's unilateral declaration of independence the Yugoslav (federal) Army intervened. After 10 days of bellic operations, a cease-fire and the signing of an interim agreement brokered by the EU and involving a three-month moratorium for actual independence (the “Brioni” agreement) and the temporary return of a Slovenian representative to the collective Presidency of Yugoslavia, in late 1991 and beginning of 1992 Slovenia's independence was started to be recognised by other countries.

LITHUANIA
In early 1989, the Lithuanian liberation movement Sąjūdis, which had already set up its own Seimas (Parliament) as an alternative democratic Parliament of Lithuanian people, was following with great concern the events and developments in East Germany, Poland, Hungary and the USSR. Te Sąjūdis Seimas held a session on 15-16 February 1989 in Kaunas and adopted a Resolution on “liberation of Lithuania from the Soviet unlawful captivity”, which was not only a political statement but a basic manifesto directed toward next steps and goals of Sąjūdis.

In March 1989, on the election of peoples' deputies to the Congress in Moscow, Sąjūdis won against local Communist party in a landslide victory (36 seats to 6). At the Soviet Congress of People's Deputies, the Soviet system and leadership were challenged by a fundamental alternative: either changes including self-determination of the republics or a swamp of half-measures and decline. The USSR leadership was unprepared to meet such great challenges frankly and bravely; it continued to rely on force, and the “empire” crumbled down.

On 23 August 1989 (the date of the 50th anniversary of the signature of the so-called “Molotov-Ribbentrop” pact between Stalinist Russia and Nazi Germany) a spectacular demonstration in the shape of a live chain of some 2 million people joining their hands from Vilnius to Tallinn (over 600 kilometres) was organised by the three Baltic liberation movements (“The Baltic Way”). On 24 December 1989 the Congress of Peoples' Deputies of the USSR voted and adopted a Resolution denouncing the Molotov-Ribbentrop Pact - with its secret protocols- as an unlawful breach of international obligations and declared it null and void. This resolution paved the way for the three Baltic states to become independent again.

In March 1990 free elections to the so-called “National Councils” were held for the first time in 40 years in the three Baltic Republics. In Lithuania, Sąjūdis was the winner of those elections and, on March 11, the Lithuanian Council adopted a set of constitutional acts on “Restitution” of Lithuania as an independent state (thus, separating from the Soviet Union).

After the putsch that in July 1991 put an end to Gorbachev's leadership, and the unsuccessful attempt by the Soviet Union to regain control of the situation by armed force (in January 1991), on 17-9-1991
a fully independent Lithuania became a member of the UN; and the second stage of the transition to democracy got started.

- **Constitutional reforms / elaboration of democratic Constitutions**

The transition to democracy and to market economy in Central and Eastern Europe and the Baltic States could not be done without fundamental changes at constitutional level. For some of these countries, which were at the same time regaining their independent statehood, there was no question about the possible continuity of the previous constitutional framework, or any elements of it. Although the first democratic elections for the Parliaments or Assemblies which ended up being “constituent” were still held under the pre-existing constitutional framework, once in force, the new Constitutions elaborated and adopted by independent Estonia (1992), Lithuania (1992), Slovenia (1991) or the 1922 Constitution reinstated in Latvia also in the beginning of the transition, totally superseded the previous constitutional framework and became the basic text of the new legal system. And the same happened with the new Constitution adopted in Romania in November 1991.

In other countries, partly because of the “negotiated” nature of the political and constitutional transformation undertaken as of 1989; and partly due to uncertainties concerning the definitive solutions to be adopted in a number of constitutional issues, this constitutional change took place in at least two separate stages: in the first stage, the most basic and urgent constitutional changes were adopted - in the form of amendments to the existing Constitutions or additional Constitutional Acts limited to some aspects – and later on new Constitutions were elaborated. This was the process followed in Poland (“small Constitution” in 1992 and new Constitution in 1997), Czechoslovakia (constitutional amendments before the 1990 election in the still united Federal Republic, and finally, two separate Constitutions adopted in 1992 for the Czech Republic and for Slovakia). This was the process which could have been followed also in Hungary, were a profound an extensive reform of the 1949’ Constitution of the “People’s Republic” (last amended in 1972) was adopted still in 1989 (before the first democratic elections, held in 1990), followed by additional amendments in 1990 and 1997; but the purpose of elaborating an entire new Constitution was finally abandoned in that year.

Thus, even if the final outcome of all these different approaches shares a number of common features (abolition of the monopoly of power of the communist party and reestablishment of political pluralism; constitutionalisation of modern political, social, economic and cultural rights, as defined by international texts; separation of powers; abolition of the principle of state property of all means of production and restoration of the right to private property; abolition of the system of central planning as the basic tenet of national economy, and its replacement by the right to free enterprise and the market principles, etc.), the experiences of the new EU Member States of central and Eastern Europe with constitutional reforms show a wide range of diverse approaches and specificities, and once more demonstrates that each country undertaking a similar political transition needs to find its own way and solutions.

The direct participation of organised civil society at large in the discussions and debates leading to the elaboration of these Constitutions seems to have been limited. Nevertheless, it can be assumed that parliamentarians elected through free and democratic elections and the political parties and formations to which they belonged did actually represent the political will of the population at large. In any case, it seems that the Estonian experience with the process of elaboration of the 1992 Constitution might be a good example of how to conduct and manage a process of elaboration of a new Constitution involving not only political parties represented in the parliament and their members, but also other sectors and organisations of the civil society.

**LATVIA**

Instead of elaborating a new Constitution, Latvia decided to reinstate the Constitution adopted in 1922, with just a few changes (the threshold for access to Parliament was raised to 5%, the duration of the legislature term was extended to 4 years and, after joining the UN, a new Chapter on Human Rights was added to the Constitution).
ESTONIA
After restoring its independent statehood on 20th August 1991 one of the three main political goals of the transition Government formed in January 1992 was the adoption of a new Constitution for the country and the organisation of the first post-war democratic elections in the Autumn of 1992. The new Constitution was drafted in the first six months of 1992 and was adopted by referendum held on 28 June. The process of elaboration of the new Constitution was a process that involved many actors in Estonian society (political parties, social movements, etc.) thus establishing a solid consensus on the basic tenets and institutions of the country for its immediate future. The adoption of the 1992 Constitution became the basis for all subsequent Laws and gave a positive impulse to Estonia’s development. It made it possible the announcement of the presidential and parliamentary elections in September 1992.


LITHUANIA
After regaining independent statehood in 1991, Lithuania also opted for elaborating a new Constitution for the country, which was worked out by the Saeimas in 1992 and approved in a referendum held on 25 October. This new Constitutional text was preceded by a “Provisional Basic Law of the Republic of Lithuania” that had been adopted by the “Supreme Council” of the Republic, after the elections held in March 1990 (which were won by the opposition movement Sajudis).

The 1992 Constitution was later amended/supplemented by a “Constitutional Act of the Republic of Lithuania on Membership of the Republic of Lithuania in the European Union”, adopted in 2003, after the referendum held in May of the same year on the country’s accession to the EU.

POLAND
In April 1992 the Polish Parliament (the Sejm or Diet) passed a first Constitutional Act reflecting the changes that had occurred in Poland since 1989 (the so-called "small constitution"), but in subsequent years the Sejm continued to work on an entirely new constitution, which was finally adopted in 1997.

CZECH REPUBLIC AND SLOVAKIA
The first constitutional amendments, introduced in early 1990, eliminated the articles of the socialist Constitution that prescribed the leading role of the Communist Party in society and the state; and allowed for the replacement of members of the Federal Assembly and the National Councils (Assemblies) of the Czech and Slovak Republics, on the basis of agreements brokered by the existing political forces, so that the composition of these legislative bodies could reflect a balance of power equivalent to that of the transitional Government formed in December 1989.

A number of additional Constitutional amendments (up to 10) were adopted by the “restructured” federal Assembly in the following months, in parallel with the adoption of legislation needed to implement the most urgent political and economic reforms. However, at that time no one was able to predict the course of future political developments and – also for obvious democratic reasons – the elaboration of a new Constitution was deferred to a new Federal Assembly, to be democratically elected in June 1990.

The new Federal Assembly (as well as the new National Assemblies of the Czech and Slovak Republics) were elected in June 1990, with a mandate of two years, within which a new Federal Constitution should be elaborated. However, subsequent political events leading to the dissolution of the Czechoslovak Federation as of 1st January 1993 made it unnecessary the adoption of a new Federal Constitution and instead, two separate Constitutions were elaborated and adopted by the respective National Assemblies of the Czech and the Slovak Republics.
The current Constitution of the Czech Republic was adopted on 16 December 1992 and has, since then, been amended five times (1997, 2000, twice in 2001 and finally in 2002).

The Constitution of Slovakia was passed by the Slovak National Council on 1st September 1992 and came into effect in October (although some of its articles came in force on 1st January 1993). It has also been amended several times since then (1998, 1999, 2001 and twice in 2004).

HUNGARY
With a long-standing tradition of non-written Constitution and gradualism in reforms, at the beginning of the transition and as a result of the round-table talks held between reformers of the communist establishment and representatives of the democratic opposition, Hungary opted for an in-depth reform of the “socialist” Constitution adopted in 1949 (which had been amended several times, including substantial reforms in 1972). This reform, quickly drafted and passed by the existing Parliament in the course of the year 1989, brought about a parliamentary democracy based upon a multi-party system, as well as a “social market economy”, while emphasizing human rights and maintaining the Parliament as the supreme organ of state power and popular representation, that retained the power to elect the highest executive and judicial officers of the state.

After the first free elections held in 1990, this Constitutional text was again amended and all references to “democratic socialism” and planned economy were dropped. A further amendment in 1997 streamlined the independence of the Judiciary and later on additional amendments were passed, related to the country’s accession to the EU.

The 1989 text became stable in 1997, when the Government abandoned previous plans for drafting an entire new Constitution.

SLOVENIA
Already before independence, Slovenia – like the other federal republics of SFR Yugoslavia – had, by virtue of the SFR’s Constitution of 1974, many of the powers and competences of a sovereign state. However, at the time of independence, there were several very important “independent state-specific” institutional gaps; one of the most obvious being the lack of a separate and own Constitution.

On June 25, 1991, the Assembly of the Republic of Slovenia adopted the founding document of its independence, the Charter on the Independence and Sovereignty of the Republic of Slovenia, by which Slovenia declared itself as an independent and sovereign state, assuming all the rights and obligations that had previously been transferred to the federal authorities of the SFR Yugoslavia. This decision had been supported by a large majority of Slovenian population in a referendum held on 23 December 1990.

A new Constitution for the independent state was elaborated and was adopted in December of the same year, establishing a parliamentary democracy based on a social market economy. The Slovenian Constitution is based on a combination of liberal, socialist, democratic and corporative principles.

ROMANIA
The current Romanian Constitution was adopted in November 1991, and came into force after the referendum held on 8 December 1991. The Constitution was amended for the first time in 2003.

- Setting up multi-party systems
Although in most cases preceded by months (or years) of popular mobilizations and in some countries also by final direct negotiations between the holders of the communist state power and the representatives of the pro-democracy forces, restoration of political freedoms was in most countries a pretty straightforward exercise.

In some of these countries (Hungary, SFR Yugoslavia) legal reforms allowing for the formation of political organisations and parties - outside the communist party and the organisations allied to it - were already introduced before the regime change. Pre-democratic elections held in 1989-1990 in
countries such as Estonia, Latvia, Lithuania, Poland or Slovenia paved the way for the acceleration of the political changes. One of the first tasks of these new Parliaments or Assemblies was the adoption of constitutional changes and the passing of legislation enabling citizens to freely form political parties that could participate in fully free elections to be held shortly after.

However, the development and consolidation of a stable political party system proved to be a more difficult and longer-term process. The process was influenced by a number of factors, including ideological alignment or re-alignment of political leaders and groups, political positions adopted by such groups and leaders in regards to the direction and pace of reforms (namely concerning economic reforms), issues related to individual leadership and personal ambitions, the defense of power positions and group interests in the change process, and, last but not least, the re-emergence of historical parties and formations which had played a major political role in the past.

Electoral systems and legislation adopted in the beginning of the transition did also play a major role in the development of the political party system. In general, the adoption of strictly proportional systems in some countries led to a big fragmentation of the political representation; and thus post-electoral coalition agreements and unstable governments became a widespread feature during the years of transition.

Another relevant question which arose during the transition in a number of countries was the issue of the possible banning of the communist party. However, this took place in parallel with a process of transformation or re-foundation of many of the former communist parties into left-wing parties that accepted the new “rules of the game” (political pluralism and democratic competition through free elections) and therefore the disappearance of the communist parties of the political scene took place, as a rule, by disgregation of the party itself or by failure of the remains of the party to achieve a level of political representation that would have allowed this party to continue to be a key actor in the political scene.

A common feature that can be observed in the processes of political transition in central and eastern Europe is the difficulty for broad-based and grass-roots democratic “movements” (such as the Solidarnosc coalition in Poland, or the Civic Forum in the Czech Republic) to remain united as an homogeneous political formation for long time, once the normal mechanisms of formal democratic representation are in place and in operation. Even in countries where such political or civic “movements” had an additional and strong nationalistic component (as in the Lithuanian Sajudis), once independence had been restored part of the “glue” that had kept together leaders and people with different ideological background and political views and interests in support to this common objective rapidly led to the formation of different and competing political options and parties.

POLAND
Since the beginning of the 1980s, in Poland the political opposition to the Communist regime was to a great extent built around Solidarnosc (Solidarity), the independent trade union that had emerged in the shipyards of Gdansk and which had spearheaded the strike movements which led to the declaration of the martial law imposed in the country during most of the decade.

In late 1980’s, a broad democratic coalition had developed around Solidarnosc; and they were the representatives of this coalition that in 1989 negotiated with the leaders of the communist party and the state the political and economic reforms to be undertaken for Poland to overcome its deep economic and political crisis.

One of the first steps was to restablish freedom of association and formation of political parties, freedoms of information and speech and the immediate organisation of democratic elections aimed at opening up the national Parliament to democratically elected representatives of the population (although without questionning the predominant position of the communist party and its allies).

The Solidarnosc-led movement participated in the elections held in June 1989 (for 35% of the seats in the Sejm and for all the seats in the newly established Senate) and obtained a resounding victory,
which changed the course of events and forced the democratic movement to take on the responsibility of leading the Government.

In the following years, however, this broad democratic coalition broke up and split into a number of different and even confronted political options; and the same happened with the “coalition” led by the communist party. At the same time, the traditional Peasant Party reemerged with a new force.

The parliamentary elections held in 1991 – under a new electoral law, based in a principle of strict proportionality – resulted in a Sejm where as much as 29 different parties were represented and, in the meantime, the communist party recycled itself into a new social-democratic party, which was able to win the following parliamentary election (1993) and the presidential election in 1995. In 1997, the Solidarity-led coalition (AWS) won again the elections (and got back into government in coalition with the Freedom Union), in confrontation with the Alliance of Democratic Left (led by the Social-Democratic Party – ex-communists); but in 2001 the election was again won by the Democratic Left and the AWS (the centre-right coalition) dissapeared from the Sejm.

The factors influencing these developments were manyfold (ideological differences, disagreements about the direction and pace of reforms, personalisms and, indeed, the electoral system itself), but clearly show that while restablishing political pluralism as a necessary first step was a relatively straightforward reform – as an overall political objective with broad popular support – the consolidation of a stable political party system in Poland has been subject to many country-specific characteristics and inherent difficulties.

CZECH REPUBLIC
In Czechoslovakia, the recovery of political freedoms preceeded in several years the development and consolidation of a new political party system.

A law on political parties was adopted in January 1990, allowing for the free creation of parties in the country. However, during the first months of political and economic transition (from the “Velvet Revolution” in November-December 1989 till the elections held in June 1990), political representation in Czechoslovakia was mainly split between the two “civic movements” that arose in November 1989 in the Czech and Slovak Republics (the “Civic Forum” – OF – in the Czech Republic and the “Public Against Violence” – VPN – in Slovakia); the parties and organisations of the pre-revolution “National Front” (led by the Communist Party – KSC – itself), which were allowed to become part of the emerging democratic political systems without any restrictions; and two other parties which had more or less existed only formally under communism and were revived and became active in the Czech Republic at that time: the Czechoslovak People’s Party and the Czechoslovak Socialist Party.

However, the disintegration of both the OF and the VPN started immediately after the June 1990 election, when disagreements among their representatives in the federal and national assemblies and in the federal government started to emerge on a number of fundamental questions: the approach to and the pace of economic reforms, attitudes towards the communist past, and the growing dispute between Czechs and Slovaks. After a number of internal developments – including the formation of separate “parliamentary clubs” or factions, and the congress of OF held in October 1990 (when the Minister of Finance, Václav Klaus, got a majority in support to his proposal to transform the OF into a right-wing political party), the last national congress of the OF (held in February 1991) decided to divide the Civic Forum into the Civic Democratic Party (ODS), led by V. Klaus, and the Civic Movement (OH), informally led by the Minister of Foreign Affairs. Most of the local civic forums opted for integration into the ODS, while most ministers of the Czech and Federal Governments joined the OH. The Czech Government became a minority government.

The public’s response to the chaos, confusion and mounting insecurity of the first two years after the fall of the communist regime was to elect – in the parliamentary elections held in June 1992 – two strong charismatic figures: in Slovakia, Vladimir Meciar, the chairman of the Movement for a Democratic Slovakia (HZDS) and in the Czech Republic, Václav Klaus, chairman of the Civic Democratic Party (ODS).
HUNGARY
Based on the new legislation adopted by the Parliament in 1988, in the context of a “democratisation package”, the existing opposition groups organised themselves into political parties. The “democratic opposition”, which had operated an underground press (Samizdat) since the early 1980s, established the liberal Alliance of Free Democrats (SZDSZ), while the independent organisation of university students, the Alliance of Young Democrats (FIDESZ), also defined itself as a liberal party. The national-conservative opposition organised itself into the Hungarian Democratic Forum (MDF). Efforts to re-organise historical parties included the Independent Smallholders’ Party (FKGP) and the Social Democratic Party (MSZDP), among others.

The first free parliamentary elections, held in May 1990, were a plebiscite of sorts on the Communist past, with the Hungarian Democratic Forum (MDF) winning 43% of the votes and the Alliance of Free Democrats (SZDSZ) getting 24%. Under Prime Minister József Antall, the MDF formed a centre-right coalition government with the Independent Smallholders’ Party (FKGP) and the Christian Democratic People's Party (KDNP), commanding a 60% majority in Parliament.

SLOVENIA
Freedom of creation of political parties was introduced in SFR Yugoslavia in 1989, paving the way for democratic elections held in 1990 to the Parliaments of the federal republics, under conditions of political freedom and pluralism.

As for the Communist Party, already in the 1970s the “League of Communists” of the SFR Yugoslavia (made up of the Communist parties of the republics and autonomous territories) had actually evolved into a highly decentralised conglomerate of the bureaucratic elite. In Slovenia, this bureaucratic elite could easily adapt to any changes and its ruling of the power mechanisms was seen, from the early 1980s, as “political softness”. In late 1980s, there was a general consensus in Slovenia – including the communists – on the need for democratisation; and no formal negotiations between the new political actors and the existing political elite was needed. Members of the former elite (political and managerial) became allied to the emerging civil society against the Yugoslav authorities and participated fully in the political and economic transition, in general becoming some of the winners in this transition.

• Managing the nomenklatura in the transition to the new system
The nomenklatura consisted of people holding key positions in all spheres of life: government, industry, agriculture, education, culture, etc. Most of them were members of the ruling party; and the question of how to manage the issue of the nomenklatura in the new system was a critical choice on the path of democratic transition, which could have far-reaching consequences.

In this regard, three areas seem to have had a particular importance in the process of transition from political regimes that entailed not only lack of political freedoms, but also the total control of the state over the economy through the mechanisms of state property and central planning:

The first is the area of Government and political representation. Democratic elections under conditions of political pluralism were the main instrument for “placing” the old political nomenklatura in the position wanted by the electorate. However, the question of barring certain persons from becoming candidates in democratic elections because of the positions held in the previous regime was very present in some of the countries of central and eastern Europe (Czecho-Slovakia in 1990-1992). In the absence of clear and widely supported legislation and institutional mechanisms, this became a very sensitive and controversial issue in the few countries that try to do so.

The second level was the level of the Government’s bureaucracy, in particular – but not only - in what concerns the security organisations. Here different countries took different approaches. In Estonia, a policy of “sweep the place clean” was adopted by the Government formed in early 1992, involving the replacement of high-ranking public servants by a group of young professionals with no connections with the past and highly committed to the reform process. In Latvia, these young professionals – who started joining the public administration in the early 1990s – coexisted with more senior bureaucrats who had already been serving in the public administration before the transition. In Hungary,
consensus established at the round-table negotiations held in 1989 excluded any purge of the ranks of the public administration, and the renovation of the bureaucracy took place through the ordinary process of filling in vacancies. A case in point is the process of “lustration” undertaken in the Czech Republic, first in a spontaneous way and later on the basis of legislation passed in 1991, which provides a good case study of the difficulties and problems surrounding this type of process, as well as of its impact in the modelling of new power and bureaucratic structures free of the influence of individuals and groups who were not amongst those supporting the necessary changes.

From the viewpoint of the influence of the nomenclatura in national economy, a first step undertaken in many countries was – alongside the abolishment of certain monopolies (suchs as those dealing with foreign trade) the replacement of the company managers appointed by the communist party leadership by new managers. In some cases workers of the relevant companies were given – or otherwise had – the possibility of influencing these new appointments. Also, according to some views, countries that undertook fast privatisation managed to effectively destroy old nomenclatures and their grip on the society from an early stage. On the contrary, countries that tried to privatise later had considerable problems, allowing members of the old nomenclatura to regain control over the economy and a new breed of politicians to became integrated in the system of state-run production. However, this effect seems to be related not only to the time in which large-scale privatisation was undertaken, but also with the methods chosen for such privatisation.

ESTONIA
The September 1992 elections (Parliament and President) provided a clear answer to some important questions, one of them being whether free Estonia wanted to draw a clear line with communist Estonia or let the soviet legacy continue to impact in reality. Against those who supported a “third way” between command and market economy and policy of neutrality in the international sphere (which had characterised pre-war Estonia), the right-wing Fatherland election coalition, that won the elections, along with its presidential candidate (Mr. Lennart Meri), promised to make a clear break with the past, change Estonia into a market economy and unequivocally turn the country toward the West. A large number of soviet-era officials were laid off and the new Government’s policy of “sweep the place clean” cutt off the link to the Communist past and its traditions and opened the way to establishing a modern state system, by bringing a generation untouched by earlier “experiences” into Government. In many cases, members of the soviet nomenclatura did voluntary abandon their positions in public administrations and enterprises and did not try to continue having a direct influence in politics or in Government. As for the continuity of ordinary public officials or employees, Estonia did not take specific “lustration” measures, although a “sworn statement” of not having been involved in repressive activities under the communist/soviet regime was requested from all persons that wanted to join the new Civil Service after the political change.

CZECHOSLOVAKIA
The political change process agreed in December 1989 between the ruling Communist Party and the “civic” opposition paved the way to the immediate formation of reform-oriented Governments and “restructured” Parliaments with a relevant presence of opposition representatives, at both federal and national levels; and these were able to start implementing a number of reforms leading to the free elections held in June 1990.

However, in that period many of the power structures of the communist regime remained virtually untouched (in fact, members of the Communist party remained in Government and Parliaments). Based on the need to ensure the continuity of governance and due to the ignorance of the mechanisms of the communist power by the representatives of the otherwise triumphant civic reform movement, the six months before the first election allowed a number of exponents of the previous regime to survive, and even some entire institutions were at that time preserved from transformation.

In the early moments of the “transformation”, the main impetus was the radicalisation of a section of the society, which demanded sanctions against specific culprits responsible for political repression, the dissolution of the State Security Service (SIB, the secret police) and the dismissal of its members from the civil service.
“Lustration” (a concept and practice used by the communist regime and based on police/security records) was an important way of preventing not only members of the nomenclatura, but all those involved in the repressive actions of the previous regime against the rights of the population, from acceding to positions of responsibility in the public institutions and administrations of the emerging democratic regime.

As a first step, a process of screening of the past records of politicians and other public officials was started - without any clear legal base, but as a response to the popular demands, as expressed by the “civic committees” - by the “Office for the Protection of the Constitution and Democracy” which was set up at the Ministry of Interior to replace the abolished StB. This process gave rise to a number of controversial incidents before the 1990 election. Although the new federal Government resulting from the 1990 election decided to ban this type of “lustration”, it was not possible to halt the activity in this area. Radical MPs became the driving force behind the process and their efforts led to the approval of the screening of all candidates to the local elections to be held in Autumn. Moreover, in the beginning of 1991, the Commission set up by the Parliament in September 1990 to review the events of November 1989, which had gained access (with the consent of the Minister of Interior) to the file registers of the National Security Corps (SNB), started to carry out screenings of the past records involving all MPs, members of the federal Government and their Undersecretaries and even the staff of the Federal Assembly itself.

As more and more scandals concerning disclosure of the past activity of people at every level of public administration were coming to light, in 1991 the governing elite agreed on “the premises of a future federal act” aimed at protecting state government and administration from penetration by the former communist nomenclatura and other pillars of the totalitarian power. The law (“main lustration act”) adopted by the Federal Assembly in October 1991, affected relatively large groups of people, who were barred from holding positions in the state administration and/or removed from office: a portion of the people from the former nomenclatura of the Czechoslovak Communist Party, former members of the Party’s armed units (People’s Militia), a considerable number of StB members and their secret collaborators, members of action committees and students of selected Soviet schools. Additional prerequisites for performing certain functions in the Police and Correctional Corps were also regulated several months later by a special law (“small lustration act”).

The adoption and implementation of the lustration law was rather controversial and gave raise to a large number of criticisms, not only from the ranks of the “left wing” political formations, but also from members of the civic movement and international organisations (such as ILO, CoE, EP and International NGOs). However, the constitutionality of the law’s essential features was confirmed in autumn 1992 by the Constitutional Court, which nevertheless annulled certain provisions of the act, including the controversial category of “StB collaborators”, where the person in question need not have even known the alleged cooperation (even the President, Vaclav Havel, had figured among the StB “candidates” for secret collaboration without him knowing it).

HUNGARY

Two major options were available at the beginning of the transition: to exclude the members of the nomenclatura from any governmental activity in the new system, or to choose the path of “selective continuity”, reasoning that members of this group had the experience to run the State and this expertise cannot be allowed to go to waste. According to Hungary’s experience, a national consensus on this question is of critical importance and should be reached at the very onset of the reform process.

The choice that Hungary opted for stemmed from the characteristics of Hungary’s transition as a peaceful and negotiated one: the country chose the second option, building on the administrative and professional knowledge accumulated earlier. To those who advocated a more radical approach, some kind of a showdown with the representatives of the defunct regime, the first freely elected Prime Minister, József Antall, said: "You should have been so kind as to make a revolution!"
• **Dealing with the past: national reconciliation and “historical policy”**

The process of coming to terms with injustices and wrongdoings committed in the past (particularly since the time when communist regimes were imposed upon the countries of central and Eastern Europe after the end of the II WW – or, in the case of the Baltic States, in the beginning of the War) represented an important part of post-communist transformation, and had several manifestations:

• Restitution of private property that had been confiscated and/or nationalised (with several different and country-specific approaches and additional purposes, such as the creation of a base of private property, needed for a market economy)

• Reparation of other injustices committed by the previous regime (such as convictions for political reasons, deportations or even killings) through rehabilitation of their victims and other compensations.

• Holding the persons responsible for such wrongdoings accountable for their actions (particularly in criminal law terms) and preventing them from acceding to positions of responsibility in the new democratic regime (not just or mainly as a punishment, but as a necessary measure to protect the new regime from their potential negative influence).

• Preserving the evidence of those past injustices and wrongdoings and making it available to the public, so that, beyond its immediate use for the previous purpose, such evidence could become part of the heritage of future generations.

Contrary to other transition experiences (South-Africa, Latin-America), in the countries of Central and Eastern Europe and the Baltic region there was no formal political agreement or public consensus to guarantee impunity to former communist representatives or implement an explicit policy of “reconciliation”. On the other hand, in a number of countries, reformers from the old regime took an active part in the reform process, which was in some cases or at certain stages a negotiated reform, rather than a revolutionary change. Public expectations (in some countries, held by an overwhelming majority, but not in others) that the new regimes would deal with the political crimes of the old regime were - in general - not met, due to many institutional and normative barriers. Although legislative bodies, constitutional courts, politicians and non-governmental organisations tackled the issue of retroactive justice and prosecution of past political crimes, and in a number of countries this policy was endorsed at the highest level, the fact is that not many representatives of the former regimes were actually indicted and even fewer were convicted.

The different approaches to legal retroactivity in Central European countries are a convincing proof that there was no simple answer to the question of how to deal with the Communist past. The various strategies, arguments and interpretations presented by governments, legislative bodies and courts reflected the internal logic of the political and constitutional transformations of individual Central European countries. However, the obvious difference between the rulings of the Hungarian Constitutional Court and the Constitutional Courts in Germany and the Czech Republic clearly shows that in countries where rapid revolutionary change occurs, bolstered by crowds of people in the streets, there is generally more willingness to apply “retrospective means for prospective aims”. In countries such as Hungary and Poland, on the other hand, where transformation measures were the result of agreements forged at “round tables”, there was more reluctance to deal with the Communist past using the instruments of criminal law.

**POLAND**

With respect to retroactive criminal justice, the Polish Constitutional Court decided as early as in 1990 that the prohibition of retroactivity was one of the fundamental principles of a constitutional state, as outlined in the constitutional amendment to Article 1 of the Constitution. The Polish Court also formulated a very strong doctrine of legal continuity between the old and the new regimes. This was, however, weakened significantly by a later ruling regarding the prosecution of stalinist crimes committed between 1944 and 1956. In this ruling, the Court set limits for applying retroactivity by deciding that any deviation from the *lex retro non agit* principle would require a very precise definition of the crimes to be judged retroactively. Although the Polish Court did not entirely exclude the possibility of applying retroactivity within the existing legal system, it declared that it could only be used under exceptional circumstances when the *lex retro non agit* principle was found in conflict with other main principles of substantive law.
As for the preservation of the evidence of the repression exercised by the communist regime, a large percentage of the documents contained in the general and personal information files created by the state security between 1944 and 1989 were destroyed between 1989 and 1990, when those files were still under the control of high security officials from the previous regime. Moreover, for several years after the fall of communism, the handling of State Security files continued to be based in the old practice of limiting access to those files and archives to a maximal degree so that such access was granted only to a carefully selected group, thus ensuring total control of both the individual archives and of all the information contained in them. The largest part of those materials gathered by the communist security service for five decades was basically accessible and used by the newly created security units (the so-called “Office of State Protection”) which still in the 1990s – and due to the absence of significant reforms in this sector – were widely staffed by personnel hired during the communist period.

It was only through a ministerial directive issued in March 1995 by the then Minister of Interior that access of historians and other interested parties to the archives of the former State Security was first allowed; although, based on laws on protection of state secrets, the security services continued to enjoy a large discretionality in deciding to whom such documents (including the oldest files, from the second half of the 1940s) would actually be made available.

In December 1998 (after the return to power of Solidarity Election Action – AWS - in coalition with the Freedom Union), a Law on the establishment of an “Institute of National Remembrance” was passed (with the vote against of the members of the post-communist Social Democratic Party). However, it took one a half year more for the Parliament to agree upon the person who should become its first President; and only then the Institute could start its operations (second half of 2000).

The Institute, which scope of activity includes the documentation of both nazi and communist regimes, political repressions and persecutions, is divided in four sections: 1) The Commission for the Prosecution of Crimes Against the Polish Nation, which investigates and documents individual cases; 2) The Office for the Preservation and Dissemination of Archival Records, which provides access to materials to victims and other persons authorised by the laws; 3) The Public Education Office, which deals with historical and educational matters, and has already issued a number of books and publications concerning the recent history of Poland; 4) and the Vetting Office, which effective setting up was withheld due to some decisions of the Constitutional Court.

The question about the trustworthiness of the materials inherited from the Polish State Security and of the future of all those archives is still open in the Polish society, and subject to constant debate.

**CZECH REPUBLIC**

In addition to a small number of trials of representatives of the former regime and members of its repressive apparatus, administrative disqualification (“lustration”) was, besides rehabilitation (mitigating legal injustices) and restitution (of property and assets confiscated by the state at the time of establishment of the communist regime, to their former owners or their heirs) the main way of dealing with the past on the legal level.

Indeed, both “lustration” and investigation of crimes were to a great extent based on the contents of files and records of the security bodies, namely the Security Police (StB).

A Department for the Documentation and Investigation of the Activity of the State Security Police (StB) was first established in 1991 by an order of the Federal Interior Ministry. The Department was made responsible for analysing archive materials, dealing with cases initiated by individuals and legal entities in relation to the former secret police and investigating the criminal activities of its members. Shortly before the break-up of the Czechoslovak Federation, a new Office for the Documentation and Investigation of the Activity of the State Security Service was established, subordinated to the Office of Investigation of the Czech Republic. Although this Office was able to process more than a thousand cases and to bring criminal charges in 44 cases, already in 1993 it transpired that he office had been created too late and with little authority. It became active at a time when the majority of its partners
(administrators of archives and intelligence institutes) were under the impression that the process of coming to terms with the past had essentially been completed.

In February 1993, on the initiative of the Attorney General and on the basis of an agreement with the Ministry of Interior, a Coordination Centre for the Documentation and Investigation of Violence Against the Czech Nation between May 8, 1945 and December 31, 1989 was established. As part of the transformation of the Prosecutor’s Office into the State Attorney’s Office, it became the Centre for the Documentation and Investigation of the Illegality of the Communist regime within the Czech Ministry of Justice.

In July 1993, the Czech legislators, conscious of the “obligation of a freely elected Parliament to deal with the Communist regime”, approved an Act on the “illegality of the Communist regime and on resistance to it”, which declared the “leadership and members of the Communist party responsible for the method of government in our country from 1948 to 1989, and in particular for the systematic destruction of the traditional values of European civilisation, for the deliberate violation of human rights and freedoms, for moral and economic decline accompanied by judicial crimes and terror against people holding different views, for the replacement of a functioning market economy with direct management, for the destruction of the traditional principles of the right of ownership, the abuse of education, schooling, science and culture for political purposes, [and] the wanton destruction of the natural environment...” and also that “the Communist Party of Czechoslovakia was a criminal and contemptible organisation, as were other organisations based on its ideology which aimed to suppress human rights and the democratic system through their activities”.

An Office for the Documentation and Investigation of the Crimes of Communism (ÚDV) was established in the beginning of 1995 on the basis of this Law as part of a nationwide police investigation authority within the Ministry of Interior. The office was competent to investigate crimes committed between February 25, 1948 and December 29, 1989 “even if a legal conviction or acquittal had been produced for political reasons incompatible with the basic principles of the rule of law in a democratic state”. The office was also supposed to compile, evaluate and document “facts and activities connected with the illegality of the Communist regime and the resistance to it”.

By the end of 1998, when UDV was “reorganised”, its investigators had criminally prosecuted 87 representatives of the Communist regime’s political or executive bodies in 47 cases and there was an additional number of 26 cases, involving 40 people, pending of a decision of indictment by the State’s Attorney Office. Another 400 cases were under investigation. However, the number of final convictions was very low (6 at the end of 1998) and UDV employees were aware that they could not be the only instrument used for the Czech public to come to terms with the past, because they were only pursuing a small percentage of the crimes committed by the former regime.

SLOVAKIA

Before the dissolution of the Czechoslovak Federation in late 1992 the files and documentary materials of the former State Security services were transferred to the newly created Institute (Office) for the Protection of Constitution and Democracy (the new secret service); others remained in the Federal Interior Ministry; and a third part was kept within the former regional administrative offices of the National Security Department.

In 1993, the archive materials kept at the Federal Ministry of Interior were divided between the Interior Ministries of the Czech and Slovak Republics, which were to continue separately the task of issuing lustration certificates. However, in Slovakia the Ministry of Interior refused this task, which was then assigned to the newly created Slovak Information Service (SIS). From then on, the former State Security archive materials (and later one, also materials originating in other security organisations ) came under the control of the intelligence service, which officials were the only persons having access to such documents.

In 1998, Slovakia’s new Government took a more open stance on the need to declassify and allow access to documents kept in the state archives and related to the previous historical periods. In 2000 a Department for the Documentation of Communist Crimes was established within the Ministry of...
Justice (under Minister Ján Carnogursky) and started to process materials from state archives, court files, archives that remained in the Ministry of Interior and files from the prison system. At the same time, the Ministry started work in the preparation of a law which would provide an appropriate legal framework for the work already started.

This Law was adopted in 2002 and created the Institute of National Memory, as the state body holding the responsibility to keep documentary materials from the former state security and other bodies and related to the period 1939-1989 (thus including the period of the so-called Slovak State, i.e. the vassal state of Nazi Germany). In its first three years, the Institute receive materials which had been kept at SIS since 1993 and further collection of relevant documents concerning the territory and citizens of the Slovak Republic from other sources has continued.

The Institute has made these materials available to persona authorised by the law, including researches and academicians authorised by the Law on Archives and the persons mentioned in the Law on the Institute.

HUNGARY

While the issue of the 1956 revolution became the subject of a consensual judgment among the major political forces at the core of the transition process, issues of earlier history such as the XIXth century and the first half of the XXth, have been haunting Hungarian society, especially after the long silence imposed from above on many related questions in the second half of the past century. A heavy historical legacy, coupled with the complexities of democratic transitions, is a particularly fertile ground for intolerance, nationalism, ethnocentrism and political extremism. Issues of history should be debated by researchers, members of the scientific community, with the involvement of the public, and kept out of everyday political processes. The best scenario to find durable solutions would be to discuss these often cross-border problems with the participation of intellectuals from the countries concerned.

The handling of the questions of history was also reflected in the use of symbols. The tipping point of an emerging transition process was the re-burial in June 1989 of the martyrs of the 1956 revolution, including Prime Minister Imre Nagy. The Republic of Hungary, replacing the People's Republic, was proclaimed on 23 October 1989, the anniversary of the revolution, and the day was also made a national holiday. Certain holidays connected with the Communist past were discontinued, while some other holidays were reintroduced. A hot political debate regarding which version of the historic coat-of-arms was to be reinstated was resolved in a parliamentary vote. Statues connected with the Communist past were transferred to a so-called Park of Statues open to the public on the outskirts of Budapest. A museum in the capital, called The House of Terror, was established to present the brutalities committed in Hungary by both the Fascist and Stalinist dictatorships.
2. HUMAN RIGHTS

One of the core aspects of the process of political reforms carried out in Central and Eastern Europe was to incorporate into the legal system and to make effective the full enjoyment and free exercise of the human, political, social, economic and cultural rights recognised in international instruments adopted at world-wide and European level after the end of the II World War. Many of these rights were already enshrined in the national legislations (with notable exceptions, such as the right to private property); but they were not effectively respected and protected. Lack of appropriate institutional mechanisms, both general (an independent Judiciary) and specific (such as Ombudsmen) and, even more importantly, lack of public awareness of these rights was a common feature in the countries belonging to the communist block.

Signature and ratification of the international instruments and conventions on human rights and their incorporation into the national legal systems was one of the first steps undertaken in many of these countries in the beginning of their political transitions. Following up from such recognition at legal level, as in many other aspects, efforts focused in the development of all what is needed for their effective protection. To this end, and with the support of some international organisations (such as the agencies of the UN system that had immediately established country offices in the region), parliaments, governments and civil societies worked together in the identification of the main problems, raising public awareness about human rights, and building up the institutional mechanisms required. In a number of countries, full-fledged national programmes and action plans on human rights were developed and adopted, including mechanisms for monitoring the situation in this field.

As of the second half of the 1990s, and once embarked in the process of preparations for accession to the EU, the situation concerning the effective respect for and protection of human rights, in particular in regards to minorities, was also closely monitored by the European Commission, which in its “Regular Reports” on each country’s progress towards meeting the accession criteria was year after year pointing at the main deficiencies still observed.

LATVIA

When renewing independence (May 1990), the Republic of Latvia acceded to 51 international and regional human rights instruments. In 1991, the still “Supreme Council” of the republic of Latvia passed a modern bill of rights (the “Constitutional Law on the Rights and Responsibilities of a Person and a Citizen”). However, the basic infrastructure supporting the enjoyment of such rights – a well-functioning legal system, properly trained civil servants and officials (namely the Judges), a diverse media, an active civil society and guaranteed property rights – could only begin to emerge after the full restoration of statehood (1991); and the country had to face enormous challenges for bringing all these rights to life.

In 1995, and based on a report produced by a high-level mission of international experts (from the Office of the UN High Commissioner for HR, the OSCE and the CoE), the Ministry of Foreign Affairs elaborated and the Government adopted a “National programme for the Promotion and Protection of Human Rights”. This programme, in turn, became the basis for the creation of a National Human Rights Office (by a Law passed by the Parliament in 1995).

In 1998, the 1991’s Constitutional Law was replaced by a new and separate section on human rights in the Constitution (Satversme) and, since 2001, an individual has the right to turn to the Constitutional Court with complaints about human rights violations.

Best practices: 1) National Programme for the Promotion and Protection of Human Rights (elaborated as a follow-up to 1993 Vienna Conference on Human Rights); 2) Setting up and institutionalisation of a National Office on Human Rights in accordance with Paris principles (including its organisation and resourcing, Information and Documentation Centre and the complaints system); 3) Education/training of civil/public servants (including school teachers), Judges and young lawyers on human rights issues.
ESTONIA
At the beginning of the 1990s, Estonia signed almost 30 of the most important United Nations conventions, including the International Convention on Civil and Political Rights, the Convention on Rights of the Child and the Convention on the Elimination of Discrimination against Women. Estonia has also signed the Framework Convention of National Minorities of the Council of Europe, the revised European Social Charter and the European Convention on Human Rights and Biomedicine (Convent for the Protection of Human Rights and Dignity of the Human Being with regard to the Application of Biology and Medicine).

LITHUANIA
Best practice: Human Rights Action Plan

State institutions, NGOs, international organisations and foreign experts were engaged in the development and implementation of the Human Rights Action Plan. This plan, as an umbrella for national development strategies in the field of human rights, established a consistent system of monitoring human rights situation in Lithuania, an effective mechanism of accountability to the public and strengthened institutions within the framework of human rights.

The purpose of the Human Rights Action Plan was to identify the major problems related to human rights and to take practical steps to improve their protection. The Human Rights Action Plan was aimed at establishing preconditions for strengthening human rights protection; ensuring compliance by legislators with international standards; increasing public awareness about human rights and the ways to protect them; identifying the most vulnerable social groups and taking efficient steps to improve their position; developing the activities of NGOs; urging governmental institutions to fulfill international human rights obligations. One of the most urgent tasks of the Human Rights Action Plan was to increase the confidence of the population in legal institutions and to encourage them to defend their rights.

Various institutions were involved in implementation of the specific measures of the Human Rights Action Plan. It was very important that a strict control mechanism was envisaged, i.e. the institutions had to inform the Government regularly about proper and timely implementation of the planned actions. It both allowed achieving good results in improving human rights protection in Lithuania and contributed to establishing a clear and transparent accountability mechanism in the field of human rights protection. Responsibilities of different institutions for certain areas of activities was also defined.

Lithuania was able to achieve remarkable progress in the area of human right protection only due to proper implementation of the Human Rights Action Plan, establishment of a consistent system of monitoring human rights situation in Lithuania, as well as continuous mutual cooperation between government and the public. The experience of Lithuania could be relevant for the countries which are just stepping on this long and challenging path.

HUNGARY
The general rules concerning the appointment of the Parliamentary Commissioners, also known as Ombudsman, are laid out in the Constitution and in the Act on the Parliamentary Commissioner for Citizens’ Rights. The proposal concerning the candidate for the position is made by the President of the Republic and the ombudsperson is appointed by a two thirds majority of the votes cast by MPs. The Parliamentary Commissioner is mandated for a period of six years and may be re-appointed once. Hungary currently has 4 different ombudspersons: one each for Citizen Rights, Data Protection, Minority Rights, and Future Generations (the latter dealing mostly with environmental issues).

Best practice: Protection of vulnerable groups / Ombudsman institutions

Expertise: ICDT
SLOVENIA
Slovenia is a state party to seven most important HR conventions – ICCPR, CESCR, CERD, CEDAW, CRC, CAT and CRPD. It became state party to all of them but the Convention on the rights of people with disabilities by succession, as they were ratified already by the former Yugoslavia. In the time after the independence there was no dilemma whether or not to ratify the conventions, since Slovenia aimed at basing it’s independence on the respect for human rights which Yugoslavia was lacking. In spite of a strong institutional framework in place in the field of human rights there was a certain gap between legislation on one hand and practice on the other hand. Slovenia is, however, not state party to the Convention on the rights of migrant workers and their family members, which is a gap that is obvious also in the level of protection of rights of migrant workers working in Slovenia.

Slovenia has three bodies competent for human rights. The first one is Human Rights Ombudsperson, established in 1994. The predecessor of the Ombudsperson’s office was the Committee for the Protection of Human Rights, a group of academics and human rights advocates, working on a voluntary basis. Today the Ombudsperson’s office has qualified staff, it is quite strong and it is enjoying high trust in the public. Although it does not have the power of issuing sanctions for human rights violations, its interventions in individual matters are generally successful due to the respect this institution is enjoying. The nomination procedure of the ombudsperson guarantees independence, as the candidate is proposed by the president and nominated by the parliament. The history has shown though that the ombudsperson was not equally successful in cases of large systemic human rights problems, such as overcrowded prisons, discrimination of Roma and the issue of erased people (people who have been erased from the registry of permanents residence in Slovenia after the independence due to the fact that they have not acquired Slovenian citizenship).

The second body is the Information Commissioner, competent in the field of the freedom of information and the right to privacy. It has quite strong competencies, including imposing fines, the nomination procedure is impartial and it is therefore highly respected by the public. The office is also doing awareness raising work, which resulted in the public which is much more aware of their right to know and right to privacy than it used to be.

The third body is Advocate of the Principle of Equality, established pursuant the Race Equality Directive of the EU. This body is facing numerous problems, the holder of this function is nominated by the government, it has no support staff, it has hardly any competencies as it cannot investigate cases of discrimination and its opinions are not binding. It also has no independent budget. Consequently, it enjoys very little respect in the public, and the level of complaints filed by victims of discrimination is low. The reason for this is that it that the need for establishing such equality body did not arise from the society, but was in a way imposed on it by duty to transpose the directive.

There are some other bodies dealing with human rights situation in Slovenia, such as Parliamentary Commission for petitions, human rights and equal opportunities. They examine yearly reports of the Ombudsman, Information Commissioner and the Advocate of the principle of Equality. While this commission is not a human rights mechanism, it represents a forum where human rights can be discussed in the national parliament.

Support for NGOs active in HR
There are several calls for proposals published each year by various ministries to which NGOs can apply. However, in any transition society, it is not sufficient if only project-based actions are funded, with a temporary duration of one, two or three years, in which also matching funds are required meaning that the grant only covers 80 or 90 % of the action. It is also important that in the beginning of their existence NGOs have access to institutional funding which is not strictly related to projects, but is available for administration and capacity building of these NGOs. Such NGOs can in a few years build the knowledge and financial stability which will enable them to function only on project-based funding, if institutional funding is no longer available.

In Slovenia, institutional funding is only available to some extent, while project-based funding prevails. This is one of the reasons why there are hardly any human rights NGOs functioning in Slovenia. There is Amnesty International chapter which has a policy of non-reception of any government funds;
there is the Peace Institute which has a strong research component to its work, while its institutional funding for human rights work is still provided by the Open Society Institute. There is Legal Information Centre for NGOs which is strong in the field of asylum, while its institutional funds are provided by the UNHCR. Other human rights organizations are not very significant, or are focusing on a very narrow aspect of human rights and are therefore not very influential. From this picture it is obvious that the strongest and most visible NGOs are still here because of the institutional funding provided by sources other than the government.

**Expertise:** The Peace Institute (Neza Kogovsek / neza.kogovsek@mirovni-institut.si)

**MALTA**
The National Commission for the Promotion of Equality (NCPE) carried out various activities to empower members of society and to support capacity building, in particular regarding equal treatment and non-discrimination.

**Best practices:** Projects on equality and non-discrimination

The EU co-funded project ‘Voice for All’ aimed at empowering participants to challenge the learning and thinking processes which give rise to discrimination based on race, sexual orientation, gender, age, religion and disability and to positively endorse diversity. This project sought to activate cooperation and promote dialogue whilst enabling participants to adopt an outlook which was based on awareness and understanding. The main targets are the Public Sector organisations, members of the media, NGOs, civil society, secondary schools, educators and the general public.

Another project, the ‘Mosaic – One in Diversity’ raised awareness on the grounds of discrimination, and addressed the fears and misconceptions that lead to discrimination. The project aimed at raising awareness on the grounds of discrimination with the goal of creating long term tools to combat discrimination.

**Expertise:** National Commission for the Promotion of Equality

- Rights of foreigners and minorities/international protection (asylum)

**LATVIA**
An issue of particular relevance and political/social sensitivity during Latvia’s transition, with a direct connection with minority rights and social integration, was the question of citizenship and, in relation to it, the question of equal access to public functions and services. Although even during the first period of independence (1918-1940) Latvia was a multicultural country, the ethnic and linguistic environment in the country had changed dramatically after WW II and during the ensuing decades of Soviet occupation (resulting from war deaths, mass deportations, flight to the West and mass post-war immigration). In the beginning of the Latvian transition, the proportion of Latvian residents in the country had decreased to 52%, while the proportion of Russian residents was 34%. Also, because of the fact that during occupation, Latvians were compelled to learn Russian language while there was no incentive for the Russians to learn Latvian language, in late 1980’s, out of the 2.6 million residents more than 1 million had no knowledge of Latvian. The State Language Law, amended in 1992, defined many spheres in which knowledge of Latvian was mandatory. The Citizenship Law, passed in 1994, required knowledge of Latvian as a precondition for gaining citizenship. Suddenly a large number of people were obliged to learn Latvian.

In this difficult context, and apart from its consequences from the viewpoint of social inclusion, the naturalisation process that started in 1995 was proceeding at a very slow pace (in the first 5 years, only 31.036 non-citizens were granted citizenship through naturalisation) and the sociological polls at the time showed that the main factor that prevented non-citizens from naturalizing and delayed their integration into society was insufficient knowledge of the Latvian language and the lack of information about the naturalization law and process. The Ministry of Justice and the Naturalization Board have since then designed and implemented a number of projects and initiatives aiming at promoting and
easing the process of acquisition of the Latvian citizenship through naturalisation, addressing those two main hurdles.

**Best practices:** 1) Public awareness and promotion campaigns on naturalisation; 2) Fast-track language training for naturalisation purposes.

**ESTONIA**

During the period of Soviet occupation a large Russian minority developed in Estonia (30.3% in 1989). As almost one third of the Russians migrated from Estonia in the period 1989–2000, the proportion of this minority in Estonia had decreased to 25.7% in 2006. Other minority groups included Ukrainians (2.1%) and Belarusians (1.2%) of which in total more than 40% migrated from Estonia after 1989. Over 90% of the Russian-speaking population live in Tallinn and the cities of north-east Estonia, near the border with the Russian Federation. The high proportion of “stateless persons” among Estonian residents – former Soviet citizens who have not taken up Estonian, Russian or any other citizenship – has remained as the main concern raised in the all reports related to Estonia’s compliance with and implementation of its international obligations in regards to human rights and minority rights.

A new Citizenship Act came into force on April 1, 1995. The 1938 Citizenship Act that had been in force was declared null and void. The new law did not significantly change the principles of the 1938 Citizenship Act, but it concretised the conditions for granting citizenship through naturalisation – a requirement to take an Estonian-language proficiency exam and an examination to test knowledge on the Constitution and the Citizenship Act was established.

**SLOVENIA**

The obligations of the state concerning international protection of refugees are set in the 1951 Geneva Convention. However, it took a large refugee flow for Slovenia as an independent state to start creating its own protection system. The war in Bosnia was followed by an arrival of several thousands of Bosnian refugees. They were taken care of by the Red Cross and later by UNHCR, while the first act on their status and rights was adopted only in 1997. A proper asylum system was set up only in 1999 when first Asylum Act was adopted. The standards in this act were quite high due to strong support provided by UNHCR that was present in the state. After Slovenia became member of the EU and began transposing the EU directives in this field, the standards lowered significantly, as the consensus on the procedural rights and reception conditions among EU member states was quite lower comparing to the standards in place in Slovenia which were influenced strongly by the UNHCR. It is therefore clear that various international entities, be UN agencies or European Union, can have a quite different influence on the development of HR standards in the state.

In Slovenia minority rights of Hungarian and Italian minorities are quite strongly protected due to the influence of Council of Europe, the fact that they were already protected in former Yugoslavia, and the fact that Slovenia realized it needs to establish a strong minority rights protection system in order to have its sovereignty recognized by other states. However, the gap that exists in the minority rights protection concerns the fact that after the independence new minorities came to exist in Slovenia (ethnic minorities from other republics of former Yugoslavia).

**Expertise:** The Peace Institute (Neza Kogovsek / neza.kogovsek@mirovni-institut.si)

**ROMANIA**

The legislative reform regarding the foreign and asylum regime in Romania involved the adoption of a number of normative acts in order to ensure the conformity with the EU acquis and with other juridical instruments with international character in which the Romanian state is a party.

Institutional capacities were developed, for example at the level of the Romanian Immigration Office (RIO). The 2000-2009 EU PHARE Programme significantly contributed to the development of the RIO institutional structure and to the increasing of RIO personnel training level. At present it can be confirmed that RIO is in the position to ensure expertise transfer to third countries, taking into account the professional capacities of the RIO personnel and the functional system in the asylum and migration field.

22
Romania considers itself able to provide expertise and assistance in the following areas (among others):

- implementing the asylum and migration policies;
- implementing the Dublin procedure and the Eurodac mechanism;
- managing migration flows - implementing return policies, social inclusion and assistance for the refugees and third countries nationals;
- statistical charts, research studies and analysis on the migrational flows;

MALTA

Best practice: Integration of asylum seekers into Maltese Society

This project aimed to integrate asylum seekers into Maltese Society by: providing language, life skills and employment adaptation training; providing support and guidance, and mainstreaming the good practices and outcomes of the project. These objectives of the project were addressed by: i) developing training to enable asylum seekers to access mainstream support for training and employment; ii) improving access to education and employment within the scope of domestic policy; iii) developing an employment strategy appropriate for the needs of asylum seekers; iv) preparing asylum seekers for social integration; v) conduction of a study by an asylum seeker to provide a snapshot of the reality of project beneficiaries; vi) conduction of a study to evaluate and examine the impact of the transnational deliverables and activities; and vii) conduction of a Tracer Study of local beneficiaries. The project also brought together an interesting mix of organizations and had a strong transnational component.
3. REFORMS OF LEGAL SYSTEM AND JUDICIARY

• The setting up and the role played by Constitutional Courts

As in other countries that underwent transitions to democracy in recent decades, Constitutional Courts set up in the countries of Central and Eastern Europe during their process of political transition played a major role in the shaping of the new legal systems of these countries. These Courts had to deal with a number of issues which laid at the core of some of the most important problems and transformations undertaken in the move from authoritarian regimes to democratic ones and from state property/central planning to private property/market economy.

One of the most important issues some of these Constitutional Courts had to resolve was the question of the “continuity” or “discontinuity” between the legal systems in place in the relevant country in the forty years of communist rule and the new legal system emerging from the political change that took place in the period 1989-1991. This question was particularly relevant in regards to two main problems: the investigation, prosecution and punishment of crimes and violations of basic human rights, committed by authorities or agents of the former communist regimes; and the restoration/restitution of private property rights which had been abolished when state property or other forms of collectivisation were imposed after the end of the II World War.

In this respect, it seems relevant to highlight how, while confirming the substantial and radical difference and opposition between the principles and values underpinning the new legal system being reinstated or as a result of the political change and those upon which the communist legal system was built, the practical legal solutions adopted by the Constitutional Courts were quite diverse, to some extent reflecting the different ways in which freedom, democracy, private ownership and market economy had been restored in the relevant country (as a result of a negotiated and gradual “reform” of the existing legal and institutional system or as a more radical or even “revolutionary” change).

LATVIA

Upon restoration of Latvia’s independence in August 1991, the Constitution adopted in 1922 was re-instated as the basic legal norm of the country. In that Constitution there was no provision concerning a Constitutional Court.

In the first Law on the organisation of Judicial Power in the newly independent Latvia, the jurisdiction to hear and adjudicate cases related to compliance of parliamentary laws, and other legal acts of Parliament, Government, state Administration, local government’s and other organisation’s with the Constitution and constitutional laws, as well as cases on constitutional offences committed by senior State officials, was allocated to the Supreme Court.

In 1994, an amendment to the Law on Judicial Power introduced the Constitutional Court as a new jurisdictional body. However, the effective establishment of the Constitutional Court did only take place when a constitutional amendment and a Law on the establishment of such Court were passed in 1996.

CZECH REPUBLIC

As part of the Czechoslovak Federation Constitutional Act of 1968, the establishment of a Constitutional Court had already been envisaged, to deal with division of powers between the federal bodies and those of the two republics. However, the Act needed for the actual establishment of the Court was never adopted, and the Court remained just in paper till the transition to constitutional democracy.

A Federal Constitutional Court was established in Czechoslovakia in January 1992, after lengthy discussions about its jurisdiction and composition; and remained active for one year (until the dissolution of the Federation). The Court was formed by 12 judges, appointed by the President of the Federal Republic among the candidates proposed to him by the Federal Assembly (Parliament).

After the break-up of the Federation in late 1992, the powers of the Constitutional Court were temporarily transferred to the Supreme Court of the Czech Republic; and in 1993 a new Constitutional Court was established, with the jurisdiction to hear and decide cases related to the constitutionality of statutory and other legal acts of the Federal, two republics and the regional state authorities. However, it was only in 1995 that the Constitutional Court was able to exercise its full jurisdiction.
Court was inaugurated on the basis of a new Constitutional Court Act. It consisted of 15 judges, appointed by the President of the Czech Republic upon approval of the Senate, with a mandate of 10 years.

The jurisdiction of the Czech Constitutional Court covers: 1) Reviewing and adjudicating on the constitutionality of parliamentary acts and other legal regulations; 2) Last instance national court in proceedings related to violations of fundamental rights by the Courts or the public administrations and authorities; 3) Adjudication of cases related to electoral matters and representative mandates at national level; 4) Adjudication of conflicts of jurisdiction between the state and the local authorities.

As in other countries in transition, the Constitutional Courts set up firstly in Czechoslovakia and later in the Czech Republic played a fundamental role in the development of the new legal system. For instance, on the occasion of reviewing the constitutionality of some of the laws passed by the Federal Assembly in the period 1990-1992 in relation with the legal consequences of facts or situations originating in the pre-democratic period (such as the “lustration law”) the rulings of these Constitutional Courts, although formally acknowledging the “continuity” of Czechoslovakia’s legal system before and after 1989, took a completely different stance than the one adopted by the Constitutional Court in Hungary. The Czech Constitutional Courts rejected the possibility of interpreting legal regulations independently of the value system of a liberal democratic constitutional state. According to the Czechoslovak Constitutional Court, the possible “discriminatory” aspects of the lustration process, which had been one of the arguments raised against the law adopted in 1991, could not call into question the act’s fundamental purpose – the protection of the fundamental values and principles of a democratic constitutional state. The Court thus accepted a strong argument for the policy of “decommunisation” which, in its basic features, corresponds to the arguments used in favour of the “denazification” policy in Germany after 1945.

Later on, other rulings of the Czech Constitutional Court confirmed this interpretation, whereby formal continuity of the legal system cannot prevent the application of a principle of substantive discontinuity of the basic values and principles upon which a legal system is based.

HUNGARY

The Hungarian Constitutional Court was established in 1989. Its field of authority provides the possibility for citizens to challenge the constitutionality of any legislation on the ground of unconstitutionality. In comparison with other legal systems, the Hungarian judicial review includes both pre-norm control and retrospective “abstract norm control,” and is also accompanied by some special institutions, such as “constitutional complaint” and the recognition of “unconstitutional situation by the failure to adopt a law”. The active role of the Constitutional Court contributed to a large extent to the shaping of a new legal regime that emerged after 1989.

As in other transition countries, the role of the Hungarian Constitutional Court in setting the principles and criteria concerning continuity/discontinuity of legal systems (before and after the political transition) that were based upon radically different principles and values, as well as their practical implications, was fundamental, especially in the early years of transition.

In Hungary, contrary to what happened in other Central European countries, the Constitutional Court formulated a strong doctrine of legal continuity, which started with the ruling on the constitutionality of the so-called “Zétenyi and Takács” Act, which intended to make it possible to prosecute serious political crimes committed between December 21, 1944 and May 2, 1990.

The Court ruled that the Act was unconstitutional because it would prolong the statute of limitations applicable under penal law during that period and this represented a case of retroactive legislation forbidden by the Constitution (in line with generally accepted principles of penal law). The Court went even farther and stated that a legal safeguard based on objective and formal principles (such as the principle of non-retroactivity of penal law, unless favourable for the affected persons) had to be given priority over “historical justice”, that was considered by the Court as “generally subjective and not free from bias”.
In sum, the Hungarian Constitutional Court considered that, although the new legal system emerging from the political and constitutional changes introduced in 1990 was indeed based in principles and values that were not recognised by the old one, the transition from one to another had actually been done as a reform process based on the existing legal framework and thus there was a continuity between both of them. The establishment of a new legal order had been the outcome of a reform undertaken in accordance with the rules of the old one, and not the result of a “revolution”.

The Hungarian Constitutional Court also dealt with retroactivity issues in other areas different from criminal law. For instance, with respect to ownership rights and the restitution process. While rejecting to question the ownership rights acquired by the state through nationalisation (in the 1940s), admitted the restoration as a form of compensation for damage suffered in the past by the claimants, which could then be arranged by restoring old obligations on a new basis, by granting new title-deeds to property.

ROMANIA
The Constitutional Court of Romania was set up in June 1992, following the entering into force of the Constitution adopted by the referendum held in December 1991 through Law no.47/1992 on the organization and operation of the Constitutional Court. The Constitutional Court is the sole authority of constitutional jurisdiction in Romania and it is independent of any other public authority, thus being the guarantor for the supremacy of the Constitution. The Constitutional Court ensures the constitutional review of laws, of international treaties, of Standing Orders of Parliament and of ordinances of the Government.

- Reform of Judiciary and Public Prosecution

Of the several institutions of the “unified” state power that was in place in the Central and Eastern European countries during the period of communist rule, the Judiciary – including the Public Prosecution system – had developed in a direction totally opposed to its equivalent in the western European democracies. Not only was this state power fully integrated into the system of powers dominated by the communist party, and therefore lacking the independence that was a basic principle and a common feature of democratic judiciaries; but it was a key instrument in the overall system of political repression and control – instead of an instrument for the defence of the citizens’ rights – and, even in countries with a historical legal tradition, had lost track of all that had developed in market economies in regards to the role of an independent Judiciary in economic matters. Moreover, Judicials in communist countries were under-resourced, and neither the technical and financial means of the Judicial apparatus nor its human resources were able to cope with the demands of a state based in the rule of law.

The first stages in the reform of the Judiciary were basically aimed at depurating its ranks from those who were seen as having played a more active role in the enforcement of the repressive legislation of the former regime – which was facilitated by the fact that in most cases, under the previous regime, Judges had been appointed for a limited period of time, as well as by the new opportunities opened to legal specialists in the emerging private sector, thus facilitating the leaving of many of them to more lucrative activities -, granting independence to Courts and Judges, re-organising the structure of the Court system and setting up facilities and allocating resources for the training and re-training of Judges so as to be able to operate in a completely different legal system.

A second and very important stage in the transformation of the Judicial power in these countries was undertaken in the late 1990s, when the Court and Prosecution systems had to be prepared for an effective and efficient enforcement of the new EU-aligned national legislation in many fields, including notably cooperation with Courts and Prosecutors in other EU countries in the fields of civil and criminal law. Important investments in upgrading Court facilities and developing in Court information and working systems, as well as in training of candidates and re-training of members of the Judiciary and the Public Prosecution were undertaken at this stage; and these efforts were supported by the EU through the PHARE programme.
LATVIA

Before the restoration of independence, courts were weak and the status of judges was low. The executive subordinated the judiciary, using it as an instrument of power and keeping it dependent through financial and administrative means. Only after independence was it possible to create a Judiciary in line with democratic principles. Latvia had to establish an independent Judiciary from scratch and transform the whole way of thinking about Justice. Public mistrust of the Courts was high and the Ministry of Justice had a budget that was grossly insufficient to fund needed reforms.

Following up from the adoption of a Law on the Organisation of the Judicial Power in December 1992, in the period 1993-1995 a three-tier Court system was established. For civil and criminal cases, the new system was based on district/city courts (first instance), regional courts (with a double role as appellate courts or, in same cases, as first instance courts); and a Supreme Court also with a double role: second instance court for cases adjudicated by regional courts in first instance and court of cassation. A separate Court for commercial cases existed until 1995, in which a reform of the Law on Judicial Power re-allocated the jurisdiction for this type of court cases to the ordinary system of civil courts. Administrative courts were established at district, regional and national levels (Department of Administrative cases in Supreme Court – only for cassation) as of 2004.

A Judicial Training Centre (JTC) was set up in 1995 by the Latvian Judges Association, UNDP, the Central and Eastern European Law Initiative, the Soros Foundation-Latvia and the American Bar Association. The JTC’s initial goal was to develop a highly qualified and independent judiciary in Latvia by providing all judges, court employees and other representatives of the judiciary with a professional continuing education programme and improving their qualifications, knowledge and professional ethics. In late 1990’s, the mission of the JTC changed to focus on promoting a common understanding of law and rights in the European Union.

The Latvian Judicial Association elaborated a Code of Ethics for Judges that was adopted by the Conference of Judges of the Republic of Latvia (the main body representing the entire Judiciary until 2003) and the disciplinary responsibility of the Judges was regulated by a Law adopted in 1998, which established a Judicial Disciplinary Board separated by the previously existing “Qualification Collegiums”. A new version of the Law on Judicial Power was adopted in 2003. This Law redefined the various kind of courts operating in Latvia, the division of cases, guarantees of independence for judges, judicial selection, career development and other issues. The law also created two new institutions – the Court Administration (set up in late 2003 and operational since 2004, as an independent institution separated from the Ministry of Justice and responsible for provision and management of the physical, material, technical and human resources of the Courts) and a Judicial Council.

Latvia also has a remarkable experience (since the 1920s) in the field of forensic sciences and, more recently – based on experiences and models in place in other countries – in the development of modern probation systems and services, aiming at providing alternatives to imprisonment and at the resocialisation of criminal offenders.

Best practices: Latvia has already provided international assistance on structure and functioning of Court administration, including Court information system (Moldova), development of forensic expertise/strengthening of forensic institutions (Georgia), establishment of the office of notary, regulation of other legal professions (advocacy) and development of penitentiary system with a particular focus on prisoners’ resocialisation system and programmes (Moldova). Several public organisations have provided the necessary expertise and resources (Ministry of Justice, State Forensic Bureau, Prisons’ Administration, State Probation Service, Dept. for Strategy and Development of Court Administration).

Resources: 1) Ministry of Justice; 2) Court Administration; 3) Latvian Association of Judges; 4) Judicial Training Centre; 5) State Forensic Bureau; 6) Prisons’ Administration and State Probation Service
ESTONIA
The Estonian reformers were well aware, from the outset, of the need for a functioning Court system, as a fundamental piece of the new legal order. From 1993 to 1995 nineteen laws were passed that helped to establish a modern, three-tiered European style Court system. The poor qualifications and experience of the Judges became a problem, which made it necessary to organise constant training and strong oversight of their qualifications. During the transition period Estonia has significantly educated judges to increase their level of competency and enhanced development opportunities of relevant staff members. Estonia has also developed its court infrastructure including technological innovations such as the implementation of systems for video conferencing and recording of sessions as well as comprehensive information systems for courts. Estonia has also recent experiences in reducing the workload of the judges by disengaging them from tasks not related to judging and by utilizing simplified procedures as well as promoting settlements to speed up the process.

Best practices: Estonia is experienced in developing the schooling system for the judges and has an in depth knowledge about the pros and cons of involving external lecturers. In its development cooperation so far Estonia has used its experiences gained in solving problems regarding the court system for example the surplus of court cases, shortage of judges, inefficiency derived from the structure of the court system and the transformation of legal order that brings about the increase in legal contests as well as difficulties in interpreting new laws.

Resources: Ministry of Justice and University of Tartu (Faculty of Law)

CZECH REPUBLIC
In December 1989, the Judiciary in the Czechoslovak Socialist Republic was in deep crisis at all levels; and very few politicians or legal experts had a clear idea about whether and how the judiciary should be restructured or reformed during the new era that laid ahead. It lacked facilities, was poorly funded and judges had inadequate low salaries. Judges were ideologically involved in the coercive system of justice based on political classes and all of them were to some degree compromised and contaminated by every day contact with representatives of the totalitarian system.

In early 1990, the transition Government (and the Parliament, which composition had been set in line with it) decided that it was necessary to “clean up” the judiciary; and a first decision was to shorten the tenure of existing judges to approximately one year, so as to allow for the screening of the judges against whom objections had been raised because of their politically driven decisions during communism, before proceeding with new appointments (to be made by the President) for a new and life-long tenure.

This, combined with the new – and better remunerated - opportunities emerging in independent legal profession and linked to the development of the new legal and economic system, prompted a “judicial exodus”. Within several months, one third of the judges had left active service.

At the same time, the process of building a constitutional state through new legislation began to increase the tasks and importance of the judiciary. On a daily basis, there were conflicts regarding the powers of the judiciary and their specific duties: the disintegrated and genuinely compromised criminal law judiciary, besides having to deal with an increased number of ordinary crimes (in part caused by the very generous amnesty decided by the Government and the President in early January 1990), also had to resolve the issues of judicial rehabilitation; the civil judiciary had to build a new commercial register that would provide for the legal existence of tens of thousands of companies, under very primitive conditions; the formation of a new commercial judiciary gained a completely new dimension. In sum, all areas of the court system, except family law, saw a manifold increase in the number of cases, and this required not only a quick replacement of the judges that had left the service, but also bringing up the number of judges to the required level, for which there were very few suitable candidates from the standard traditional sources (fresh graduates of the two existing law faculties).

In this context, the fact that certain powers were not transferred or returned to the judiciary between 1990 and 1991 (such as judicial review of extra-judicial reabilitations and privatisation, or judicial
control of land registers) was actually the right decision. This was also the reason why the Judiciary itself resisted the early development of a system of administrative courts.

In 1991, at the moment when it became necessary to deal with the past and prepare conditions for the future, a solution regarding the restructuring of the judiciary was started to be worked out, through a new definition of the status of courts and judges. A new Act on Courts and Judges and an Act on Judges’ disciplinary responsibility (laying down the life tenure for judges and the prerequisites for their independence, as well as a first system for increasing their salaries) were adopted in 1991. However, the crisis of the federative system that arose after the revolution and led to the division of the Federation and the abolition of its institutions in late 1992 made all the blueprints prepared in the first two years for the further organisation of the Judiciary totally useless.

The break up of the federation closed the first stage of the development of the judiciary in the Czech Republic, which in the following years concentrated in the general review of the legal system and the elaboration of modern codes of law. It was only at the end of the 1990s that both the legislation and the judiciary had to be remodelled in line with the prerequisites of membership of the European Union. The process of preparations for acceding the EU defined the third stage of transformation of the Czech Judiciary, which again required further reviews of repeatedly amended laws and regulations. However, despite gradual improvements, the status of judges and the basic organisational structure of the Czech judiciary remained unchanged, as defined in 1991.

As for the public prosecution system, prosecutors had, in the old system, a general function of ensuring control of the legality of decisions taken by other public authorities at all levels; and thus enjoyed broad powers in all types of legal proceedings, including in civil courts.

After 1989, the State Prosecutor was renamed as State Attorney (though an Act effective as of January 1994), and its jurisdiction was restricted to representing the state and protecting the public interest in matters stipulated by the law; namely, in criminal proceedings (bringing criminal charges and representing the state and the society as a whole against the defendant) and other tasks laid down in the penal code, such as supervising the observance of legal regulations in places where custody, prison sentences, protective therapies and protective or institutional education are executed, as well as in other places where, based on a legal entitlements, personal freedom is restricted.

ROMANIA

In order to accede to the EU, Romania has been facing a complex reform for strengthening the independence, professionalism, administration and management of the judiciary system. For the adequate implementation of the process reform, the Romanian Government adopted a Strategy for the Reform of the Judiciary for the period 2003-2007 which has been renewed for the period 2005-2007.

One of the objectives of the Reform Strategy was to enhance the independence of the judiciary. Thus, in 2004, Law no. 317/2004 setting up the Superior Council of Magistracy as the guarantor of the independence of justice was adopted. Together with the Law no. 304/2004 on the Organization of the Judiciary and the Law no. 303/2004 on the Statute of the Magistrates, it formed a legislative package that entailed significant changes, including the transfer of numerous competences on magistrates’ career and their disciplinary liability from the Ministry of Justice to the Superior Council of Magistracy (SCM). Furthermore, the Law no. 247/2005 on the reform in the field of property and justice and other adjacent measures brought further amendments to the legislative framework regarding the SCM, by transferring attributions from the competence of SCM’s Plenum to the competences of the sections for judges or prosecutors.

• **Reforms of main legal codes and texts (Civil, Criminal, Commercial)**

  For the countries of central and eastern Europe, transition to democratic rule and market economy involved the need to undertake a complete overhaul of the legal systems that had been in place in those countries for about four decades. At the date of their accession to the EU, virtually no area or sector of the former legal system had remained untouched.
Reforms started at the level of economic legislation, as well as of legislation related to the restablishment of political freedoms and the organisation of free elections at both central and local level. Economic liberalisation (of prices, trade, foreign exchange and enterprise) and democratisation of the central and local governments and administrations were among the most urgent tasks. In many cases, these legal reforms were accompanied by reforms at constitutional level (amendments to the existing Constitution or drafting of a new Constitution). Some urgent changes in civil and criminal law as well as legislation needed for the setting up of a market economy (abolition of monopolies, company law, bankruptcy) and for the restoration of private property (legislation on land and property restitution, as well as on the real estate register) were also part of these early legal reforms.

A second stage was undertaken shortly after, affecting the legal framework of some important services and activities (health care, education, unemployment system, reforms of the pension and social protection systems) and in this stage, legislation on large-scale privatisation took also an important place. This was also a period in which some of the institutions envisaged in the new constitutional framework had to be re-organised or established as new: Central government and state administration, local or sub-national self-governments and administrations, supreme audit institutions, constitutional courts, the court the public prosecution systems, the security bodies and forces, etc. Reforms in public finances (especially tax and treasury systems) were also undertaken in this phase.

A third phase in the overhaul of the legal system was started when the applications for EU and NATO membership were accepted; and the countries had to undertake and accomplish a full set of new legal and institutional reforms in many areas, so as to set their national systems in line with the requirements for membership. This involved a process of gradual approximation of the national legislation in many areas to the existing European legislation, as well as the development of the institutions and institutional capacities to effectively implement and enforce the EU “acquis”. This process, which lasted almost a decade, was closely monitored and assisted by the EU and its member states, which provided massive financial and technical support through different instruments.

However, in some countries, substantial reforms had still to be completed after EU accession. In particular, it was only after accession that new important legal Codes (Civil, Criminal, Commercial) replacing the old codes adopted even in the 19th Century and many times amended, were finally elaborated and adopted.

In the process of building up these new legal systems, there were areas in which there was previously existing legislation, that had to be substantially amended or replaced; but there were also other areas that were completely new. Therefore, all these countries had to make an enormous effort to catch up in just a few years with the level of development of the legal systems that had taken place in western European countries over a period of four or five decades. National resources and expertise to cope with this task were very often scarce or inappropriate, and thus the role of foreign and international assistance was critical.

In many aspects, the pace of adoption of new legislation was too quick for ensuring the quality of the individual legal instruments – which had to be frequently amended – and, more importantly, countries had to strive to maintain the consistency and coherence of the new legislation, since the individual legal texts were very often inspired in models taken from other countries, each of them with different legal systems and traditions.

In any event, considering the starting point – a poor legal system based upon principles and values radically opposed to the principles of democratic rule and market economy – and the sophistication of the legal systems that prevailed in the geo-political area in which all these countries wanted to become integrated as soon as possible (namely in the EU), the scope and importance of this overhaul of the national legal systems in the transition of the central and eastern European countries can never be overstated.

**ESTONIA**

Ever since the early years of transition, the Government was convinced that the only way for Estonia to advance was to rely on the power of Law and thus an intense legislative activity was undertaken by
the Government and the Parliament. Reforms of the legal system took place in Estonia in the 1990’s at a frantic pace (over 300 pieces of legislation were enacted in 1993 alone, which included several codes that usually takes decades to draft, such as the first important sections of the Civil and Commercial Codes). There was certainly a price to be paid for these large-scale and rapid reforms, and many of the laws passed at that time had to be amended later or even replaced by entire new texts. However, one of Estonia’s advantages was definitely the fact that it basically started from scratch, thus making it easier to create a modern legal system built upon the principles of EU law and the experiences of other countries.

In the first years of transition, legal reforms and activity focused in the elaboration, adoption and implementation/enforcement of the basic legislation needed for the restablishment of market economy (ownership rights and restitution/privatisation of property and enterprises, introduction of the national currency and development of the banking system and other elements of the financial sector, legislation needed for the development of private enterprises, legislation needed for the effective setting up and organisation of the institutions foreseen in the Constitution or otherwise needed for the institutionalisation of the new political and economic environment. Later on (as of 1996) the focus shifted to harmonisation of the national legislation with EU acquis in its multiple areas. In this process, both the EU Law Division of the Ministry of Justice (established in 1995), in what concerned domestic legislation; and the EU Law Division of the Ministry of Foreign Affairs (established in 1998 within the Ministry's Legal Department) regarding international legal instruments and agreement, played a major role in the successful accomplishment of this goal. Thanks to all these efforts, in the course of 10 years Estonia reached a stage in the development of its legal system that had taken stable democratic countries several decades to achieve.

**Best practices:** 1) Methodology for harmonisation of national legislation with EU Law (adopted 1997 and updated 2000); 2) Roundtables with local and foreign experts, as well as members of interested groups on particularly problematic aspects of law harmonisation; 3) Handbook on technical rules for legislative acts for Government officials (2003)

**Resources:** *Institutional:* Ministry of Justice (Legal Policy Department); *Academic:* University of Tartu (Faculty of Law) (details in response to ETC questionnaire); *Individual:* Julia Laffranque (Director of EU Law Unit and Undersecretary For Legislative Drafting at MoJ 1996-2004; currently Justice in the Administrative Law Chamber of the Supreme Court and member of the Constitutional Review Chamber);

**LITHUANIA.**  
**Best practice:** Reform of Company Law

The process of harmonization of the Lithuanian company law with the EU company law dates back to the year 1990, when the Law on Companies, Law on Enterprises and Law on the Register of Enterprises were adopted. Detailed analyses, improvement of Lithuanian company law and companies registration procedures were carried out in 1992. This area was assisted by the Danish Government and PHARE projects.

The work of Lithuanian experts in the company law area was evaluated by the European Commission: the principle of freedom of establishment was one of the areas in which the European Commission gave a positive opinion in year 1997 about Lithuania’s integration process; in 1999 Lithuanian company law largely implemented *acquis*, in 2001 Lithuania made a significant progress in company law, in 2003 the process of harmonization was completed.

**Expertise:** Ministry of Economy of the Republic of Lithuania (Company Law and Privatization Department (Ms. Audrone Railaite, Head of Department);

**CZECH REPUBLIC**

Contrary to what happened in other Central European countries (Hungary, Slovenia) in which reforms of the legal system had already started before the final collapse of the communist regimes, in
Czechoslovakia reforms of the legal system started only after the “Velvet revolution” of November 1989 and the formation of the “Government of National Understanding” in December of the same year.

Other than the constitutional amendments needed to open space for the transformation of the entire legal system, the first entirely new laws adopted in the beginning of the transition included Acts on Freedom of Assembly, Freedom of Association, Political Parties and on Elections to legislative bodies, which were needed to quickly restore the basic political and citizenship rights and move to the celebration of the first democratic elections in conditions of freedom an pluralism.

A second group of early legal reforms was related to the introduction of the basic elements of a market economy, as well as to allow for a change in the management of state-owned companies, where employees were calling for the removal of the old management imposed by the Communist Party and its replacement by managers elected by them (and among them). The issue of unemployment – which had not existed for the old regime – started to raise and quickly gain importance in society, and thus had to be addressed through the necessary legislation (on unemployment benefits).

Criminal legislation also had to be changed rapidly, so as to drop clauses that had allowed the prosecution of political actions as crimes although farther-reaching transformation of criminal law turned out to be a long-term task).

Changing the Civil Code was a far bigger problem. One the one hand, the new social and economic conditions in the country required its swift modification, and the amendment that resolved the most pressing issues was prepared within one year. These amendments also had implications for changing the “Economic Code” (a figure typical of communist regimes) into a new Commercial Code.

Overall, one of the main problems in those early years of transformation in regards to the reform of the legal order was the crisis in which the entire legal profession was immerse at the beginning of transition. Lawyers played a limited role in political activities, and the legal culture in academic sphere had degenerated to the point that neither the two legal faculties, nor the Institute of the Academy of Sciences were in a position to effectively contribute to the process of creating new legislation, with new concepts or qualified analyses of the existing situation in the various legal areas. This was one of the reasons why the solution of partial amendments and modifications of existing legal texts (“desocialization”) was chosen as the best way of proceeding in the beginning of the transition, leaving the entire re-drafting of the main legal Codes for a later stage.

Also, the fact that there was not, at that time, any Ministry of Justice at federal level (which could have ensured the consistency of the legal system and the technical quality of legislation) and that the main laws were elaborated and adopted by a Federal Assembly in which the legal professions were utterly under-represented, gave rise to many shortcomings in the legislation being produced at that time. Supreme Court, General Prosecutor’s office and Judges were called to play also a major role in the elaboration of amendments to existing laws and new regulations, in particularly regarding issues such as rehabilitation and restitution.

The first attempts to undertake a general review of the legal system were made after the break-up of the federation; and this took the form of projects for drafting modern codes of law. However, due to the lack of qualified professionals, the drafts prepared tended to return to the legal system prior to 1948 and there was no energy or capacity to reverse such tendency, even if in many aspects it meant to return to principles and solutions that were in application at the end of the 19th Century.

A further and third stage in the overhaul of the Czech legal system started in late 1990, and was directly linked to the process of preparations for accession to the EU. Which involved substantial legal reforms aimed at adopting the Community acquis, as well as, in many cases, the setting up of new institutions and the development of the capacity of existing ones (public administration, judiciary) to effectively implement and enforce the new rules.
ROMANIA
Following its accession to the EU, the adoption of the new codes has become an important component of the legal system reform.

Thus, new Civil and Criminal codes were adopted by the Parliament in July 2009, replacing the Civil Code of 1864 and the Criminal Code of 1968. In what concerns the Procedure Codes (both civil and criminal), it is expected that the Parliament will adopt them in the autumn session of 2009.

The new codes represent essential components for the reform of the legal system and address the following priorities of the reform of the judicial system: identifying the best solutions for improving the current legal framework; simplifying the substantial regulations so as to increase the courts efficiency and to reduce the length of the trials; harmonization of Romanian laws with the regulations in force in other Member States and not the least ensuring an efficient, unitary and coherent application of the law.
4. PUBLIC ADMINISTRATION REFORM

One of the biggest challenges facing the countries of Central and Eastern Europe was the need to set up and organise a new type of executive branch, comparable to those that existed in the more advanced democracies. This involved first and foremost the need to place the Government as the leading body responsible for the conduct of national policies – not just as the “board” of an administrative and bureaucratic apparatus subordinated to the leadership of a political party, with full accountability to the democratic representation of the people, and full responsibility for the performance of the public administration. Second, it was necessary to renew the internal organisation and staffing of the administrative apparatus, which had been almost totally run by public servants loyal to the previous regime. And third, there was a need to quickly modernise the organisation, processes and instruments of such bureaucratic organisation, which mission was not any longer to be the “vertical” exercise of command and control proper of the previous regime, but the effective and efficient implementation of the Government’s policies and the service to the citizens.

At the time of embarking in a process of reforms in this area, the new leaders of the countries in transition were confronted with different and sometimes competing (and compelling) demands and priorities; and had a range of different public administration models to choose from. Rapid professionalisation of the top echelons of the state administration was felt necessary, but to some extent it was seen as a risk, since the Government could lose control over the administrative apparatus, if such professionalisation was to be accompanied by strong guarantees of independence of professional managers from the political levels. Rejuvenation and renovation of the staff of the public administration, with the incorporation of young professionals and workers with no previous contact or experience in this field and not “contaminated” by the communist ideology and free of linkages with its networks of interests was also a need, if in the medium term the “culture” of the public administrators was expected to be changed towards standard democratic practices; but directly getting rid of the more experienced public servants who had been serving under the previous regime also bore the risk of a downfall in the quality of public management in many areas, which required long-standing professional experience. As for the foreign examples or models, most of these countries received the early – and strong - influence of the very ideologised “new public management” theory and practical examples, not only from highly developed countries, but also from other countries having experienced recent transitions (such as Chile); an experience and examples which were very much welcome in so far as it advocated a substantial reduction of the role and weight of the state – in general, but particularly in economic management – and the introduction of market instruments and mechanisms in the management of public affairs.

In this complicated and difficult context, and often also under the influence of their own history and past administrative models and traditions, each country started to develop its own model, in a process frequently characterised by a “trial and error” approach, so that during the transition there were changes in approach and objectives in a number of areas (for instance, concerning the model of Civil Service to be finally adopted).

The two main issues to be dealt with in the early transition years were: 1) how to prevent those having actively supported the previous regime or otherwise having cooperated with it from keeping positions of control and responsibility in the new administration; and 2) the engagement of qualified professionals sufficiently committed with the reform process to hold the main positions in the public administration and the establishment of a clear-cut separation between political and professional/managerial positions within the structure of the government and the state administration. Some countries gave priority to the “depuration” of the ranks of the public service from supporters of the old regime (“known as “lustration”), over the task of building up a more professional civil and public service, in the understanding that there will be time in the future for ensuring the professionalisation of the civil service as a whole and that practical experience in the management of public affairs will in itself build such professionalisation in those young pro-reform individuals to be given the opportunity to join the public service. Other countries, on the contrary, took the way of trying to build and consolidate as soon as possible a professional corps of civil servants, even at the expense of accepting in such corps many of the public servants who were already working for the state administration under the previous regime.
The question of the need to build up and consolidate a more professional and stable public administration and civil/public service became high in the ranking of reform priorities in the second half of the 1990s, when after the acceptance of the applications for EU membership and the start of the process of preparations for accession to the EU, the reports produced by the European Commission started to point at the lack of or insufficiency of the “administrative capacities” needed for an effective implementation of EU policies and legislation. Such criticisms were to a great extent related to sector or subject-specific institutional and administrative capacities, but this also raised the issue of the “horizontal” systems and capacities related to the professionalism of the entire public administration (civil service, public expenditure management system, coordination of government’s policies, etc.)

In order to foster the development of such administrative frameworks and capacities, the EU mobilised through its PHARE Programme the national administrations of the already existing member states, so that through “twinning” arrangements these administrations could work together with the relevant administrative bodies of the candidate countries in the final approximation of legislation and in the development of the resources, processes and capacities needed for a proper implementation of the relevant parts of the “acquis communautaire”. Also, through the setting up of the SIGMA Programme (a joint initiative of the OECD and the European Commission), the best public sector expertise and experiences available in the most developed countries were made available to the Governments and public administrations of the transition countries in central and eastern Europe for the development of some of the most critical “horizontal” systems of a modern public administration (including a professional civil service).

Basic legislation on public administration was adopted in most of the countries (laws on organisation of the public administration, on administrative procedures, etc.) and new civil service systems started to develop, each country choosing the model or system that was found as better fitting its own traditions and reform orientation. Considerable resources were spent in upgrading the professional knowledge and capacity of the civil and public servants, not only in what concerns specific public policy areas but also in regards to general management capacities and skills. The structures for management of human resources in public administration were also strengthened.

An aspect that was early taken on by some countries as a key element in the modernisation of the government functioning was the use of information and communication technologies (ICT) for strengthening the resources and capacities of the public administration and enhancing and facilitating access to public services. While this process could be observed in all transition countries of central and eastern Europe, some of them placed particular emphasis and resources in this endeavour; and quickly became front-runners in the use of ICT for government and public service purposes, not only among countries in transition, but in the entire European area. These countries are now ready and willing to share their experience with other transition countries facing similar challenges.

Another area in which some countries have had a relevant experience and developed significant expertise is in the management of the policy-making process itself, including planning, coordination and aspects such as impact assessment of public policies (ex-ante or ex-post). This experience is also available for other countries in transition.

LATVIA

The development of public administration in Latvia since independence can be divided into three phases. In the first phase, politicians and civil servants had to create entirely new systems to manage the transition to a market economy. In the second phase, Latvia had to transpose into domestic legislation the European Union acquis communautaire. In the third phase, Latvia is already operating in a common administrative environment within the European Union.

Civil service
During the Soviet period, political and executive powers had merged – every high-ranking employee in public administration was also a member of the Communist Party. The decision-making process was regulated “from above.” Public input in policy-making was minimal. As government systems changed, so did structures, decision-making procedures and the responsibilities of public
administration employees. Some of the employees of the old system continued to work, while entirely inexperienced people also become involved in public administration. Thus, it was necessary to educate and train many new officials in a short time.

In order to create a public administration that would fulfil its functions fairly and effectively, the government created the Ministry for State Reform (1993-1995). This ministry developed the Public Administration Reform Policy Paper, the first Law on Civil Service (April 1994), the School of Public Administration and the Civil Service Administration (established under the Prime Minister).

The Public Administration Reform Bureau (1997-1999) and the Secretariat of the Special Assignment's Minister for Public Reform Affairs (1999-2002) worked on the Law on the Public Administration System, and improved administrative systems. The Ministry of Finance developed an internal audit system and the Ministry of Justice created an Administrative Procedure system. A new Law on Civil Service came into force in 2001, involving a move from the “career” system introduced by the 1994 Law to a “post” system, and reducing the scope of the Civil Service to central government Ministries and subordinated institutions and a certain number of special groups of public servants (police, firefighters, border-guards, state revenue service, the diplomatic and consular service). Since 2003 the State Chancellery, which is the state organisation responsible for managing the Centre of Government (including policy planning and coordination) has also been responsible for public administration reforms. It also oversees in-service training for the public administration.

**Policy planning**

In 2000 the State Chancellery started the development and implementation of a uniform policy planning and coordination system. "Policy Planning Guidelines", which prescribe the basic principles for the policy development, types of policy planning documents and their hierarchy, was a basis for adoption of Cabinet Regulations No.111 "Rules of Procedure of the Cabinet of Ministers" of 12 March 2002.

Amendments to the "Rules of Procedure of the Cabinet of Ministers" adopted in 2005 stipulate that the state budget of 2007 should be drafted in accordance with the structure included in the programme part of ministries’ strategic plans. This would ensure integration of sectoral policies used for annual budget application of the respective direct administration institution.

**Best practices:** 1) Policy Planning System and Guidelines (developed by Policy Coordination Department of the State Chancellery and adopted in 2002 by the Cabinet of Ministers), including Policy Impact Assessment (implementation methodology, publications and training courses developed and implemented at the School of Public Administration).

**Expertise:** 1) State Chancellery (Policy Coordination Department); 2) Latvian School of Public Administration; 3) Vizdeme University College (Master in Public Administration)

**ESTONIA**

**Civil service**

The creation of an effective Civil Service was one of the most important challenges that early transition Governments had to face. In Estonia, besides organising the Government’s work so as to be able to make rapid decisions, politization of the State Administration was prevented from the outset by implementing a system of non-political Secretary-generals that established a sound foundation for sustainability of reforms despite rapidly changing Governments. This model of professional administration was also one of the key factors that prevented corruption in government and state administration.

**Best practices:** 1) Cabinet decision-making procedures; 2) Legal status and profile/requirements/guarantees of Ministries’ Secretary-generals
e-Government

During the transition period Estonia set itself the goal of employing modern ICT in the service of the state every step of the way. Estonia understood that the state and the information system of the state must be developed as a whole, that ICT must support the everyday functioning of the state in the best possible manner and to provide better public services to citizens and businesses. ICT solutions made the provision of public services and the communication between the state and the citizens as well as enterprises easier and more efficient. Estonia used ICT solutions to manage information flows and facilitate institution building. Estonia’s example was ground-breaking as we showed how a relatively poor country can benefit from ICT.

Best practices

Estonia has implemented many society-wide e-solutions, such as: 1) e-Tax Office (several countries have created an electronic tax board but in Estonian case, most of the information is already electronically available in a pre-completed form, so users do not have to enter their data twice and submitting your declaration takes only a few minutes). Estonia also stands out among other countries for the fact that a total of 86% of all tax-payers submit their tax declaration online.); 2) More than 80% of Estonian residents have an ID-card and many of them have used it for giving digital signatures or for e-voting; 3) There is High-speed wireless Internet (WiFi) available at over 1000 public places; 4) As a public (internet) service the expenditures made in state budget can be followed on the Internet in real-time.

Expertise

Institutional
The e-Governance Academy (eGA)

Individual
Mr. Ivar Tallo, Member of the eGA Management Board
e-mail: ivar.tallo@ega.ee

LITHUANIA

Civil service

After the restoration of independence, the Republic of Lithuania faced the necessity to establish the civil service that corresponds to democratic society standards. As such a task is best solved with foreign assistance, Lithuania decided to use the possibilities provided by PHARE programmes.

The first PHARE project started in 1997 while preparing the draft Law on Civil Service. It was aimed at intensifying the process of public administration reform and to develop a reliable and professional civil service in Lithuania. The PHARE experts considered the prevailing new tendencies in the civil service sector and provided methodology support in drafting legal acts for implementing the provisions of the Law on Civil Service.

The PHARE programme included the training of civil servants, which was run by the Lithuanian Institute of Public Administration. Within the framework of the project, special surveys were conducted to define the training needs in the civil service sector, and training methodologies and teaching materials were worked out. The new version of the Law on Civil Service clearly defined the types of training and their curricula, as well as authorised the Institute of Public Administration to design and implement relevant training programmes.

In 2004, the Civil Service Department under the Ministry of the Interior of the Republic of Lithuania was completing the PHARE Project for Improvement of Public Service Management by Strengthening the Agency of Public Service Management that began in 2003. The Project aimed at: 1) strengthening the capacities of the Civil Service Department under the Ministry of the Interior; 2) improving legislation regulating civil service, as well as working out the necessary methodologies; 3) developing and implementing an information system for more efficient public service management.

The partners of the Project included the Directorate General of Public Administration and Civil Service of France, the Danish School of Public Administration and the Federal Civil Service Organisation.
The Polish administration of the late 1980s was largely ineffective and was only one step from being uncontrollable as a whole, facing chaos and inertia. This situation constituted a serious and real threat to Poland, and for that reason administrative reforms became a necessity immediately after democracy was reestablished in Poland in 1989.

However, Poland chose a route that was different from that of other post-communist countries. Instead of focusing the efforts in reforming central state administration, the first steps in the reform of the Polish system of public administration concentrated in the territorial decentralisation of administrative functions and responsibilities, in favour of new democratically based municipalities (gminas) and later on also on a second level of local self-governments (poviats) and on the creation of some regional administrations (voivoidships).

SLOVENIA

Civil service
One of the major issues during the process of public administration reform covered the methods of providing professional competence and attracting experts for carrying out duties at the highest managerial positions in central government administration. These positions include directors-general and secretaries-general in ministries, directors of bodies within ministries (e.g. Tax Administration, Police, Veterinary Administration, Customs Administration, etc.), directors of government offices and heads of administrative units (territorial organisation of the administration).

Moreover, this issue was important due to the necessity of ensuring a clear delimitation of politics and expert field. Prior to the reform, the highest ranking positions were occupied by the functionaries, therefore professional competence was not a precondition for carrying out the managerial function. With the reform, the number of functionaries (e.g. state secretaries) decreased significantly as after a stringent selection procedure there were the experts who occupied the highest ranking positions instead of functionaries.

In ministries, beside the minister only a state secretary has the status of a functionary. The state secretary acts in place of the minister during his/her absence. Wider work areas are managed by directors-general who are experts in their respective fields. Auxiliary activities (HR, finance, administrative-technical activities) fall within the responsibilities of secretaries-general. Directors-general and secretaries-general are under the direct authority of the minister. Directors of the bodies within ministries (e.g. Tax Administration) are autonomous in performing their duties, yet under the direct authority of the minister with regard to their responsibility.

The Public Administration Act stipulates a clear delimitation of a body within ministry and a ministry itself as well as the relation between a minister and a director of the body within ministry. The minister as a politician (functionary) can give general guidelines for the work of the body within ministry, demand reports and exercise supervision of the work through a professional service, however he/she can not interfere in the professional autonomy of the body.

Open competitions are carried out for the highest ranking positions as stipulated by the Public Servants Act. Highest ranking officials are appointed by the government for the period of five years upon the proposal of the principal with the exception of the heads of administrative units who are designated by the minister of public administration. After a five-year mandate the appointment to an official's position can be renewed without open competition. In case there is no renewal of the appointment, the officials who already performed duties in public administration are assigned to a position which complies with the attained position prior to the appointment.
On the basis of the Public Servants Act which came into force in 2003, the Officials Council was set up as an independent body accountable for the selection of highest ranking officials in public administration. The main tasks of the Council include the following:

- determination of the standards of professional qualifications, criteria for the selection and methods of qualifications testing for the high-level officials in the public administration;
- delivering opinions on regulations governing the officials system and the position of officials to the government or the national assembly;
- appointment of special competition commissions for the selection of high-level officials.

With a view to ensuring independent functioning of the Council, its multipartite composition of 12 members had to be ensured. The members of the Council are appointed from among the experts in the field of public administration by the president of the republic, the government and the representative trade union. Members of the Officials Council are elected also by the officials holding one of the two highest ranking positions in public administration.

Competition commissions, which are composed by the experts appointed from the respective work field in accordance with the criteria and methods of verification of qualification set by the Officials Council, carry out selection procedures. Once the procedure is terminated, the competition commission submits a shortlist of the most suitable candidates to a respective minister. The minister then selects at his/her discretion a candidate and submits his proposal of the appointment to the government.

The quality of the selection procedure for the highest ranking positions in public administration guarantees that these positions will be held by the experts in their respective work areas and not by the persons selected on the basis of political criteria.

**Best practice:** Selection procedure of candidates for highest ranking positions (Human Resources Management professionalization in public administration)

**Expertise:** Ministry of Public Administration
Branko Vidič (branko.vidic@gov.si)

**e-Government**
The first legal basis was the Electronic commerce and Electronic signature Act adopted in 2000, which had been followed by the Strategy for eCommerce in Public Administration of the Republic of Slovenia for the period of 2001-2004 adopted the same year. Following the adoption of the legal framework the first state agency for electronic government was founded within the Government Centre for Informatics (CVI). The newly established public body issued digital certificates SIGEN-CA (for citizens) and SIGOV-CA (for employees). Therefore, these three important steps taken in the year 2000 are understood as the “corner stone” of Slovenia’s eGovernment development.

Following the commitments put forward by the above mentioned strategy the first State portal was introduced in 2001, which allowed citizens to obtain extracts from the registers of births, marriages and deaths, electronically. In 2002 the first real G2G project, called ZPIZ-CVI-CRP, was created. This project enabled data exchange between the Central Register of the Population and the Institute for Pension and Disability Insurance. The project continues to run to this date.

In 2003 the second generation of the government run state portal had been introduced to citizens, which had already contained the “embryo” of the life events approach. In the same year a national and common administrative unit’s portal had been launched, which abolished the need for 58 individual websites of administrative units. This was the first such unification of state administration services in a single portal and represents another important step in eGovernance development in Slovenia, as today it is hard to imagine using electronic government services, which would be dispersed in several different web addresses and different sites of a large number of public bodies. 2003 was an important milestone for the fact that the state had provided the citizens with electronic access to their own personal data (VLOP), in the Central Register of the Population (CRP).
In 2004, eGovernment provided the first generic access system to receive e-applications, e-signatures, directing e-applications to the right administrative unit and the execution of e-payments. The status of an electronic application is also monitored there. In 2005 citizens of the Republic of Slovenia could make their income tax declaration electronically for the first time on the basis of this system introduced just a year earlier. In general, 2004 was a very successful year in various fields: Statistical Office, AJPES (Agency of the Republic of Slovenia for Public Legal Records and Related Services), Customs and many others compete in the amount of automation of e-business.

In structural policy reforms in 2005 eGovernment and informatics continued within the Directorate for eGovernment and Administrative Processes at the Ministry of Public Administration and in 2006 the Office for Informatics and eGovernment had been established, giving even more freedom to the experts working at the ministry. One of the first priorities of the newly established office was to introduce government web portal of the third generation (in 2006), which announced several innovations. It is entirely directed toward citizens and their needs arising from life events. The public sector can itself enter life events. All crucial functions (e.g. e-signature, e-payments and e-delivery) are included in internet administrative tools. The project of linking official registers had also been implemented in 2006 and the state obtained the first meta-register, which included all official records, sources and data. It provided the basis for the later interoperability project.

In 2007, generic tools for creating any e-applications were completed, enabling data to be entered from official records and registers. In the same year, OSS (One-Stop Shop) for companies was started and technologically implemented. In recent years the so called eVem project, which is the successor of the previous OSS system, managed to reduce the registration time for big companies from 60 days to maximum 4 days. Unlike the old system that charged 250 to 600 Euros for the service, the new system is free of charge. In 2009 the eVem project received the United Nations Public Administration Award and the Good Practice Label from the European Union. Nonetheless, development of eGovernance services continues in Slovenia and with support of a vibrant ICT sector is expected to prosper regardless of the economic insecurities of recent times.

Centre for e-Governance Development for South East Europe

In January 2008 the Government of the Republic of Slovenia, along with five other stakeholders and two recognized partners established the Centre for e-Governance Development for South East Europe (CeGD). Among the stakeholders are the Regional Cooperation Council (former Stability Pact; Bosnia and Herzegovina), United Nations Development Programme (Bosnia and Herzegovina), European Foundation for Information Society (EU/Spain), INA Academy (Greece), SRC (company, Slovenia) and two recognized partners Microsoft and Siemens. The CeGD is a regional network of programmes and training support, with the centre of operations situated in Ljubljana, Slovenia, which provides an overall coordination to regional activities in South East Europe (SEE). CeGD was established in order to address training, educational, consulting and research related issues related to eGovernance throughout the SEE region.

The CeGD is one of the first Public-Private-Partnerships (PPPs) established in the SEE region to address the needs of the specific, but nevertheless broad field, of eGovernance. The rationale behind the establishment of the CeGD and its location in Ljubljana, Slovenia is that Slovenia because of its common history with countries of the Western Balkans, its geographical position, and its recent development of eGovernance solutions is a great candidate to transfer knowledge, experiences and ideas from the countries of the EU to candidate and potential candidate countries for full EU membership.

CeGD strives to encourage innovative ICT supported solutions that will contribute to the future development of European continent as a whole. CeGD is dedicated to create opportunities for strong and sustainable cooperation between European Union and SEE countries.

The CeGD has a multi-tired structure, encompassing private and public stakeholders and recognized partners, a network of programmes and training nodes in the region to provide eGovernance services
and coordination to government clients in the region, a Private Sector Advisory Committee (PSAC) drawn from the Centre’s private sector Stakeholders and recognized partners, the Stability Pact Business Advisory Council (BAC)-led ICT Forum and regional ICT business associations and a Programme Advisory Committee comprised of SEE governmental representatives involved in eGovernance programmes in the region.

In our experience this multi-tired structure (although it is hard to coordinate) can be adapted to any specific field in need of reform or additional development as it includes all interested parties necessary for the successful implementation of local, national or regional initiatives.

**Best practices**

Directly or through cooperation with its stakeholders and recognized partners the CeGD initiates several regional projects and initiatives that may be characterised as good practices.

First and foremost, the CeGD implements its activities in accordance with the CeGD “7 ePillars Model of Single SEE Information Space and Inclusive Information Society”, which includes seven fields of interest, namely: eGovernment, eDemocracy, eBusiness, eEducation and eResearch and eCulture, eHealth, eJustice and eSecurity.

By targeting these wide-ranging and heterogeneous fields of eGovernance the CeGD addresses structural and political reforms in a number of different socio-political fields throughout the SEE region. Through ICT supported solutions many of the prevalent social and political issues in individual countries may be addressed (e.g. development of eDemocracy systems through the establishment of web portals to battle social and political exclusion and to ensure greater political participation in decision making). All deliverable solutions are specifically tailored to each individual country’s needs and interests, taking into account the societal, political and cultural differences between countries in the SEE region.

Several specific projects have been initiated in the past year each addressing a specific ePillar or a specific issue:

**Administratel project for South East Europe** is being implemented in cooperation with the CeGD’s stakeholder European Foundation for Information Society. The project aims to install electronic offices (Service Administratel 1-2 per 10,000 citizens) in all countries in the SEE region in order to enable citizens electronic communication (and use of government eServices) with their respected administrations. An amount of approximately 4.4 million EUR is available to implement the project in the SEE region. All the electronic offices provide country specific services, which are selected in close cooperation with national, regional and local authorities and ICT service providers. The Administratel project has additional added value in un-urbanized regions, where electronic and telecommunication services are not self-evident.

The CeGD also works closely with prof. Jože Gričar of the University of Maribor, who is dedicated at promoting the eRegions project, aimed at connecting different European (no only EU) regions through the use of ICT. The project is important from the perspective of regionalization that spreads beyond national boundaries. Connecting different regions beyond national borders is some times more prudent and effective then artificially propagating national regionalization.

Recently a new and novel initiative entitled “**Potentials of Information and Communication Technologies for Utilisation of Human Capital of South Eastern European Scientific Diasporas**” has commenced in cooperation with the CeGD stakeholder RCC, Austrian Science and Research Liaison Office in Ljubljana (ASO), the UNESCO Venice Office Workshop. The initiative aims at creating a so called brain gain effect, harnessing human capital from the scientific Diasporas of the SEE region. The initiative is of crucial importance in areas, which have gone through a long period of emigration.

In 2009 the CeGD organised and funded the event 10th Bled Forum on Europe, entitled “The Role of Culture in Knowledge Society – Contribution to the European Year of Innovation and Creativity 2009”. 

41
The event targeted and joined two previously unconnected fields (and audiences) of culture and science. Innovative solutions and good practice cases in the joint field of culture and science were presented at the event.

**Expertise**

*Institutional*
Centre for eGovernance Development for South East Europe (CeGD)
Ministry for Public Administration

*Academic*
- Faculty of Organizational Sciences
- Institute for Electronic Participation
- Faculty of Social Sciences
5. DECENTRALISATION AND REGIONAL/LOCAL GOVERNMENT & ADMINISTRATION

In the process of democratisation that followed up from the key political changes occurred in the period 1898-1991, one of the first steps undertaken in all countries of Central and Eastern Europe was the restoration of democratic government in local communities. Since such local communities (municipalities) already existed even under communist rule, this process was relatively straightforward, basically requiring the organisation of democratic elections to the already existing local councils.

A second step was the adoption of new legislation on the organisation, functioning and responsibilities of the new self-governing bodies at local level. To this end, countries of central and Eastern Europe could benefit not only from its own past experience and institutional set up, but also from the experience of western European neighbours with the development of modern local self-government systems, as well as from the developments in this field in the context of the Council of Europe, which in 1985 had adopted the European Charter of Local Self-Government, laying down all the basic principles and standards that are common to this important element of the European democracies. In this first moment, some countries adopted single-tier systems of local self-governments (municipalities), while others also introduced self-governing bodies at a higher level (normally corresponding with what had been, in the communist system, the “district”).

As it happened in other European countries that managed a transition to democracy in the last decades, the democratisation of the public administrations set up at the level of local communities immediately gave rise to the emergence of a new and very important actor in the political and institutional scene of the transition: the mayors and the democratically elected representatives of the local communities, who were immediately confronted with the citizens’ demands for action aimed at tackling the numerous and long-standing problems related to the insufficiency of the local infrastructures and public services, the lack of accountability of the local administrators and administrations inherited from the previous system and the insufficiency of the financial resources allocated to the local level of public administration. In a very short time, associations of local authorities were founded and started to coordinate the demands of the local self-governments and to lobby the state institutions (parliament and government) in pursuit of new legislation involving a re-distribution of the responsibilities and resources of the state, so as to increase the role of the local self-governments and their capacity to respond to the needs of the local communities. In this phase, countries which had not adopted legislation on local self-governments before the elections started to produce their first legal texts on local self-government, including those related to the financial resources to be made available for this level of public administration. In this period, local self-governments of central and eastern Europe and their associations received massive support and technical assistance from their peers in western European countries, as well as in other developed countries.

Notwithstanding these important developments, in the first decade of the transition, local self-government remained pretty much confined to municipalities; and their role and weight in the overall system of public governance and administration was quite limited. The state administration continued to have most of the responsibilities and to manage the biggest part of the public resources, even at sub-national/territorial level. State administration offices subordinated to the central Ministries or to territorial representatives of the central Government continued to exist in most of the countries till the turn of the century.

In a third stage of the transition process, the question of a further reorganisation of the territorial structure and administration of the countries, involving increased decentralisation of public responsibilities and resources to intermediate sub-national levels also endowed with democratically elected institutions and self-governing status, became an issue in the reform agenda. In some countries (Poland) there had been early attempts to move into this direction, which nevertheless failed to materialise because of lack of sufficient political support and consensus; in others, the question arose when the need to design and implement a new type of regional development policy became part of the process of preparations for EU membership. Also in this stage, some countries (Latvia) undertook a reform of the “municipal map” of the country which, inspired in examples from other
European countries, aimed at reducing the number of municipalities and establishing larger and therefore more capable local self-governments.

A particular and difficult aspect of the local self-government and decentralisation reforms was the establishment of a system for the financing of the local administrations which would ensure sufficient and stable sources of funding, as well as some type of equalisation system to cater for the financial needs of the smaller communities or those with special needs. The common experience in the transition countries is that such a system can only be developed once the process of re-arrangement of the levels of sub-national self-government and administration and the redistribution of public tasks and responsibilities between the various levels has been completed; and that development of such a system is a task involving lengthy negotiations and a final compromise between the representatives of the state public finances (normally, the Ministries of Finance) and the representatives of the local self-government themselves. A number of diverse solutions have been developed and put in place in the countries of central and eastern Europe that, as part of their transition process, have re-established democratic local self-governments since 1989.

Finally, a number of interesting arrangements and good practices have been developed in these countries in what concerns the interaction between central and local governments; and in particular in regards to the active involvement and participation of the local self-governments – through their associations – in the formulation of state policies in various areas and in the central government’s decision-making processes.

• Setting up local/sub-national self-governments and administrations

LATVIA
A two-tier system of local self-governments was established in the beginning of the transition, based upon existing structures at local and district level (around 450 rural municipalities, 50 towns and 7 cities in the first tier and 26 “regional administrations” as second tier). Democratic election of members of their respective Councils (by direct and universal sufrage) was introduced. In 1994-1995, new Laws on Local Self-government, Elections to local self-governments and Budget /financial management rules of local self-governments were passed, in line with the standards set by the European Charter of Local Self-governments. Since then, elections are held every 4 years.

Local self-governments in Latvia are responsible for a number of tasks and responsibilities, either assigned to them by the Law on Local self-government or delegated to them by the central Government. Moreover, they can undertake other activities or services “ensuring that the interests of the state and the inhabitants of the relevant administrative area are met”.

In 1998, a new Law on “Administrative Territorial Reform” was adopted by the Parliament, paving the way for a re-organisation of the system, which concluded in 1998 with the adoption of a new Law on “Administrative Territories and Settlements”, whereby the number of local authorities has been reduced to 118 (109 municipalities and 9 cities) and the second-tier has been suppressed.

An important role within local self-government system in Latvia is played by the Latvian Association of Local and Regional Governments (LALRG). It was founded in 1991 and has the authority to represent local and regional governments in the negotiations with the Cabinet of Ministers (in accordance with the article 96 of the “Law on Local Governments”).

LALRG’s main objectives are development of municipal policy in Latvia, solving of municipal problems and protection of self-government interests. LALRG’s tasks are to represent interests of the LALRG and its members vis a vis the state authorities and administrative institutions; to develop opinion of the LALRG in regards to Latvia’s local governments policy according to proposals of local/regional governments; to facilitate co-operation among Latvian local/regional governments, their associations and unions; to provide local governments with information and other services; to organise training for local government deputies and employees; to facilitate social protection of local government employees; to facilitate establishment of enterprises for solving issues of common local government interest; to facilitate co-operation with local governments and their organisations abroad;
and to organise establishment of local government information processing system based on unified principles.

An important task of the LALRG is to facilitate co-operation with local governments and their organisations abroad, as well as implement international projects. LALRG has implemented several projects, including development cooperation with Ukraine, Moldova, Azerbaijan, Georgia, Belarus, Kyrgyzstan and Turkmenistan. In addition, the LALRG has helped to develop self-government associations in Georgia and Azerbaijan.

**Best practices:** 1) Legislation on Local self-government and on restructuring of territorial administration / self-governments’ system; 2) Setting up, development and operation of national Association of Local self-governments

**Expertise:** LALRG

**ESTONIA**

Estonian public administration system includes one-tier local government as an autonomous level of self-governance. There are 227 local government units, including 194 rural municipalities and 33 cities. Their size varies from the capital city of Tallinn with over 400,000 inhabitants to a small island Ruhnu with only 103 inhabitants. However, the functions of all municipalities are the same by the law and they are primarily responsible for education, public works, housing, local road maintenance and primary level health care.

According to the Constitution of the Republic of Estonia, local governments have the right to form associations and joint agencies with other local governments.

Since 2002, the activities of local government associations have been regulated based on the Local Government Association Act. Membership in the associations is voluntary. Regional level cooperation between municipalities is undertaken in the form of local government associations. In Estonia, there are two national local government associations: Association of Estonian Cities (AEC) and Association of Municipalities of Estonia (AME). The AEC essentially combines the interests of urban or densely populated local governments (46 members); The AME essentially combines the interests of the local governments of rural municipalities or sparsely populated areas (156 members).

The Local Government Associations Cooperation Assembly is an informal joint work structure that is formed on the principles of parity by national local government associations, the formation of which was decided by the National Local Government Planning Day on February 11, 1994. The Cooperation Assembly was formed keeping in mind the need to strengthen the cooperation of local governments. One of its main objectives is the joint representation of national local government associations in questions important to local governments. The function of the Local Government Associations Cooperation Assembly is to form common positions of the national local government associations, and thereby, to better represent and protect the common interests of local governments. AEC and AME have an equal number of representatives in the Local Government Associations Cooperation Assembly. Decisions are made in the Cooperation Assembly by consensus, which essentially means that both associations have to be in favor of the decision. Currently, the AEC and the AME have seven joint working groups within the framework of the Cooperation Assembly, in which positions are developed in questions important to the members of the associations and the associations. The greater part of the work of the Cooperation Assembly constitutes questions related to budgetary negotiations.

**POLAND**

Although the question of restoration of local self-government had been under discussion since the 1970s and was part of the “round-table” negotiations held in spring 1989 between the communist party government and the democratic opposition, no agreement was reached at that time and therefore this reform was not included in the initial “package” of reforms to be implemented in the country towards democracy and market economy.
However, after the elections of June 1989, at the initiative of the Senate of the Republic of Poland, territorial self-government was restored at gmina (municipality) level. This required the adoption of a legislative package that included a Constitutional amendment, two Laws on the establishment of municipal self-governments and on elections to their governing bodies, and the amendment of a hundred of additional laws in different fields. On 27 May 1990 the first free municipal elections in Central and Eastern Europe were held.

Voivodships (provinces) remained as the territorial circumscription for the organisation and provision of services run by the state administration at territorial level, under a Head (Voivode) appointed by the central government. Voivodship administration was, in many areas, managed at the level of territorial offices (rejon) which were introduced in August 1990, based on the system of counties (powiat) that existed before 1975, but with the exclusive character of administrative offices of the state administration. The act of March 1990 provided for a local government assembly (sejmik wojewódzki) at the voivodship level, made up of representatives of gminas. It was a body adjudicating disputes between citizens and the municipalities, and also served as an advisory body to the voivode (not a body of self-government).

When gminas became operational, the disagreement between the supporters of the reform and those against it (especially the high bureaucrats in central government administration) began to grow. The core of the conflict was first and foremost the implementation of the Act defining new competencies and tasks of the gmina. Many competencies that had previously been in the hands of gminas when they were still part of the single and unified state administration remained in the hands of the territorial state administration (voivods and rejon) after the reform. It would have been possible to hand over these competencies to gmina self-governments, but the administrative lobby wanted to limit or even stall the whole process.

In July 1990 the chairmen of voivodship assemblies called a national convention and set up the National Assembly of Territorial Self-Government, to represent self-governments at the national level. In January 1991 the Association of Polish Cities was set up, modelled on a pre-war organisation that had been the basic self-government organisation. Smaller towns subsequently set up in April 1991 the Union of Polish Townships. In March 1992 the Union of Polish Metropolitan Towns was founded, which became the club of Poland’s largest cities, and in May 1993 the Association of Village Gmina of the Republic of Poland was set up. The above organisations began close co-operation and quickly became an important force on the side of self-governments for influencing decisions taken by the central government and by the parliament. In 1993 the Joint Commission of the Government and Territorial Self-Government was set up.

Technical work in the preparation of a second stage of the reform of the territorial administration (creation of a second tier of local self-government at county level – the poviat – and establishment of a new regional division suitable for territorial management of tasks and responsibilities to be preserved by the state administration, as well as for implementation of an EU-aligned regional policy) continued with the two following governments, and intensified with the Government presided by Hanna Suchocka (1992-1993), under which a Government’s Plenipotentiary for Public Administration Reform was appointed. The main document prepared at the time was entitled “The premises and directions of the reform of public administration of the Republic of Poland” ["Założenia i kierunki reformy administracji publicznej RP"], which became the basis for all work in that area carried out by the state in subsequent periods. All the necessary studies and draft legislation were prepared; and a Pilot Programme was designed and put in place in the 44 cities that were planned to assume both the responsibilities of the gmina and poviat.

However, the fall of Ms. Suchocka’s government in autumn 1993 and the subsequent formation of a new government led by the Polish Peasant Party (in coalition with the Alliance of the Democratic Left (SLD), opposed to the reform plans prepared by the previous Government, involved the stagnation of the territorial reform, although a Law on Large Cities was eventually passed in 1995.

Territorial decentralisation and self-government reform enjoyed the strong support of the new Constitution of the Republic of Poland, adopted in 1997, and after the elections held in autumn of that
year, in which the issue of decentralisation reform played an important role, the new Government coalition (Solidarity Election Action – AWS – and Freedom Union – UW) provided the necessary framework for the next steps of the reforms already planned in 1991-1993 to be put in place.

The second level of local self-government (315 counties or poviats) and a regional level with both self-governing bodies and a structure representing the state administration (16 “Voivodships” - Województwo) was legally established in 1998 and, after elections to these new bodies held in autumn, became operational as of 1st January 1999. Again here there was a need to not only prepare and pass the basic Laws on the establishment of such bodies and setting the rules for the corresponding elections, but also a need to amend a large number of “sectoral” laws so as to arrange the re-allocation of administrative tasks and responsibilities from the state administration to the new self-governing institutions created at territorial level (in particular, at powiat level). In both aspects, the leaders of the reform programme had to deal with political difficulties (the number of regions finally agreed by the Parliament was different from the number of regions the Government had proposed) and with the resistance of influential sectors (ministerial bureaucracies, trade unions) against the transfer of certain tasks, responsibilities and resources to territorial self-governments.

The main lessons from the Polish experience with the “decentralisation” reform of the state are: 1) The need for political will and support at political level (Parties, Government and Parliament); 2) Technical capacity and teams able to work during a long period of time in preparing all the necessary studies and legal instruments, as well as ready to assist in the implementation of the reforms not only at central, but also at sub-national level; 3) Gathering and mobilising wide support to the reform in civil society, starting by the local communities and their leaders but also reaching nation-wide public opinion leaders ad the population at large; 4) Reforms of this kind have a proper time. The window of opportunity for such reforms is open only for a limited time (after a political breakthrough) and decisive action is needed, before the structures and sectors opposing such reforms can get organised and able to exercise an effective opposition to such reforms.

CZECH REPUBLIC

In the Communist system that remained in place till the end of 1989, “representation” of the citizens and public administration were organised as a unified system, with the form of a pyramid of “Committees” set up at local, district, regional, national and federal level. Members of such Committees were appointed by the leadership of the Communist party at its various organisational tiers, and most of them were themselves active members of the party. These local, district and regional committees were allocated resources (including the use of state property) from the respective national budget and their tasks were undifferentiated, including purely local tasks and services as well as the implementation, at local level, of state tasks and services.

In the beginning of the transition to democracy, reforms in the system of local government and administration were oriented towards the restoration of representative democracy at all levels (with free elections, held in a truly pluralistic and free environment), the recuperation of historical institutions and traditions, and the setting up of institutions that could be comparable to those already existing in western European democracies.

After November 1989, one of the amendments introduced in the Czechoslovak Constitution was the recognition of the right to self-government of the local communities and the definition of the municipalities as the basic structure of the new local self-government. In 1990, a new administrative system was implemented, involving the establishment of self-governing municipalities and a network of state administration offices at district level, which were first instance public administration bodies in a number of areas, as well as appeal bodies for decisions made by “authorised” municipalities to which the exercise of a certain number of state powers and tasks had been delegated. First democratic elections to municipal councils were held in Autumn of that year.

A second stage in the reform process started to be defined after the dissolution of the Czechoslovak federation in late 1992. The programme of the first Government of the new Czech Republic included the re-organisation of the territorial administration in a two-tier system: municipalities and “naturally
defined” regions (these latter ones would be considered “high territorial units”, with self-governing powers and institutions).

However, the debates around this proposal (also involving the disbandment of the district offices of the state administration), which started in the Parliament in 1994, did not result in the adoption of the necessary legislation until 1997. In this year, a constitutional Act was passed that established 14 regions (including the capital city Prague). The implementation of this territorial reform was to be completed before January 2000. In 1999, after difficult negotiations, the two chambers of the Czech Parliament adopted a legislative package comprising the following laws: new law on municipalities; laws on the regions and elections to regional authorities (self-governing higher territorial units); the Act on the capital city Prague (which was to enjoy the status of both city and region); a law on the transfer of certain assets, rights and obligations from the property of the Czech Republic (state property) to property of the regions; an Act on budgetary definition of yields from certain taxes to be imposed by territorial self-governing units (on financial resources of these units); an Act on rules governing territorial budgets; and an Act on supporting regional development.

All these reforms brought about a system of territorial governance, mostly based in local and regional self-governments, which is equivalent to those existing in other European Union countries. However, a number of problems - some of them common to other systems of local/territorial self-government, other specific of the Czech Republic – remain to be satisfactorily resolved: even after these reforms and accession to the EU, some experts consider that the Czech Republic still remains “far more unitary than decentralised, because the performance of several public tasks is set at the national level and cannot be adapted to local conditions”; a “reliable mechanism of accountability for orderly financial management has not been created… replicating the general trend towards an uncontrolled growth in the debt burden of municipalities and regions”; spontaneous disintegration at the start of the 1990s led to the formation of a great number of small, formally independent but financially weak municipalities”.

HUNGARY

One notable trend of the Communist period were the various attempts by the government, in a corporatist effort, to replace traditional forms of local civil society, and other formal and/or informal organs of local communities, with organizations that were essentially connected with and controlled by the regime. However, these endeavours mostly failed to take root in local communities, thereby effectively demolishing them and producing a society of atomized individuals.

A new surge of interest in local communities, particularly in the countryside where such communities were thought to be more tangible, took place in Hungary from the beginning of the 1980’s. Social researches and sociographers led a movement for the re-discovery of the Hungarian countryside. Once the process of democratic transition started, a conscious effort was made for the revitalization of local communities. Foreign assistance was also significant in this field; different local communities throughout the country enthusiastically took part in the EU’s LEADER program. Transnational cooperation was strongly supported via cross-border cooperation and the establishment of various Euroregions - a particularly important consideration for Hungary, given the often peculiar circumstances in border regions.

During the change of regime in the 1990’s, the emphasis was put on the democratic operation, the autonomy and the construction of guarantees preventing the overgrowth of power when forming the system of local governments. The system was established fast, the country did not have enough time and experience for the development of a civil public administration.

Significant laws serving as the bases of the operation of local governments were passed in the first four years following the change of regime. It was a very important step to amend the Constitution (1990) and pass the act on local governments (1990).

Economic foundations were created [e.g., the property act (1991), the act on local taxes (1990)], mandatory tasks were delegated to local governments [first by the competence act (1991) and then by
sectoral acts being born again and again], and operational conditions were enhanced [e.g., the act on mayors (1994), regulation of incompatibility (1994)].

After laying the foundations of the system of local governments the Parliament was passing continuously the acts for the functioning of local governments. For instance, the Parliament created the act on development (1996) and the act on associations (1997).

The system was continuously developed and updated, however, it is inevitably unfinished after nearly nineteen years because certain elements were not built or were built only with deficiencies (e.g., middle-level local governments or legitimacy control). Other elements did not prove their values in practice or became outdated (e.g., the delegation of mandatory local government tasks or the regulation of incompatibility).

Between 1998 and 2002 internal works were in progress in the interests of the preparation of the reforms. From 2002 this work was given a stimulus. With the aim of establishing the academic background the new IDEA program was launched and the consultations with the practitioners became the more and more regular. (The IDEA working group is a consultative body established in 2002 by the Ministry of the Interior so as to prepare the reform of the public administration.)

Leaning on this working group, the Government proposed the bill of the multi-purposed micro-regional associations of the local governments, which was adopted by the Parliament in 2004. The bill regulated the facultative associations instead of the mandatory ones proposed in the first version of the bill.

In 2006. a new overall motion of amendments was prepared, which could have been a solution in the basic structural questions (e.g., foundation of regional governments, mandatory associations). Unfortunately, this initiative had failed because of the lack of the 2/3 majority in the Parliament.

From the end of 2006. the preparation of the reforms was continued. The Discussion Forum of the Government and the Local Self-governments (KÖEF), established in December in 2006, formed four working groups to discuss the reforms needed in various fields. The Forum is working beside the Government as a decision preparative, consultative and - in particular subjects - coordinating body. Both the representatives of the Government and the representatives of the Local-Governments participate in the Forum.

In the first times, the Forum could only achieve partial objectives, but in 2009 it came to a consensus on very important subjects, so that the Government could adopt a proposal of amendments of the acts on local-governments. However, the proposal has not yet been brought to the Parliament.

**Best practices:** Multi-purposed micro-regional associations
Since the adoption of the act on the multi-purposed microregional associations, the enforcement of the micoregional collaboration and the results of the multi-purposed associations have been considered as an unambiguous success.

On the basis of the formation of the multi-purposed microregional associations and the consolidation of the system the standards of service provision have improved, the social and territorial differences have been reduced, the services have become more efficient and more available, and the regional thinking has been getting stronger.

**Expertise:** Ministry of Local Government / Department of Local Authorities
International Centre for Democratic Transition (ICDT)

**SLOVENIA**
The Constitution of the Republic of Slovenia provides that autonomy of local government in Slovenia is guaranteed. In section five, entitled Self-government, the Constitution provides that the Slovene people shall exercise local government powers and functions through self-governing municipalities
and other local government organisations. The Constitution also introduces the urban municipality and provides for the establishment of wider self-governing local government bodies – regions.

**Local authorities**

In Slovenia, the municipalities are the basic local communities. There are 210 municipalities, of which 11 are urban municipalities. The largest in number of inhabitants is the urban municipality of Ljubljana (276,000 inhabitants), and the smallest is the municipality of Hodoš with 300 inhabitants.

The municipal bodies are: the municipal council, the mayor and the supervisory board. The municipal council is the highest decision-making body on all matters concerning the rights and duties of the municipality. The municipal council, above all, passes the municipal general acts and budget and supervises the performance of the mayor and municipal administrations with regard to the implementation of the decisions of the municipal council. The municipal council is composed of members of the council who are elected by the citizens on the basis of general and equal voting rights at free and direct elections by secret ballot. Members of ethnic minorities (Italians and Hungarians) in ethnically mixed areas have the right to vote and be elected as representatives of the community in the municipal council. The executive body of the municipality is the mayor (individual authority), who represents the municipality and heads the municipal administration. The mayor proposes general acts and the budget for approval to the municipal council and is responsible for the implementation of the decisions reached by the municipal council. The mayor is elected by citizens who have permanent residence in the municipality by direct and secret ballot.

In Slovenia there are two associations of municipalities. They represent the interests of Slovenian municipalities at state and international level, and cooperate with similar institutions abroad. They can offer experiences in the field of local autonomy and economy of local public services.

**Regionalisation**

In accordance with the Constitution, municipalities have the possibility to establish regions. For the last years intensive discussions have been under way in Slovenia on the introduction of a second level of local government: the regions. The debate on the introduction of this new level of local government is linked to the realisation of the principle of subsidiarity. Regionalisation in Slovenia should be carried out in a way which preserves the independence of municipalities by observing the principles of the European Local Government Charter. Within the framework of its competences the region will be responsible for matters of general importance which promote the development of the region for the benefits of its inhabitants. The competences of regions will be defined by legal statutes and by the statute of the region. The region will mainly exercise functions relating to:

- the economic, social and cultural development to its territory
- physical planning and environmental protection, transport and communications at the regional level
- provision of public infrastructure services of regional importance
- provision of non-commercial public services (vocational education, regional libraries and museums, etc.) of regional importance.

The Act on Regions will set out the position of regional bodies, their competences and method of operation, and their reciprocal relations. At the same time enough space will be left for autonomous regulation of organisation within the local community.

**Best practices:** The establishment of mechanisms for inter municipal cooperation, Catalogue of competences conferred to municipalities, Administrative procedures in municipalities

**Expertise**

**Institutional:** Government Office for Local Self-Government and Regional Policy.
Unit for local self-government, Slovenska 54, Ljubljana (Andrej Ćokert)

**Academic:** 1) Faculty of Law in Ljubljana; Institute for public administration; 2) Institute for local self-government and public procurement (Maribor)
Financing of local/sub-national self-governments and administrations

LATVIA

Revenues of local governments are composed of personal income tax (82%), real estate tax (100%), grants and earmarked grants allocated from the state budget, grants from the Self-government Financial Equalization Fund and service fees.

Because of social-economic, geographical, cultural factors, as well as efficiency of performance, there is a significant difference among the levels of income in municipalities. In addition, expenditure necessity in municipalities may differ. Due to these facts, in 1995 a Self-government Financial Equalization System was established in order to facilitate an even development of municipalities. The system is regulated by the law "On Municipality Finance Equalization" (1998). Self-government Financial Equalization Fund is composed of state budget grant and municipality payments. Two taxes are involved in equalization system – personal income tax (82%) and real estate tax (100%). Amounts of payments and financial benefit to each municipality are calculated according to a specific formula, taking into account criteria such as the number of all residents, children up to the age of 6 years, youngsters in the age between 7 and 18 years, and seniors of pension age. As a result, there are three types of municipalities: 1) donors (those municipalities which only make payments into the fund); 2) receivers (those municipalities which only benefit from the fund) and 3) neutrals (those municipalities which neither make payments nor benefit from the fund). As the Self-government Financial Equalization System has not been changed since 1998, it provides stability and prognostication of self-government finances. The system is transparent since calculations are made based on objective criteria.

Best practices: System of financial equalisation for local self-governments / Equalisation Fund

Expertise: LALRG

ESTONIA

Local government units are financially heavily dependent on the central government as only 22 of them manage without any central government subsidies. The size of the grants from central government to local government equals to one third of income earned by the municipalities themselves. Local governments' main income comes from personal income tax. Local governments got 11.9% from tax payers’ personal income in 2008 (excluding the incomes from pensions and property sale).

Equalization fund 2008
- If the local governments calculated average costs will exceed the calculated average income from taxation then 90% of the difference will be covered. Calculated average costs are calculated taking into account the local governments demographic and infrastructure figures.

Block grant 2008
- General education grant (teacher’s salaries; text-books, work-books; school-lunch). New formula to distribute these funds is implemented in 2008. This new formula takes into account the schools funding need, keeping the school network efficient at the same time.
- Living allowance
- Grant for small islands
- Grant for kindergarten teacher’s salaries and for developing the learning environment.

POLAND

The Constitution proclaims that the revenues of units of local government consist of their own revenues plus general subsidies and special purpose grants from the state budget. Local government authorities also have the right to regulate local taxation and other charges in the scope set forth by legislation. In practice, the central government sets the ceiling for taxation at the local level, and municipal and county councils then establish individual rates.
The Act on Local Self-government of 1990 states that the revenues of the municipality are: 1) taxes, charges and other proceeds defined by legislation; 2) revenues from the property of the municipality; 3) general subsidies from the state budget. The same act states that revenues also may include: (1) budget surpluses from previous years, (2) special purpose grants for carrying out commissioned tasks, (3) proceeds from the local taxation of residents, (4) loans and the issue of bonds and (5) bequests and donations. The Act on Local Government Revenues of 1998—the predecessor of which was the Act on Local Taxes and Fees of 1991—defines the revenues of municipalities more precisely.

A very important part of municipal income is shared tax revenues (personal income tax and corporate tax). These revenues are transferred to each local budget according to the economic power of the municipality rather than being calculated per capita.

According to the Act on County Self-government of 5 June 1998, revenues of the county (powiat) include:

- shares of taxes collected by the state in the amount set by legislation (in 1999, one percent of personal income tax);
- subsidies from the state budget to support local service delivery;
- special purpose grants from the state budget for assignments carried out by county institutions on behalf of the state administration;
- revenues of county budgetary institutions and proceeds of other county units;
- revenues from the county’s property;
- interest for untimely remittance by the state administration of shares, grants and subsidies.

The act also indicates additional sources of revenue, such as special purpose grants for tasks delegated by the voivodship, grants from state special purpose funds, interest on county bank accounts, interest on capital contributed by the county, bequests and donations, etcetera.

According to the Act on Voivodship Self-government of 5 June 1998, the revenues of the voivodship include:

- shares of taxes collected by the state in the amount set by legislation (in 1999, 1.5 percent of personal income tax and 1.0 percent of corporate income tax);
- revenues from the voivodship’s property;
- bequests and donations;
- revenues earned by budgetary institutions of the voivodship and payments of other voivodship government units;
- interest for untimely remittance by the state administration of shares, grants and subsidies.

The act indicates additional sources of revenue, such as equalization subsidies from the state budget, special purpose grants for tasks assigned by the state administration and special purpose grants from the budgets of municipalities and districts for tasks that by agreement are carried out by the voivodship.

SLOVAKIA

Under the Constitution of Slovak Republic the municipality finances its needs from its own revenues and from the state budget grants. The revenues of the municipality are to a great extent covered from taxes and fees. The preparation and implementation of the budget of the municipality is governed by act no. 583/2004 Z. z. on budgetary rules of local administration as later amended.

The process of decentralisation implemented in the period 2002 – 2004 included a component on fiscal decentralisation. The mechanism of fiscal decentralization finally adopted in this process was based on the shift from the state budget grants system to a system where the tax revenue financing prevails. It represents an important step for the independence of the local governments. The system of fiscal decentralization brought evidently higher amounts of resources and strengthened the position of local governments. The municipalities have at their disposal resources which enable them to set their own priorities on expenditure policies and the decision making is closer to people. On the other hand also the responsibility was transferred and the local governments must be aware of this fact.
**Best practices**

In the framework of fiscal decentralisation the financial autonomy of municipalities and the stability of their revenues were enforced. Also the pressures on effective use of own revenues and their link to scope and quality of provided services were enhanced.

**Expertise**: Mr. Jozef Mikš - Head of department for budget regulation and analysis - Mandatory of the minister of finance for fiscal decentralization

**HUNGARY**

The current system of local communities financing, albeit its many problems, is operational since 1990. However, during the overall rethinking of the system of the local communities, there is also a need to introduce changes in the system of local communities financing:

- The increase in the number of normative state contributions is not a clear and sustainable solution, if we look at it from the way it is distributed. The bulk of these contributions are untied, but since the budgetary act may anchor them to certain titles, it may give the false impression that they could be used only for the financing of those certain tasks and masking the true nature of these titles, which is to offer a base line for the distribution of the resources.
- The number of local authorities – mainly smaller municipalities – struggling with operational problems is growing. Half of the local authorities depend nowadays on additional contributions to sustain their operability, signalling the need for longer term restructuring.
- The indebtedness of larger municipalities on longer term and in larger amounts – mainly deriving from giving out bonds – is a further risk of the system of local authorities.
- At the beginning of the ‘90s the municipalities were supported by the central budget to own local schools, sport halls, etc., however with contradictory social developments (for ex. the drop in the number of children) this lead to unsustainable low efficiency in a professional and economic sense. The consecutive governments supported joint-supply of the services and even offered financial resources for the restructuring. With the appearance of the multi-purposed microregional associations the situation now seems to be under control.

**ROMANIA**

Local public finance in Romania was regulated by law in 2006. This law establishes the general framework and procedures for the use of public funds and the responsibilities of local public administration authorities and local institutions involved in local public finances. The provisions apply to the development, approval, execution and reporting of the following budgets: local budgets of administrative-territorial units, the budgets of public institutions funded wholly or partly from the local budgets, the budgets of public institutions financed from own revenues, budgets from external and internal loans, external grant funds budgets.

In line with the above-mentioned law, local communities are funded through self-financing: taxes, state and other subsidies, donations, sponsorship etc. Although there is no question at present about their fiscal and financial autonomy, the sources of self-financing are insufficient when compared to the current needs of local communities.

**Best practices: Committee for Local Public Finances**

According to the law passed in 2006, local government may approve the contracting or guaranteeing of loans in order to make public investments of local interest, and local public debt refinancing. There is a Committee for Local Public Finances established through this law aiming at defending the interests of administrative - territorial units at financial level, harmonization of the decentralization process of some responsibilities from central public administration to local public administration, monitoring of the financial processes unfolded at the level of local public administration.
• Participation of local/sub-national self-governments in national policy-making and implementation of national policies.

LATVIA
Negotiations between local governments and the Central Government are regulated by the “Law on Local Government” and the Cabinet of Ministers regulations. These regulations define the procedure of negotiations - issues and time schedule. Main items to be negotiated are prognosis of own income, earmarked grants, loans and liabilities, additional finances for new tasks and the so-called “necessity”. Necessity is the minimal amount of money required for municipalities to fulfil permanent tasks assigned to them by the Law. The global amount for all municipalities together (the state budget grant contribution to the local governments’ equalisation fund) is determined through political negotiations between the LALRG and the Cabinet of Ministers, which result is formalised as a Protocol, which is part of annual state budget package, and hence is proposed by the Cabinet of Ministers to the Parliament.

LALRG’s representatives also participate at weekly Meetings of State Secretaries and express the local governments’ association opinion on draft legislative acts. In case line ministries do not take LALRG’s opinion into account, the Association is entitled to participate at the meetings of Cabinet of Ministers and meeting of the Cabinet of Ministers in order to defend its opinion. LALRG also participates in governmental working groups, consultative bodies, discussions of Parliamentary commissions, as well as discussions in mass-media. In addition, the association is experienced in organization of negotiations between the LALRG and the Parliament. Thus on national level the LALRG is treated as an equal partner to ministries and other state bodies, and the opinion of LALRG is essential in decision-taking process.

Best practices: 1) Institutionalised and formal yearly negotiations between central and local governments on financial matters (state budget contribution to equalisation fund, local indebtedment); 2) Institutionalised mechanisms for the participation of local authorities (through their Association) in the decision-making processes at the Centre of Government.

Expertise: State Chancellery, LALRG

ESTONIA
The first meeting of the Local Government Associations Cooperation Assembly and the Inter-Ministerial Committee of the Government on budgetary negotiations took place on July 12, 1994. Since that time, the budgetary negotiations process has taken place every year.

The legal basis for the budgetary negotiations between the Local Government Associations Cooperation Assembly and the Government is currently set by the State Budget Act. The negotiations take place based on bilaterally agreed-upon rules of procedure. The course and results of the negotiations are fixed from year to year in interim report(s), and as a rule, in a final report.

The aims of the negotiations are:
• To give foundations to LG revenue base, establish the principles of financing and the budget
• To incorporate on State budget strategy and sectoral development plans LG-s interest and possibilities through engaging LG associations representatives
• To plan in state budget LG future grants and allocations in long term
• Other issues regarding Local Government activities and financing

The substance of yearly negotiations is:
• Reaching an agreement over LG revenue base and the size of the equalization fund
• Incorporation of evolution of LG revenue base and equalization fund in state budget strategy
• Reaching an agreement over the amount and division of allocations from equalization fund and grants from state budget
• Incorporating other issues regarding funding LG-s in state budget
The actual extent of the budgetary negotiations has broadened from year to year. Long-term or strategic questions have been added to current budgetary questions. The topics of the negotiations have also expanded, including, among others, rural and environmental topics. Seven joint working groups have been formed by the Inter-Ministerial Committee and the Cooperation Assembly, which have the function to discuss and, if possible, to find common positions that satisfy both parties in all questions (finance, education, culture, labor, social affairs and health care, roads, environment and land questions).

**Best practices:** State and Local Government Associations Co-operation Assembly negotiations

**Expertise:** Institutional: Ministry of Interior (Department of Local Government and Regional Administration); Ministry of Finance (Budget Department-Local Government Division); Academic: Tallin University of Technology, University of Tartu & Tallin University.
6. CIVIL SOCIETY

Under the communist regimes imposed to countries of Central and Eastern Europe after the end of WW II, non-governmental and civil society organisations were in place just as part of the power and control structure of the single party regime. Freedom of association did not exist and civil law institutions such as private foundations were unknown in the communist legal system.

The absence of positive and effective action by the established public authorities for the solution of the political, economic and social problems caused by the crisis of the communist regimes paved the way for the progressive mobilisation of sectors of the civil society, which in the late 1970s or in the 1980s took the form of organised movements. Large popular mobilisations and demonstrations in the late 1980s (especially during 1989) were a decisive factor in the fall of the communist regimes in all these countries.

Once the political and economic changes were underway, newly adopted legislation enabled the free creation of all sorts of civil society organisations (associations, foundations, political parties, trade unions, and, in general, NGOs). However, in many countries there was a demobilisation of the citizens, whose main concern turned to the struggle of individuals and families to cope with the new economic and social conditions. Policy-making and the restructuring of key sectors of the society were broadly left in the hands of political representatives, now democratically elected.

In this early period, and for most of the years of transition, the development of an organised civil society was an achievement of a certain minority of highly committed individuals, interested in a variety of problems and issues (for instance, in human rights or in the defence of the interests of particularly disadvantaged groups), which enjoyed massive support from international donors and organisations. Thanks to an enabling legal environment and the support of the international donors, the number of CSOs officially registered and active in these countries during their transition became notably high. However, while many of these CSOs were able to play an active and effective role in the identification of some of the most acute problems and needs and in the setting up and implementation of programmes and activities aimed at addressing them, their overall influence in general policy-making was limited.

A further step in the development of an organised civil society was the process of preparations for EU membership, that started in the second half of the 1990s. In addition to new EU-funded support to the development of civil society at large, this process brought gradually to all these countries a new “culture” of governance in which civil society organisations – of different kinds – were called to play a role in all stages of policy and decision-making processes.

With the completion of the process of political and economic transition, most of the international support and assistance that CSOs had been receiving during the transition was phased out or withdrawn; and many CSOs started to experience serious problems for the continuation of their programmes and activities, due to lack of sufficient and stable sources of financing. In this new context, and not withstanding the new opportunities provided, for instance, by the EU’s structural funds or other programmes, the organised civil society in general, and in particular the NGO sector, had to develop new ideas and mechanisms so as to ensure that national and government’s policies would still include the necessary support for the further development and consolidation of the civil society and the NGOs. Although important differences can be observed in this regards between countries, some valuable solutions and experiences have been developed in this region, which can inspire developing countries facing similar processes and situations.

LATVIA

In contrast with the strong civic engagement and active participation in the change process leading to regaining independence and the re-establishment of democracy (1987-1990), in the post-independence period a majority of the people became focused on economic survival and adapting to new circumstances, and did not believe they could influence the political process. At the beginning of the transition, policy was created by a narrow circle of people in political parties or government relying on statistics, research, and local and foreign experts. Only later and gradually, the government began
to understand that involving civil society improves the quality of policy and that NGOs must be involved in implementing and monitoring policy.

Hence, for most of the years of transition, support to the development of an active civil society was a task mainly undertaken by international organisations and donors (UNDP, Soros Foundation, Baltic-American Partnership Programme, Orange Fund and, later on, EU-PHARE Programme). A key milestone in this process was the establishment in 1994 of a national NGO Centre (with funding from UNDP, Soros Foundation and the Danish Government), followed by the creation of several regional NGO Centres, all of which provided a range of services to NGOs (including training, networking and coalition building). The regional NGO Centres were a critical element in the emergence of an active civil society outside of Riga.

The Centre actively lobbied for the creation of a legal and fiscal climate favourable to NGOs including an enabling environment for philanthropy, charity and donations. The NGO Centre thereby involved business owners, individuals and municipal governments in strengthening the third sector. In 2002 the government institutionalized the role of the NGO sector in the policy process by guaranteeing NGOs the opportunity to express their opinions about all government decisions through participation in regular State Secretaries’ meetings. The State Chancellery invited the NGO Centre to coordinate the participation of NGOs in this process.

In 2004, the government approved a policy paper and a national programme for strengthening civil society. Shortly thereafter, the Parliament passed a progressive set of laws aimed at providing incentives for NGOs to develop. Cooperation and consultation mechanisms have been established between the government and non-governmental organizations as well as between municipalities and non-government organizations. As the non-governmental sector beings to consolidate and the government shares responsibility for the development of a civil society, NGOs and their umbrella organisations have joined together to establish Civic Alliance-Latvia to advance the interest of the NGO sector as a whole. This organization provides training opportunities for NGOs, manages an information bank and circulates news concerning NGO opportunities in Latvia and the EU. In doing so, the non-governmental sector is taking ownership of strengthening civil society, and a donor-supported NGO Centre is now part of Latvia’s development history.

**Best practices:** 1) NGO support centres (set-up, organisation, strategic plans, activities and programmes – namely small grant scheme for NGOs administrative/operational costs); 2) Participation of representatives of NGO sector in the decision-making process at Centre of Government’s level.

**Expertise:** Latvian NGDO Platform (LAPAS)

**ESTONIA**

Estonia considers the existence of a society based on democratic values and the existence of good governance practices in state organizations as a pre-requisite for stable and sustainable development. Civil society and the co-operation of civil society organizations with the state sector has been essential for the country’s progress.

However, the term “civil society” entered public discussion with force only in the middle of the 1990s. It was not used during the “Singing Revolution” of the late 1980s or during the restoration of the independent state in 1991. Since the middle or late 1990s when Estonia started discussions to join the European Union, the concept of civil society became one of the keywords in deliberations of development of Estonian society.

**Legislation**

There are two laws regulating non-governmental organizations – the Law of Non-profit Associations and the Law of Foundations – both of which set clear guidelines for operation. The laws came into effect in 1996, and relatively few amendments have been made since. They recognize the two basic forms of NGOs: associations and foundations; the latter can be grant-making or grant-operating. The laws preclude state control over NGOs, including government dissolution of an NGO for political or
other arbitrary reasons. NGOs can operate freely under the law, are free from harassment by the central and local governments, can address matters of public debate and express criticism. Besides, the Estonian legislation also allows informal, unregistered organizations to operate in the form of civil law partnerships. These non-registered organizations are working under the Law of Obligations and can be eligible for some small project grants.

In general, the legislative environment for non-profit organizations in Estonia is favorable. There were 20,039 registered non-profit associations in January 2004, and 29,000 associations and foundations in 2009. The fact that the number of NGOs has increased enormously during the last decade is proof that the legislation allows for easy registration of associations and foundations.

Estonia was also the first country in the region to develop a policy document for cooperation between government and civil society and is currently developing a new mechanism for government funding for the overall development of the sector. The EKAK (Estonian Civil Society Development Concept) was drafted between 1999 – 2002 (adopted by the Estonian Parliament in December 12, 2002) and it defines mutual tasks of the public sector and citizens’ initiatives as well as principles of their cooperation in politics, public administration, and the complementary roles of public authorities and civic initiatives, principles of their cooperation, and mechanisms and priorities for cooperation in shaping and implementing public policies and building civil society in Estonia.

A Strategy for Volunteering in Estonia was developed by the Tartu Volunteer Centre with the participation of several NGOs in 2006 and it was adopted by the Joint Committee for implementation of the Estonian Civil Society Development Concept.

**Financing of CSOs**

In terms of financial regulation, the legislation allows NGOs to earn income from the provision of goods and services. The only difference between NGOs and businesses in this regard is that NGOs may not redistribute income in the form of profits. NGOs are also allowed to compete for government contracts and to take part in public procurement at the local and central levels.

Specific governance duties and obligations are detailed in laws like Law of Parties, Law of Apartment Associations, Law of Trade Unions, etc. Like any legal entity, the non-profits must act in accordance with the Income Tax Law, Accounting Law, etc.

On the one hand, the Estonian laws guarantee independence from the state, freedom of speech and the right to profit. On the downside, the laws treat all NGOs equally and do not take into account certain important variations like their size or types of founders. For example, the law does not distinguished whether an NGO is founded by individuals, local authorities or other organizations.

Certain organizations approved by the government are entitled to tax benefits in the form of tax-exemption, which is the functional equivalent of public benefit status. The income Tax Act defines the criteria according to which organizations can be approved for such status. Currently, there are approximately 1600 NGOs on the list of tax-exempt organizations.

Although donations can be made to any organization and up to any amount, tax deductions are limited. Individuals may deduct income tax on documented gifts and charitable contributions only to those public benefit organizations on the Ministry of Finance list (according to the Income Tax Law). Deductions from individuals are limited to 5% of their previous year’s taxable income. Corporate donations made as charitable contributions to public benefit organizations on the Ministry of Finance list can be deducted in one of two ways: 1) up to 3% of the total remuneration paid to employees in the previous calendar month; or 2) up to 10% of reported profits from the previous year.

As an important part of civil society’s operations, the procedural aspects of granting government funding deserve particular attention. Public funding of NGOs has been under discussion among NGO representatives and politicians for years. The problem has occurred from the lack of transparency of the public funding schemes and insufficient systematic approach and control regarding the purposeful and efficient use of the allocated funds. Political influence on the decisions can be distinguished.
During the processing of a new draft of the Gambling Tax Act in 2001 discussions were not held with NGOs nor were their proposals taken into consideration.

In order to get a clearer picture of the public funding of Estonian NGOs, the Ministry of the Interior has twice gathered the data on funds allocated to NGOs from the budgets of different Ministries. For the first time the data were collected in 2001 regarding funding in 1998-2000. According to the research:
1. The funding of NGO activities is lacking goals that would take into consideration national priorities (tasks of ministries).
2. The existing practice on funding cannot fulfill the financial goals.
3. Joint regulation for NGO funding is missing on governmental level.
4. Assessment of success and efficiency of the allocations is basically missing.
5. Ministries are lacking the overview of funding by different fields of activities.
6. Ministries do not practice co-financing of different fields of activities, on the contrary – duplications occur.
7. Data is missing regarding the goals of ministries and the goals set for funding.

Since the Government did not plan any actions on the basis of the research results, additional data was gathered in 2004 to update the results. The second research basically gave the same outcome. To respond to these challenges the Network of Estonian Non-profit Organizations (NENO) has undertaken initiatives to introduce principles of good government funding in codes or regulations. This forthcoming agreement will serve to harmonize the principles of public funding processes (e.g. determining the form and setting the objectives of funding, eligibility criteria, grant tendering and application processes, selection criteria, contracting and payments, and reporting, monitoring and evaluation).

Based on the proposals from NGOs, in summer 2001 a proposal for the establishment of a National Foundation for Civil Society (NFCS), was presented by the Estonian NGO Roundtable to public institutions for opinion.

In order to achieve its goal in capacity building to develop civil society and shape an environment favoring civic actions, the NFCS would focus on the following:
1. Institutional development of non-profit sector both on national and local level and the support of organizations and networks in implementing the Estonian Civil Society Development Concept in order to increase the capacity of NGOs and become a strong partner for public sector institutions.
2. Implementation of innovative civil society programmes and projects: researches, development projects, application of new knowledge, gathering and distribution of experiences in international development of civil society, initiating of cooperation structures needed for NGOs.

According to the decision of Estonian government on December 20, 2007 The National Foundation for Civil Society (NFCS) was established as an independent legal entity – a foundation. NFCS was registered February 18, 2008.

Additional information resources
1. Non-profit Associations Act,  
2. Foundations Act,  
3. Estonian Civil Society Development Concept; http://www.siseministeerium.ee/29949
Expertise:

Institutional

Academic
Centre for Civil Society Study and Development, Tallinn University,

Individual
Mr Agu Laius, Executive Director of National Foundation for Civil Society
Mr Urmo Kübar, Executive Director of Network of Estonian Nonprofit Organizations

HUNGARY
Promoting the development of a civil society, which is independent from the government and representative of the citizens, is a key tool in building democracy. It is especially critical, because it aims at the most difficult challenge there is in building democracy: changing the mentality, the attitudes of the people, which is a long-term process. It contributes to the participation of the citizens in the governance of their own country. The empowerment of society is a sine qua non element of democracy. Rather than expecting the services of a paternalistic government to take care of its subjects from cradle to grave, independent civil society allows citizens to have a say in important matters affecting their lives.

In Hungary, the ‘rehabilitation’ of Foundations came about before the political changes: the legal provisions pertaining to Foundations reappeared in the Civil Code in 1987. Moreover, the Parliament also passed the Law on Associations in 1989, thus the legal guarantees of the freedom of association became enacted. These facts suggest that the development of civil society was not an outcome of the political process; civil organisations have played an active role in the preparation of the changes.

In Hungary, much like in other new EU member States, the process could build upon a number of traditional elements of civil society which had existed before the Communist period, and some of these elements were successfully revitalized, albeit in new forms and configurations. An immense amount of help and support from Western donor organisations, including financial aid, promoted the process, to the degree that an overdependence of Hungarian civil society on foreign donations was a realistic threat. By today, such Western support has all but waned, and civil society in Hungary runs primarily on domestic resources, particularly on income earned on activities (this accounted for 44 percent of the total revenue in 2006.)

The government introduced a scheme called the 1% scheme, in which all taxpayers have the opportunity to designate one percent of their annual tax sum for transfer to a particular, freely selected NGO. One percent of the tax paid by taxpayers who do not make such a designation is transferred to the National Civic Fund, which then re-distributes this money to NGO’s via an application system.

Best practices: 1) Legislation on foundations, associations and other forms of civil society organisations ; 2) 1% Scheme to support civil society

Expertise: International Centre for democratic Transition (ICDT)

SLOVAKIA
NGO sector in figures

After the fall of communism in November 1989 came a short, 3-year, period of common Czechoslovak history. It was marked by a rapid growth of the third sectors in both republics and establishment of many new nonprofit organizations, mostly in the form of civic associations.

Number of NGOs in Slovakia has reached 35,458 in 2009. Although not all of them may be active, the number of those that have been registered in 2009 for the mechanism of tax assignation that allowed individuals as well as corporations to assign 2% of their income tax to NGOs of their choice has reached 9,582.

Financing of NGO sector

From 2004 the share of public funds on the income of NGOs increased, mostly from the EU structural funds. Important mechanism on financing the NGOs has been introduced, that allows individuals and companies to assign 2% of their taxes to NGOs.

Coalition-building inside the NGO sector

For a decade, the Gremium of the Third Sector, an independent legal entity associating almost 1,000 organizations from all over Slovakia, was the best known and the most representative umbrella organization of Slovak NGOs with structures in regions (regional gremias). From 2003 there was a strengthening of the thematic platforms and associations representing particular fields of activity. Nowadays, there is 40 different platforms, coalitions or federations of NGOs based on common interest, such as Socioforum, Ekoforum, Slovak Platform of Development NGOs, Rural Parliament, Slovak Humanitarian Council, Slovak Youth Council, National Council of Handicapped Citizens, Donors Forum, The Society of Environmental NGOs, Council of Slovak Romany NGOs, Association of Slovak community foundations.

Role of NGOs in advocacy and policy making

There is a lot of experience with involvement of Slovak NGOs and their networks and coalitions in advocacy work increase of civic participation and shaping public policy. Main themes for advocacy have been the environmental protection, social services and transparency.

The NGOs and think-tanks has been involved into policymaking – e.g. on preparation of environmental legislation (law on waste management), law on free access to information and their experts participated in preparation of structural reforms.

Dialogue with the government

The formal structure – the Governmental Council for NGOs is the one that can still develop its potential. On the other hand there were examples of progressive cooperation between the government and NGOs, such as the decision of Ministry of Foreign Affairs to invite the Slovak NGDO Platform to sit on the interdepartmental Co-ordination Committee and take part in programming of strategic ODA documents supported by the recently signed Memorandum of Understanding between MFA and NGDO Platform. The ongoing dialogue between the Ministry of Education and the Slovak Youth Council on ways to support policies aimed at young people is also good example.
Involvement of NGOs in decentralised social and health service system on local and regional level

The amendment of the Law on Social Services and the Law on Health services enabled to the Slovak NGOs to focus on providing social and health care at the local as well as the regional level. They are increasingly becoming government’s contractors providing professional services.

Transfer of transitional know-how abroad

As for supporting democratisation activities abroad, Slovak NGOs have a good reputation and play an important role in Eastern Europe, Western Balkans and post-Soviet countries. Many Slovak civic activists have become respected experts in international institutions focusing on media monitoring, election monitoring, supporting democratic activists, citizens mobilization before elections or the international training of NGOs and conflict prevention.

There is an experience with building of independent educational, training and research institutions with focus on public administration and public policy with the pool of experts and researchers who can be used in transferring the know-how to other countries (e.g. The Network of institutes and schools of public administration in Central and Eastern Europe).

Best practices

a) Mechanism for individuals and companies to assign the 2 % of tax to NGOs  
b) Models of advocacy and watch-dog work, role of NGOs in shaping public policy  
c) Coalition building among NGOs, strengthening the NGO sector

Expertise: Slovak NGDO Platform, www.mvro.sk

SLOVENIA

During most of the transition, NGOs acted in a fragmented and disunited way, which made it difficult to establish a solid partnership between NGOs and the State, especially in decision-making. However, during the EU accession process awareness of the importance of partnerships with NGOs has grown stronger, as a result of which the Slovenian Government not only supported the idea of establishing the Centre for Non-Governmental Organisations of Slovenia but also committed itself to financing this centre for precisely specified and commonly agreed activities. In October 2001, the Centre for Non-Governmental Organisations was established by non-governmental organisations to meet, share information, exchange experiences, connect up to the European network of non-governmental organisations, and train non-governmental organisations for future dialogue with the EU. The centre functioned independently of the Government, and in 2003 there were cca. 70 non-governmental organisations included in the Centre. Funds from abroad were also obtained for the work of the centre, which additionally guaranteed its independence.

Civil society and NGOs as a part of it play an important role in informing and improving the knowledge of EU institutions, European policies and European values in civil society. The Slovenian Government Communication Office has collaborated with a considerable number of NGOs in the area of informing the public about European institutions and issues for more than ten years. In this period, a great number of NGOs proposed their projects to the regular annual tenders issued by the Government Communication Office. Almost 700 NGOs projects have been selected and implemented with the financial participation by the Slovenian Government. With their multiplication role, NGOs have reached with success and credibility many parts of the public that government programmes could not have reached so well. The content and form of communication were adapted to the needs of the public and local environments. Slovenians are relatively well-informed about European matters and their confidence in European institutions and projects can partly be credited to these NGOs as well. Also the NGOs gained important advantages from this collaboration. Some of them grew stronger with the collaboration and perfected their professional know-how, gained new knowledge and resources.
needed for their work, joined numerous international networks, where some of them play an important role.

**Best practice: “Active participation of citizens – communication with target groups”**

The purpose of this programme was to shape a form of dialogue at formation of viewpoints and decision-making in the field of the EU affairs between Slovenian government representatives, NGOs, interest groups (economic, tradesmen, sectoral) and academic circle in the period of Slovenia’s Presidency of the Council of the EU (first half of 2008). In the frame of this programme the civil society in Slovenia had the opportunity of a dialogue and thus to actively participate in the process of consultation and preparation of viewpoints on the current topics at the European Union level during Slovenia’s Presidency of the Council of the EU.

A special website was set up - www.predsedovanje.eu / www.predsedovanje.si which served as a tool for information and consultation between the civil society and the government and its offices. The goal of the dialogue on priority tasks was to obtain the viewpoints for concrete priority files (in the field of climate change and energy industry, the EU’s role in the world - neighbourhood policy and enlargement, EU’s future, intercultural dialogue).

The dialogue took place also in the form of EU briefings and de-briefings. The meetings took place either directly after the Council of the EU meetings (EU de-briefings) or before them (EU briefings). Government representatives, which either prepared proposals or attended the Council of the EU meetings, presented to the interested invited groups important decisions of the meetings, presented the viewpoint of the presiding country on certain issue and gave the attendees the opportunity to ask questions. That way interested groups received fast and concise information. The entire meetings were open for media.

**Expertise**

*Institutional*

Ministry of Public Administration, Tržaška 21, 1000 Ljubljana, Slovenia  
CNVOS – Centre for Information Service, Co-operation and Development of NGOs

*Academic*

Faculty of Social Sciences  
Office of International Cooperation

*Individual* Matjaz Kek - Government Communication Office
7. **REFORM OF INTERNAL SECURITY SYSTEM**

Given the fundamentally anti-democratic and repressive nature of the regimes established by the communist parties of Central and Eastern Europe in the second half of the past century, the internal security systems that were in place in those countries at the time of their political transitions in the late 1989-1991, were radically unsuitable for the new democratic situation. They were also seen as a potential threat to the consolidation of the new democratic regimes. Therefore, the need for a profound and substantial reform of these systems was felt as an urgent task.

In virtually all countries, the first measures were addressed to the reorganisation of the intelligence/secret services, including the dismantlement or depuration of the so called “security police” (the secret or political police, in charge of political repression). However, different approaches were followed to this end.

In some countries (Estonia) a totally new Security Police was built from the scratch, as part of the also new National Police; and the previous services (Estonian branch of Soviet KGB) were totally dismantled. In others (Czechoslovakia), new security or secret services were also set up totally aside the former structures, but the disbandment and depuration of the former security police affected in a different way the highest ranks and positions than the ordinary ranks or the administrative staff. Finally, other countries decided to set up new services, but allowed members of the former security services to join them and to continue providing services, in the understanding that their knowledge and experience was an asset that the new democratic state could not afford to lose. All countries were in one or another way confronted with this dilemma: the formation of new security or intelligence services and of their professional staff, which was very much needed because the new democracies were not consolidated and were indeed subject to both internal and external threats, was something that could not be improvised; and this called for the preservation of at least some of the professional knowledge and expertise available in the former secret services. But at the same time these communist secret services and their members were seen themselves as one of the most important threats for the new democratic regimes; and therefore had to be disbanded or substantially depurated. Politicians responsible for interior and internal security affairs in the first years of transition had to deal with very strong external pressure – in favour not only of a depuration, but of the criminalisation of the members of the communist political police – while at the same time trying to build new structures able to quickly become able to deal with the various threats facing the new democratic regimes.

Except in the few countries that had to create a new National Police when regaining independence (as Estonia Latvia and Lithuania did, already in 1990), the priority given to the reform of the secret services / security police in the first moments of the transition and the need not to discontinue the ordinary police activity – in crime prevention and investigation, as well as in maintaining general security and public order - involved a certain adjournment of the reform of the “ordinary” police to a later stage. In the meantime, other elements of the internal security apparatus of the previous regime were also subject of some reform measures: communist party’s “militia” were abolished, and the border guards were placed under the command of the Ministries of Interior (instead of the Army). Other internal security services provided by units depending on the Army were also transferred to the Ministries of Interior or Justice (custody of prisons and transfers of convicts).

Demilitarisation of the internal security forces was also a general characteristic of the reform process in all these countries; as it was the gradual extinction of the security forces staffed by military service conscripts.

However, in mid (or even in late) 1990s most of the transition countries were still trying to define their final police “model”. Depolitisation (independence from political influence) and professionalisation was a common goal, but the import of some foreign models of independent and professional police – of which the UK model was broadly seen as the ideal one – in countries in which the police had a tradition as a close and militarised corps, not very familiar with democratic policing, very often resulted in a lack of accountability of the Police Corps a such and of its individual members in particular.

Another key aspect of the police reform in all these countries was the move from “force” to “service”, involving a shift in focus from the exercise of the coercive authority of the state towards the provision
of an essential public service aimed at ensuring and protecting the free exercise and enjoyment of the citizens’ rights.

Alongside continuing work in the restructuring and modernisation of their internal/public security systems and police bodies and forces, as of the publication of the first “Commission Opinions” on the state of preparedness of all these countries in regards to their applications for EU membership and the accession criteria laid down in 1993 in Copenhagen, the EU started to closely evaluate and monitor progress in all areas by the “acquis” on Justice and Home Affairs (later renamed “Freedom, Security and Justice”). In many of those areas, progress towards accession required not only the alignment of legislation and the signature and ratification of international conventions and instruments, but also the substantial strengthening of the institutional and professional capacities of the police bodies and forces, in particular those dealing with organised crime and corruption, fight against drugs, fight against human trafficking, illegal immigration and the smuggling of human beings, border control and customs, etc.; as well as the preparation of the national police bodies to actively engage and participate in the mechanisms of police cooperation that are part of this “acquis”.

Significant financial and technical assistance was made available by the EU (through the PHARE Programme and later on also through the “Schengen facility”) and its member states (through bilateral programmes or through their involvement in EU-funded “twinning” projects) for the intensified work and preparations of the security systems of all these countries before accession or for joining the Schengen area shortly after accession. This assistance provided a further impetus for much needed but sometimes neglected or delayed reforms.

- **Police / internal security sector reform (in general)**

**ESTONIA**

Since independence, Estonian public security sector went through significant reforms, starting from reforming the penal- and administrative law system and ending up with large structural reforms in law enforcement and criminal justice system. Main aims of the reforms were to move from force to service and to meet the modern European standards in the respective field.

In November 20, 1990, a Regulation of the Government of the Republic formed the National Police Board of the Republic of Estonia. Three days later, another Government Regulation established 19 police prefectures, which started to take over the activities of the Soviet system’s Internal Affairs Departments that functioned simultaneously until February 28, 1991. The re-establishment process of the Estonian Police, like that of the Border Guard, already started during the Soviet occupation. Pursuant to the Police Act that came into force on March 1, 1991, the police replaced the militia. On the same day, the Security Police Office was also created as a unit of the Police. As opposed to the special services of the other countries that were freed from Soviet occupation, the Estonian Security Service was not based on the structures of the KGB.

The Crime Prevention Council, which unites various ministries and authorities, and is still operating successfully today, dates back to 1995, when it was called the Coordination Commission for the Maintenance of Law and Order.

The middle of the nineties was also characterised by the rapid implementation of measures to make the legal order more effective. After all, the settling of accounts between criminal organisations with the help of weapons and explosives was not uncommon at the time. A series of events to plan the necessary measures has gone down in history as the *Suurupi* workshops. Namely, specialists from the ministries and authorities concerned gathered at the recently opened Border Guard School. As a result of the first discussions, the Minister of the Interior, through two orders adopted in the summer of 1995, issued the plans for the corresponding measures. Within the framework of these plans, 25 different laws or amendments were prepared, which were all directed at improving the legal order in the country. Among other things, one of the planned measures was to re-establish regular patrols in Tallinn, which had tapered off due to the confused times.
In 1995, the definition of the operating limits between the state and the security companies became clearer. For instance, in 1995, among other things, the security firms lost the right to use the audio and light signals of the special services on their motor vehicles.

The activities of dissenting, anti-globalisation, and other extremists also started to arrive in Estonia with the arrival of the new millennium. Therefore, the beginning of 2002 was the right time to take the plans for police riot control and the concepts for the development of the corresponding structures out of the drawers where they had been put previously to wait for the appropriate moment. After the abolition of the Police Operational Regiment, which was created 1991 and disbanded in 1997, the Estonian official authorities discovered that Estonia was lacking any serious reserve for riot control. Thus Estonia’s own Riot Police was born.

From the second half of the 1990's until the end of 2007, the central political benchmarks for the development of the Ministry of the Interior were accession to the European Union in 2004 and to the common Schengen visa space in 2007. Both these events required a united effort on the part of the entire administrative area of the Ministry of the Interior, in order to respond to the expectations placed on us at least the same level as that of the old members. In the course of the preparations for joining the Schengen area, the technical base of the law enforcement system in Estonia was significantly improved. For instance, the ESTER operational radio communications network, which had been planned for years by the authorities, was started up at the end of 2007, with the help of the Schengen Facility.

In the first decade of this millennium, the service issues related to the special services in the administrative area of the Ministry of the Interior also received significant upgrading. This does not mean that the development of the service environment has ended. The service environment, which will develop as a result of the project that has been initiated to create a united law enforcement institution based on the Police, Border Guard, and Citizenship and Migration Boards, will certainly make the administrative area of the Ministry even stronger and more attractive to workers.

**Best practices:**
1) Reforming the police administration from 17 prefectures to 4 and thereafter unifying police and border guard services into 4 unified law enforcement areas; 2) Changing law enforcement ideology from force oriented to service oriented one (reforming the Soviet militia structures into an organization which main objectives by the law are not to punish, but to serve and protect); 3) The Crime Prevention Council, which unites various ministries and authorities, and is still operating successfully today under Ministry of Justice.

**Expertise**
- Institutional: Estonian Ministry of the Interior, Pikk 61, Tallinn, Estonia
- Academic: Estonian Public Service Academy, Kase 61, Tallinn, Estonia
- Individual: Lauri Tabur; +372 5060094; lauri.tabur at eesti.ee

**LITHUANIA**

Lithuanian Police was re-established back in 1990. Since then, a number of fragmented changes were implemented in the public order legislation field, especially when it comes to police activities. Lithuania’s accession to the European Union required amendments to the national legislation in Justice and Home Affairs sector, providing police with additional tasks and competences.

A situation analysis performed in 2003-2006 revealed difficulties in managing administrative structure of police, which at that time had more than 80 territorial police commissariats and specialized police services as legal entities.

Use of information technology, quality management, performance measurement, accountability – essential elements for long term strategic planning - was very limited. Absence of medium and long term personnel development and training strategy had caused the departure of qualified and experienced personnel. Society became far more demanding and was willing to see police in a role of public service provider.
In December 2006 the Lithuanian Parliament approved the Concept of Police reform, aiming at optimization of police activities and management. In order to implement the Concept, in June 2007 the Lithuanian Government approved a detailed action plan to be implemented by 2011.

After the restoration of independence of Lithuania on 11 March 1990, it was also essential to establish a state institution which could perform specific functions of ensuring domestic order.

In 1991, Interior Service Units of the Ministry of the Interior were established. Their objectives were to guard imprisonment institutions after the withdrawal of Soviet military forces, restore domestic order in imprisonment institutions in cases of mass disturbances, convoy arrested and convicted persons and assist law enforcement institutions in fighting organised crime. Compulsory military service was performed in Interior Service Units.

After the Parliament adopted the Law on National Safety, in 1997 conscripts started to be replaced with professionals (since 2003 Interior Service Units have been formed only by professional staff). Interior Service Units were reorganized from 1998 till 2007 and, in April 2007 these Units were reorganized into the Public Security Service under the Ministry of the Interior. Functions of the newly established institution comprised:

- restoring public and domestic order in cases of extraordinary situations and mass disturbances;
- ensuring protection of important state objects, organization and performance of convoy operations of arrested and convicted persons, defending the State as a part of the armed forces in case of war or armed aggression, et al.

Since its establishment back in 1991, Lithuanian police antiterrorist operations unit “Aras” has been tasked with organization, management and execution of special counter-terrorist operations (i.e. hostage release, neutralization of self-made and military-type explosives) on the national level. Apart from that, the Unit is responsible for preparation, implementation and overall supervision of national counter terrorism plans for various strategic enterprises, state institutions and other entities; personnel training on how to behave in crisis situations; access the readiness to respond to potential situations.

The administrative structure and functional model of this Unit has received an excellent evaluation from the EU experts (1st round peer evaluation on national counter terrorism mechanisms) and has been called as example of best practice.

Another aspect in which Lithuania’s Police has developed a particular system and valuable expertise, which could be considered as a best practice, is in the protection of witnesses and victims as a key instrument in the fight against organised crime.

In 1996 Lithuanian Parliament adopted a Law on protection of participants of criminal process from criminal influence. Implementing legislation has also been amended in light of Resolution of the Council of 23 November 1995 on the protection of witnesses in the fight against international organized crime and a number of international agreements have been signed.

From the creation of a specialized Witnesses and Victims Protection Service back in 2003, Lithuanian police has gain an extensive experience in drafting corresponding legislation, practical application of this tool, in creation of relevant infrastructure, training of personnel and other related areas, therefore expertise in this field could be shared with the other parties.

Best practices: 1) Concept (Programme) of Lithuanian Police Reform; 2) Management of counter-terrorism operations; 3) Organised crime’s witnesses and victims protection system and service.

Expertise: 1) Police Department (Administrative Support Unit Coordination Board); 2) Police antiterrorist unit “Aras”; 3) Witnesses and Victims Protection Board (Lithuanian Criminal Police Bureau)
CZECH REPUBLIC AND SLOVAKIA

Prior to 1989, the Czechoslovak police force consisted of the joint National Security Corps (SNB), which was officially divided into two Departments: the National Police Force (VB), including law enforcement and public order units; and the State Security service (StB), which was the secret, or political, police force. Contrary to the situation in other communist countries (East Germany, Romania, or the Soviet Union itself), in Czechoslovakia, the State Security was fully integrated into the national Security Corps and under the control of the (federal) Ministry of Interior. This Ministry had also other police forces, not integrated into the National Security Corps but directly depending on the Minister: the Border Police and the Armed Forces of the Interior Ministry (these latter ones consisting of independent regiments of Civil Defence, which, if need be, could be formed into brigades and operate as back-up of the National Police). These two forces were mostly composed of mandatory military service soldiers (conscripts), with officers employed on a contractual basis. The Communist Party’s “Peoples Militia” and the Army itself completed the forces available for public security.

After the “revolution”, the State Security service (StB) was soon disbanded and a new intelligence community was constructed from its remains; and so were the “People’s Militia”, and the militarised border patrols (abolishing the Armed Forces of the Ministry of Interior / Civil Defence regiments took a longer time.). In this period, reforming the National Police force (VB) was overshadowed by the priority attention given to the reform the intelligence services and the disbandment of the communist political police.

Also, reformers were confronted with a contradictory requirement: perform a radical purge in the police force, but without hampering its operability in any way. The situation worsened especially after the release of prisoners caused by an ill-conceived amnesty resulted in a dramatic increase of crimes, in the first year of the transition; and this triggered the practical suspension of the efforts to purge and transform the criminal and public order police by replacing corrupt and unreliable senior officers by new police officers. Furthermore, while the demand of the times was to allow only people committed to democracy to serve in the police force, they were supposed to be trained as well. An this was something that could not be improvised.

According to some of the politicians who held positions of responsibility in the internal security area during the years of transformation, some of the main issues to be mentioned in regards to the reform of the police in the first part of the transition process (before the EU-agenda became the top priority, in late 1990s) were:

- The “cleansing” of the public police was much more superficial than in the intelligence services. Moreover, in Slovakia the implementation of the legislation on “lustration” was very soft and only people who had worked in the “internal enemies” section of the state security were actually banned to remain working for the security apparatus.

- The reformers failed to prevent the consolidation of the Police Academy as an institution independent from the Ministry of Interior and which became totally dominated by teachers who were recruited and had served during the communist era, without the Ministry having any saying in decisions concerning the curriculum to be taught or the recruitment of the management and faculty of the Academy (but with the obligation to finance it). Hence the educational system for police officers continued lacking standards an criteria that would allow the integral education of members of a democratic police; and instead perpetuated a closed system which essence was in contradiction with such democratic ethics and principles.

- Demilitarising the National Police and separating the civilian functions and positions in the Ministry of Interior from the Police itself was yet another big challenge, since the situation inherited from the previous regime was one in which such functions were being performed, in virtually all areas of the Ministry (and also in the two Ministries of Interior in the Czech and Slovak republics) by staff who were members of the police (quite, often, organised in the form of extensive and not very transparent “family clans”).

Czech Republic: Police/Internal security
Best practice: Fight against drug trafficking, customs cooperation, inspections of transport vehicles, detection of drugs, psychological training, cynology, export and import control of drugs, psychotropic substances and precursors.

Expertise: 1/ National Anti-Drug Center of the Police of the Czech Republic; 2/ General Directorate of Customs – Anti-Drug Unit

HUNGARY

Police reform was particularly important, since police officers are the ones who embody State power in public places. In the process of transition, all possible efforts were made to ensure that the police would not again become a tool of oppression, to the point that law enforcement has sometimes been perceived as too weak. For a newly democratic country, a well-equipped, dedicated and professional police force is more important than ever, as the newly found openness brings a higher exposure to global security challenges, including organised crime, international terrorism, drug trade, illegal migration, and others. The professional management of street demonstrations, the appropriate handling of groups bent on vandalism are also a crucial component of police tasks in a country going through a cumbersome and difficult transition process.

Prior to the first freely held elections in Hungary (1990) there was a general consensus about the future of the police among the main political forces. This consensus consisted of three main points: depolitisation and professionalisation (the police should be protected against any political influence); demilitarisation (the police should be a civilian organisation under the control of a civilian administration); decentralisation (maintenance of public order and security should be a responsibility partially handled by the local governments and to this end, part of the police would have to be placed under the command of the elected local authorities).

However, later developments went in a different direction and still in 2007, some reputed Hungarian experts were extremely critical with the situation of the police forces in the country, because of what they judged as serious lack of effective accountability and oversight mechanisms, including an effective control of the Government/Ministry of Interior over the Police, which managed to remain “independent” from the Government in the most negative sense and at the same time protected from outside control and strongly cohesioned on the basis of a military or para-military status.

Intelligence services had been holding the population in check rather than protecting it during the Communist era. The National Security Act of 1995 established 5 different civilian and military agencies: the Information Office, the National Security Office, the Military Reconnaissance Office, the Military Security Office, and the National Security Special Service.

The democratic oversight of the security sector was a prime consideration in relation to all of its elements.

Expertise: ICDT

ROMANIA

The Statute of the police officer adopted in 2002 is the law that actually marks the transition from the military status to a modern, civil status for the police officers. In this regard the police officer is now acknowledged as a special status public servant that exercises his attributions in compliance with state law. This new modern perspective integrates this status among the other professional communities. This approach stems from the dispositions and principles of the European Police Ethical Code.

The statute consecrates the demilitarisation of the police body and brings a new public service perspective to the professional activity that serves the citizen, the community and the state institutions.

The new competencies in investigation and restraining the exercise of some rights and liberties are determined by the permanent and compulsory character of the police service, along with the ethics, professionalism and exigencies that it implies.
The Ministry of Administration and Interior (MoAI) has been responsible for the reform of the security system ever since the fall of the communist regime, during the transition period to the pre-accession stage and in the post-accession integration.

Having in view the efforts involved in succeeding to implement new policies that led to the EU accession, MoAI has grown to gain a great amount of experience that was either reached through the European projects and initiatives that were actually implemented in Romania or by bringing in national contribution, namely peer-to-peer implication and cooperation. Another aspect of this reform is the change in mentalities and the new approaches that were enforced by young workers with new perspectives and broader horizons.

All this process resulted in the MoAI becoming able to have a “peculiar signature” for its activities, fields of expertise and transfer of knowledge, especially by identifying certain comparative advantages that ensure a competitive approach that adds value and visibility to Romania in the European context.

There are still many fields in which the Romanian authorities work on the improvement in the framework of the accession of our country to the Schengen Area, envisaged for March 2011.

**Best practices / fields of expertise**

1. Fields of expertise in which MoAI prides itself as being already able to implement good practices and also plan strategic actions and develop research studies for further improvement and development are:
   - the border state integrated management (surveillance and control);
   - international police cooperation;
   - implementing the asylum and migration policies;
   - implementing the Dublin procedure and the Eurodac mechanism;
   - managing migration flows- implementing return policies, social inclusion and assistance for the refugees and third countries nationals;
   - providing statistical charts, research studies and analysis on the migrational flows;

   with specific expertise on:
   - preventing and combating corruption;
   - flagrant delict techniques and procedures;
   - providing training for undercover police officers;
   - intelligence analysis;
   - ensuring witness protection;
   - organised criminality investigation;
   - fraud investigation;
   - integrated system of arms, explosives and dangerous substances control;
   - special operations;
   - providing evaluation for the victims of trafficking in human beings and their stabilisation;
   - strengthening the THB victims assistance;
   - enforcing the European Arrest Warrant;
   - drug consumption and addiction prevention;
   - facilitating the treatment and the rehabilitation period for addicts;
   - ensuring civil protection;
   - managing emergency situations in all kinds of environments;
   - facilitating the information flow between the command centres and the intervention teams;
   - managing the effects of natural disasters;
   - implementing the Sevesco II Directive upon providing control over the major accidents with dangerous substances.

2. In order to transfer the know-how in the pre-accession period, the MoAI has proved to be a reliable partner to counterpart authorities (BKA Austria, BMI Germany, LKA BW) and international organisations (ICMPD, OIM) in the process of implementation of international projects to the benefit of less developed countries. One example of international project with MAI’s contribution is:
International Law Enforcement Coordination Units (ILECUs)

The aim of this project is the establishment of National Focal Points in six target countries with a view to exchanging information for international investigations and facilitating contacts on strategic and operational level.

The implementation of the units is made in respect to: Europol Contact points, Interpol NCBs, SECI-Contact points, Contact points for all foreign liaison officers, Schengen Contact points, SIRENE offices, Customs Contact points, Contact points for a European court network, Contact point for the border police.

The targeted countries of the project in the Western Balkans are Albania, Bosnia and Herzegovina, Croatia, Montenegro, Former Yugoslav Republic of Macedonia and Serbia.

An overall improvement of the “International Police” is expected through the simultaneously aimed progress in the processes of aligning the 6 beneficiary countries to European standards. This comprises of the following aspects: the improvement of the information flow in international investigations; the enhancement of contact facilitation on an operational level; the improvement of the human rights situation; the strengthening of data protection provisions; the IT competence centers, which provide 24/7 availability and are the coordination points for all technical aspects concerning ILECUs; the improvement of law enforcement performance in the area of international cooperation to the benefit of the citizens of the beneficiary countries by means of investigations that are faster and of higher quality; the strengthening of a more effective processing in view of the judicial follow-up.

- Border management

ESTONIA

By the summer of 1994, the fundamental structure of the Estonian Border Guard had been created, the majority of tasks assigned and the principal methods of guarding the border had been implemented. In June 30, 1994, the Riigikogu passed the State Borders Act and the Border Guard Act.

In June 1995, Russia completed the unilateral demarcation of the state border with Estonia. In 1998, border negotiations between the Estonian and Russian delegations were completed, and thereafter, Estonia instituted a total visa regime with Russia (as of September 11, 2000).

Based on a regulation of the Government of the Republic, as of May 15, 1997, the internal passports of the USSR lost their validity in the Republic of Estonia. Therefore, as of May 15, 1997, every foreigner in Estonia had to have an internationally recognized travel document – a passport from his or her country of nationality, a foreigner’s passport, or a temporary travel document with a visa or residence permit. Since then, a situation developed whereby many foreigners that had lived in Estonia for a long time but had not applied for a residence permit on time, were left without valid documents.

In order to join the European Union Schengen visa system, large investments were necessary, among other things, to make the surveillance and control of the future European Union border more secure. The level of manned surveillance, which predominated at that time, did satisfy the requirements presented by the European Union member states. The greatest problems were related to the outdated control and surveillance equipment (including the Soviet-era aviation equipment). There was also the matter of missing or inadequate border guard facilities. It was necessary to find external financial resources, to get the country into the shape suitable for modern Europe. The resources were found from the Schengen Facility and PHARE financing.

Best practices: reorganizing the militarized border guard service into more civil-policing oriented organization

LATVIA

As in the other European countries that regained independence and re-established statehood in the early 1990’s, the first reform in Latvia in what concerns border management and control was obviously to define the country’s borders and to set up the necessary structures to keep control of
them. In the beginning of Latvia’s transition, border control was assigned to the Armed Forces (Borderguarding Brigade). Other than historical reasons and tradition (border control had been a responsibility of the Army also in the period 1919-1940), other reasons underpinned this early solution: positive influence of military discipline in border security, mass movement of illegal immigrants across the border, etc. In 1997, and in the context of Latvia’s political objective of joining the EU, it was decided to transform the border guard structure into a specific, specialised and professional law enforcement structure (with the status of a civilian armed force) and to subordinate it to the Ministry of Interior. By that time, the Soviet Army (now the Army of the Russian Federation) had left the Latvian territory; border agreements with Estonia and Lithuania had been re-established; and a border agreement with Belarus had been signed. Moreover, in the EU context the structures or forces dealing with border control are meant to carry out criminal investigations and to impose administrative sanctions; and this is not an appropriate task for the Army. There was also a need for a full professionalisation of the service and an effective cooperation with other law enforcement structures and agencies (customs, police, judiciary).

Hence, the State Border Guard was established in that year and became responsible for border checks of persons and means of transport at border crossing points (land, sea, airports), surveillance of land and sea borders between border crossing points, control of foreigners entry and residence into the country and detection/expulsion of illegal immigrants (inter alia, in the frame of re-admission agreements), identification and preliminary interviewing of asylum seekers, pre-trial investigation of criminal cases on illegal crossing of state borders and smuggling of persons, technical documentation related to border management and immigration and international cooperation on this areas.

The final stage in the transitional reforms in this field was the stage of legal, administrative and technical preparations for joining the Schengen area, which ended up with a positive evaluation of the systems and capacities developed by the Latvian State Border Guard to effectively apply the relevant requirements of the Schengen acquis.

As of 2005, members of the Latvian State Border Guard have participated in international EU missions in Kosovo (EULEX), Georgia (EUMM) and Moldova/Ukraine (EUBAM) and the institution has implemented bilateral cooperation projects with partner institutions in Moldova and Georgia, focusing in the following areas of expertise: transition from military system to law enforcement system; legislation; integrated border management and border security; border checks; green and sea border surveillance; technical documents; criminal investigation; immigration and return matters; risk analysis; dogs handling; aviation and floating means in border surveillance.

**Best practice:** Borders’ control and foreigners control integrated system

**Expertise:** (Institutional) State Border Guard of Latvia

**LITHUANIA**

In 1990, after the restoration of the independence of the Republic of Lithuania, in order to ensure the state border protection the formation of the Frontier Guard Service under the Department of National Defence was started.

In 1992, the Frontier Guard Service was renamed as the State Border Guard Service. On 18 July 1994, the Government adopted a resolution that re-structured the State Border Guard Service at the Ministry of National Defence into the Border Police Department at the Ministry of Interior, i.e. state border protection function was moved from defence to home affairs area.

During 1999-2000, a Twinning project together with the Finnish border guards was successfully implemented.

In 2000, the Border Police Department was reorganized into the State Border Guard Service at the Ministry of the Interior of the Republic of Lithuania.
Till 31st October 2000, in accordance with the legal acts that were in force that time, nationals of Lithuania could perform compulsory military service in the border police. During 2001-2002, when reforming the units that come under the Ministry of Interior, conscripts have been gradually removed from the system of internal affairs. Consequently, since 1st October 2002, the State Border Guard Service has become a fully professional structure.

**Best practices:** Prevention of illegal migration and control of migration processes; control and guarding of the state external border with the help of modern technologies; organisation and investigation of measures of migration flow management; fight against illegal border crossing (smuggling, illegal migration); state border protection personnel management.

**Expertise:** State Border Guard Service (Int. Cooperation Board)

**SLOVAKIA**

The general border management strategy in the Slovak Republic is based on the integrated border security model and consists of activities in third countries, international border-related cooperation, measures at the external border and further activities within the territory of the country. Border management is organised under the supervision of the Ministry of the Interior and is performed by professional and specially trained Border and Aliens Police (BAPO) personnel.

The BAPO is an autonomous border police organisation subordinated to the Ministry of Interior of the Slovak Republic, which directly manages the organizational bodies fulfilling the tasks in the field of:
- border control, including border checks and border surveillance,
- fight against illegal migration,
- permits for aliens stays, controls of aliens stays, expulsion of aliens,
- visa practices and
- a part of the asylum procedure and application of the Dublin Convention.

Border management in the Slovak Republic consists of border checks, border surveillance, risk analysis, intelligence and investigation carried out by the same organisation.

Regional units of the Border and Aliens Police Bureau perform border control at the land border and at the international airports.

There is a written strategy document on border management and a national border security plan in the Slovak Republic. Arrangements to fully apply the Schengen acquis were adopted in the Schengen Action Plan.

The yearly activities of the Border and Aliens Police Office are regulated by "The Time Schedule for Performance of Tasks by the Border and Aliens Police Bureau of the Ministry of Interior", which is based on the Annual Plan of the Police Force Presidium and the Plan of Main Tasks of the Ministry of the Interior of the Slovak Republic for the respective year.

From 1999, BAPO had to implement many measures in the framework of integration/accession process to EU (2004) and Schengen Area (2007), including legislation changes necessary for the correct implementation and application of EU legislation.

In this period BAPO has dynamically adapted its organizational structure to the all conditions and requirements emerged from EU acquis and Schengen requirements. The adaptation was characterized mostly by the line organization of the operation of the border and aliens police.

The target of it was to create the only authority on the nationwide level responsible for the control and supervision of state borders of Slovak Republic emphasizing the protection of the future external Schengen Border. Finally as a result of the gradual realization of changes BAPO has achieved the independent position in the structure of Ministry of Interior of SR.
Best practices: Reconstruction of border crossing point Vyšné Nemecké after visit of Schengen Evaluation Committee in 2006 is clear example how is possible to speed up the process in the short term. After the revisit the experts found infrastructure of the main BCP at the Slovak-Ukraine border - Vyšné Nemecké fully in line with the Shengen requirements and could be described as a best practice.

Expertise: Ministry of Interior of the Slovak Republic / Border and Aliens Police Office, Vajnorská 25, 812 72 Bratislava

ROMANIA
There are still many fields in which the Romanian authorities work on the improvement in the framework of the accession of our country to the Schengen Area, envisaged for March 2011.

However, Romania considers itself ready to provide assistance in state border management (surveillance and control) and provides the following two examples of international projects in this area in which MAI is involved:

“International Cooperation in Border Management through Training of Trainers for Asian Countries Members of the Asia-Europe Meeting”
The project is the first one in this area financed by Romania through the Official Development Assistance funds (Euro 250,000). It contributes to enhancing Romania’s expertise on fighting cross-border crime, an important cooperation sector for an EU Member State situated on one of the EU’s external borders.

Border management and addressing asymmetric security risks represent priority action areas for the cooperation between the EU and countries invited to participate in this program. The objective of the project is to prepare the trainers who will train the personnel of the guest countries’ border police at European standards.

The beneficiaries of the project are the ASEM countries as well as Afghanistan, Georgia, Iraq and the Republic of Moldova, the last four being priority and focus countries for the national policy on development cooperation. The project consists of a training program, organized in two series, intended for 50 mid-rank border personnel, trainers in border management in project countries.

“Strengthening Capacities and Cooperation in the Identification of Forged and Falsified Travel Documents at the Moldova-Romania Border” (Programme of Cooperation with Third Countries in the Areas of Migration and Asylum)
The project aims to contribute to an increased effectiveness of the fight against illegal migration by the Moldovan authorities. The project seeks to enhance the capacities of border, consular and migration authorities to detect forged and falsified travel documents through two specific objectives:

- Strengthened capacity to detect forged and falsified travel documents of staff of the agencies involved in the fight against illegal migration.
- Improved cooperation and information exchange between the agencies involved in the fight against illegal migration shall contribute to a more efficient and effective identification of forged and falsified travel documents, as well as the sharing of knowledge on new types of forgeries

SLOVENIA

Best practice: Among best practices in this area we are able to list the preparation of Slovenia's Schengen Action Plan and the approach for its implementation.

The Schengen Action Plan was part of the negotiation documentation for Chapter 24 of JHA and was adopted with a Government decision. It represented a concrete plan of measures necessary to ensure
the conditions for Slovenia’s entry in the Schengen area (measures before the membership in the EU and afterwards until Slovenia’s full membership in the Schengen area) and covered:

- human resources,
- training,
- IT investment,
- purchase of equipment for border control and surveillance,
- establishment of missing institutions (SIS SIRENE, bilateral agreements with neighbouring countries etc.),
- construction of missing border crossing points and police stations at the external border,
- establishment of conditions for issuing Schengen visas.

The Schengen Action Plan also included the financial needs and sources of funding (PHARE, Schengen facility, Transition facility and national budget), as well as the types of technical assistance required (twinning and twinning light and bilateral assistance).

Since the implementation concerned several ministries and government offices and in light of negative past experiences with major projects (delays in the construction of border crossing points due to a lack of coordination between ministries), new coordination structures needed to be established to eliminate such difficulties and increase responsibility of individual agents.

For the monitoring of the Schengen Action Plan’s implementation a very efficient and effective national structure on government level and below was set up.

Ministries were primarily responsible to prepare plans and documentation for drawing financial and technical assistance of the EU. Long-term planning was required – the Schengen Action Plan provided the main points of emphasis for investing the EU funds (IT, border police equipment, co-investments in the construction of border crossing points and police station). The same was true of technical assistance since twinning projects (contents and scope) were roughly determined at the beginning of the project. The dynamics of the implementation of the projects was adapted to the dynamics of Slovenia's integration into the EU and the Schengen area.

The role of inter-agency coordination in drawing European funds was to divide the available funds between agencies with a view to ensure optimal use, control of efficient drawing of these funds, reallocation in case of delays in drawing or urgent needs of an agency to eliminate deadlocks in the execution of the project, which could endanger other phases of the project.

Such organisational structure proved to be very successful and effective. From the starting point in 2001-2002, when the country was unable to build a single border crossing point due to coordination problems between agencies, Slovenia managed, thanks to such coordination, to build several dozen of border crossing points and police stations and draw all the available funds without additional organisational structures and staff in the state administration and to successfully complete the implementation of the Schengen Action Plan as the best prepared country at the Schengen area enlargement in 2007. In the finishing phase of preparations for the enlargement to include 9 new member states we could therefore provide expert assistance to other countries in this group.

**Expertise:** Ministry of the Interior – Police
Marko Gašperlin (marko.gasperlin@policija.si)
II. ECONOMIC REFORMS (TRANSITION TO A MARKET-BASED ECONOMY)
In the late 1970s, the stagnation of the socialist economies, that produced a deterioration of the living standards of the population, made a need felt in many countries to move towards a market economy, as the only way to overcome the gap between these economies and the western-like market economies in terms of efficiency, economic development and socio-economic welfare.

From the early 1980s, a number of socialist countries in central and eastern Europe (Poland, Hungary, Yugoslavia) started to introduce economic reforms in this direction, yet without questionning the fundamentals of the socialist economy. However, in others no reform was undertaken at this stage.

The economic situation in the republics and countries of the socialist block further deteriorated in the late 1980s and this, alongside the wish for political freedom and independence from the soviet and communist rule, led to the sweeping changes that took place as of 1989 in the central-eastern part of the European continent and the Baltic region. The political and economic “block” led by the Soviet Union disintegrated, and each soviet republic or “socialist” country started to build its own way to what was seen as the system that had been able to better guarantee freedom and sustained economic prosperity.

For some of the nations that had forcibly become integrated into “federations” arising from the two World Wars of the XX Century, this new situation provided a unique opportunity for regaining their independent statehood, which was moreover seen as a prerequisite for the much needed economic change. This was the case of the Baltic States (Estonia, Latvia and Lithuania), but also the case of Slovenia and Slovak. All these “new” countries that emerged from the disintegration of the socialist block and of some of its constituent parts were faced with a double challenge: not only had these “new” countries to introduce economic reforms leading to a market economy, but they all had to build the basic economic institutions that any country needs for managing an independent state economy (a central bank, its own currency, its own customs system, etc.).

However, the economic situation in all these countries at the end of the 1980’s decade was quite diverse.

In a few countries, some of the elements of a market economy had always existed (private agricultural property in Poland) or had already been reintroduced or developed (autonomous management and “competition” between enterprises and open trade within Yugoslavia; illegal but tolerated small-scale free foreign trade with the West in Poland). Also, from the beginning of the 1980s partial but important economic reforms towards liberalisation and market economy had been implemented in some countries (Poland, Hungary, Yugoslavia). In others the economy was still totally dominated by the state – which was the owner of all property and means of production - and trade was limited to the other socialist economies, within the framework and mechanisms of the CMEA (COMECON). The countries that regained their independence in 1991-1993 (Baltic States, Slovenia, Slovak) didn’t have at that time their own currency, and in most of them the main economic decisions, including economic planning, were still taken – to a greater or lesser extent - by the authorities of the “federations” in which they were still integrated. Finally, at the beginning of their political and economic transitions, the situation of the central and eastern European countries concerning foreign state debt was very different.

However, all these countries had also something in common: from the beginning of their transition, they all set for themselves the strategic goal of joining the European Union (and its internal market) as soon as possible; and this proved to be the key and common “outside anchor” that at some point (as of the second half of the 1990s) made their process of economic reforms converge.

In the process of economic transition of the ex-socialist countries of Central and Eastern Europe towards market economy, two main stages can be identified: a first stage, covering the early years of economic transition (till 1995-1996), in which the bigger differences in approach and priorities can be observed; and a second stage (starting in 1997-1998) in which the reforms became clearly EU-accession oriented, and were thus driven and guided by the set of intermediate and final objectives
bilateraly agreed with the EU institutions, which permanently monitored the process and provided very important financial and technical assistance for the timely accomplishment of the needed reform goals.

During the entire process of economic transition – until accession to the EU – but especially in the first stage of such transition, a number of fundamental economic reforms had to be implemented in all these countries. These reforms were related to liberalisation (of prices, trade and foreign exchange), macro-economic stabilisation (to deal with the important external and internal imbalances of the national economies, namely high or hyper-inflation), restoration of private property and setting the conditions and the legal and institutional framework needed for an economy based in private enterprises and economic activities (including the big task of privatisation of state-owned property and enterprises), repayment or re-negotiation of the accumulated foreign debt and, in general, capitalisation of the national economy (including the reform of the banking and financial sectors and the attraction of foreign capitals and investments), and the reform and development of public finances, so as to make an effective use of fiscal policy in support of the other economic reforms and in order to maintain and further develop an appropriate level of public services.

When confronted with this huge set of reform challenges and tasks, and even if, in general, the long-term objectives of the new leaders of these countries were similar, discrepancies immediately arose in each country as to the priorities, order and pace of the reforms to be undertaken. Also, the conditions and the balance of power between the different societal, ideological or interests groups involved in the management of the transition was different in every country; and so were the technical capacities and resources available within the countries to conduct and manage the most complex reforms. International and foreign assistance and expertise was available but the decisions had to be made, in the end, by the new political leaders in charge of economic policy.

In some countries (Poland, Czech Republic, Estonia) the supporters of more radical reforms as the best way to quickly introduce the conditions for an economic recovery (the so-called “shock therapy”) managed to impose this approach, especially in the early years of transition, despite its big negative impact in the short-term, in terms of output drop, unemployment and recession. This was possible, among other things, because of large population support for radical reforms and its willingness to stand the consequences of harsh economic measures if this was needed to bring back economic prosperity as soon as possible.

Other countries (such as Hungary and Slovenia) took a more “gradualist” approach, in which reformers decided to plan and implement step-by-step macro-economic and structural/institutional reforms at the same time, aiming at avoiding abrupt changes in economic output, employment and welfare and at providing time for the national enterprises and economic operators to adapt to the new conditions of an open market economy.

Finally, in other countries the necessary reforms were much more difficult to implement, due to strong vested interests, unstable political situation and difficult social problems; so that substantial economic reforms could only be accomplished at a much later stage (Romania).

- Country summaries

LATVIA SUMMARY
In the first 9 years after independence, Latvia had made impressive progress in putting market mechanisms in place: a) Latvia very quickly liberalised its economy: the formerly centrally determined prices and quantities were set free already at the very beginning of transition; b) The economy was fully opened to the world, allowing not only goods and services to flow freely over the borders, but also capital, implying full currency convertibility, for current as well as for capital account transactions; c) Privatisation (especially of large industrial companies) went slow in the start, but accelerated as of 1996 and in 1999, 2/3 of GDP was produced by the private sector; d) After the banking crisis in 1995, Latvia managed to implement some of the most stringent banking regulations in Eastern Europe and a sound and profitable banking system was already emerging at the end of the decade. On the
negative side, the way towards market economy was not an easy journey: the country faced internal and external shocks, hyperinflation, drop in living standards and unemployment.

All through this process, the European Union played an important role as “outside anchor” to the reform process in Latvia: not only the objective of acceding to the EU was at the top of the political and economic agenda; but this objective provided Latvian policy makers with a sense of direction and a very concrete set of intermediate and final objectives in a broad set of policy areas (the “Path to Europe”).

ESTONIA SUMMARY:
After the collapse of the Soviet Union Estonia undertook a comprehensive reform package in a fairly short period of time. It was characteristic of Estonian economic reform that no branch of the economy was preferred; practically the only determining factor in the restructuring was the ability of an enterprise to adapt itself to the new economic conditions, especially its ability to orientate itself to the Western market. This situation was caused by the indeterminacy of the economic situation, the sharply changing price structure, and the rapid contraction of the eastern market. During this period Estonia totally liberalised its trade policy and terminated price regulations. First it led to high inflation but soon enough rapid economic growth compensated this.

In the way to macroeconomic stabilisation, one of the key decisions was the establishment of currency board system after the introduction of the Estonian national currency (the Kroon). This helped Estonia to reduce inflation and gain macroeconomic stability. Also it made the country more attractive to foreign investors. Also very important was the choice of a simple tax system with as little exemptions as possible. For example income tax was 26% for everyone. Flat tax rates improved tax receipts and reduced tax frauds. Privatisation and nearly customs and tariff free trade policy also contributed to the quick transition to market-based economy.

LITHUANIA SUMMARY
Due to its fairly well-developed infrastructure and qualified workforce, the role of Lithuania in the Soviet system of division of labour was to supply relatively modern industrial products to the military complex. Despite the shortage of natural resources, attention was concentrated on the production of energy products. In addition, Lithuania specialised in the food, textile, and oil processing industries. Trade was highly concentrated towards the CMEA/COMECON countries.

During the first years of independence, import and export relations with the republics of the former Soviet Union broke down, leading to a decline of more than 40% in output between 1990 and 1994, accompanied by a clear deterioration in the standard of living. However, the labour market impact of this decline remained limited, as many companies still were not yet confronted with a hard budget constraint.

In 1992, inflation started to surge, not only due to the price liberalisation but also due to the peg of the currency to the quickly depreciating Russian rouble. Hyperinflation only came to an end in mid-1994, when Lithuania introduced a currency board system with a peg of the new Lithuanian currency, the lita, to the USD. Thereafter the inflation rate fell significantly despite a slight rise in 2001 where it accounted for 1.3%.

From the mid-1990s onwards, economic transition had proceeded far enough to generate positive growth, and by 1998 GDP had risen by over 20% from its 1994 level. However, following the Russian crisis in 1998–1999, Lithuania suddenly lost its export markets in the CIS countries, where it had exported its electricity, agricultural produce and other consumer goods, and the share of exports going to the CIS countries fell from 46% in 1997 to 16% in 2000.

Lithuania’s GDP structure changed. The development of the services sector was very fast after the restoration of independence, and services accounted for slightly more than 60% of the GDP in 2000. The share of agriculture in GDP decreased (to 7.5% in 2000). Rapid privatisation coupled with the restitution of property rights on land led to a strongly fragmented ownership structure, resulting in low productivity. Industry continued to be an important economic sector. Industry remained strongly
export-oriented (about 60% of the output is exported). Oil refining and food processing are the main industrial branches.

There was practically no private sector until the restoration of independence. The industrial sector comprised large enterprises, and the whole agricultural sector consisted of collective farms. A programme of voucher privatisation began in 1991, and succeeded relatively rapidly in privatising a substantial part of the agricultural sector and all small and medium-sized enterprises. However, the state kept an important stake in the larger industrial enterprises, while there was no privatisation in key sectors (e.g. electricity, railways, telecommunications, oil refinery). A second stage of privatisation, including cash payments and various other possibilities, started in 1996, and privatisation was largely completed at the turn of the century.

POLAND SUMMARY

The Polish economy in late 1980s represented a typical case of a reformed socialist economy, similarly to Yugoslavia and Hungary. Economic system was partly centrally planned and partly market governed with very ineffective macroeconomic control and with enterprises not interested in profit maximization. The foundations of this socialist semi-market system were created mainly in 1981-1982 as a result of a big economic reform debate in 1980 - 1981. The concrete institutional and regulatory solutions were a product of political bargaining and compromises between advocates of different reform proposals.

Poland began its real transition to a market economy in 1990, under exceptionally difficult macroeconomic conditions, marked by hyperinflation, a high rate of hidden unemployment, a large legacy of external public debt, a high black market foreign exchange premium, and an obsolete state enterprise sector.

The process of system transition initiated fundamental changes in the Polish economy. Transition from centrally planned economy to market-based economy involved changes in:

- ownership structure of business entities through privatisation,
- abolition of state control over foreign trade,
- liberalisation of international financial flows,
- introduction of legal regulations to stimulate entrepreneurship development,
- liberalisation of prices,
- convertibility of the Polish zloty, uniform exchange rate.

In the first one or two years, economic reforms had a prevailing macroeconomic focus. Decisions were mostly taken at this level (under the leadership of the Ministry of Finance); and not too much attention was paid to the development of the institutions needed for a proper functioning of a market economy. These early reforms involved the implementation of a full set of extremely “liberal” measures (“shock therapy”), that, while effectively contributing to the “taking off” of the country’s economy and the rapid emergence of a private market economy, had later to be to a certain extent “corrected” through the necessary regulation. Nevertheless, there seems o be a wide agreement that this period of a few years of full liberalisation before starting the process of adoption of EU acquis (in the second half of the 1990’s) facilitated the rapid accumulation of capital that allowed the Polish enterprises to cope with the investments needed for the implementation of the EU standards and regulations at a later stage.

Poland had been into negotiations with the IMF since 1986 (in relation to the implementation of a programme for macroeconomic stabilisation). In this process, Poland had to resolve the problem of its high public debt. Negotiation with both public creditors (Paris Club) and private ones (London Club) were conducted and successfully concluded in 1991-1994; and it was only then when Poland regained full access to the international capital markets and was able to consolidate its stabilisation programme.

At the same time, liberalisation of international trade (with the abolishment of the state monopolies that existed till then) and of foreign exchange (with the introduction of convertibility of the national currency), in combination with a monetary policy based on a “crawling peg” of the Zloty with the USD
and subsequent devaluations of the Zloty in the following years, resulted in a radical increase in Poland’s exports to the West and a parallel decline (40%) in exports to the COMECON countries. As for the imports, in 1991 Poland experienced an “explosion” of imports from Western countries, of such magnitude that, for some experts, “capitalism arrived in Poland by the hand of a boom in imports from the West”.

Given the huge external and external imbalances of the Polish economy at the beginning of the transition, the “shock therapy” which was applied in the first years first produced a deeper recession. When transition started, there was no capital in Poland and there was an absolute need to attract foreign capital. However, due to the fact that already in the 1980’s there had been, in practice, a lot of small-scale trade with western neighbors (not legal, but tolerated), there was a certain amount of local capital (mostly in USD) and this supported the rapid emergence of a private sector at the level of small and medium-sized enterprises, once the barriers preventing this development were lifted. Thousand of small enterprises were quickly established in these early years of transition.

The period 1994-1997 was characterised by a significant acceleration of economic growth and a decline in the unemployment rate. The priority of the policy was to support the high rate of economic growth (achieved mainly by the growth in investments and employment) and the processes of structural changes in the economy. The main factor which fuelled growth was the exceptionally high dynamics of domestic demand – both investment and consumer one – fulfilled with high growth in imports and significant deepening of the negative foreign trade balance. The excessive growth of domestic demand, related to the GDP growth, became the reason for significant tension in the economy.

However, in the period 1998-2001 Poland experienced a slowdown in the GDP growth, caused by significant decline in investments and consumer demand. The number of employed in the national economy fell and unemployment rose. The increase in effective disposable income became lower, the rate of national savings fell, and the situation in public finances worsened. The slower rate of economic growth caused a decline in imports’ growth. Coupled with the relatively higher growth in exports, this served to improve the foreign trade balance.

In 2002-2004 the goal of the economic policy was to reverse the downward trends and to accelerate economic growth. Integration with the European Union in May 2004 was an important factor which stimulated significant economic development of Poland, which was continued till 2008.

As additional factors that contributed to the successful transition to market economy in Poland – and which were not present in other transition countries of CEE – it has been noted that in Poland, even before the fall of communism, there was already private property (especially in the agricultural sector); and the basic legislation needed for the functioning of a market economy (a Civil Code and a Commercial Code) was already available (adopted before the II WW, although not applied during the years of communist rule). Moreover, Poland already had at that time an independent Judiciary, although its effectiveness, particularly in regards to large and complex judicial cases – bankruptcies – was not very high.

Finally, another differential factors in Poland’s economic transition were the fact that a certain “entrepreneurial culture” was widespread (yet highly individualistic) and the Polish society was already much more open to the outer world than in other transition countries.

In sum, during the 1990s the Polish economy experienced a robust recovery. As a result, at the end of 1990s GDP per capita in Poland in PPS reached 39% of the EU-15 average leve. From 2001, however, the GDP growth rate decelerated to 1% in 2001 and 1.3% in 2002. The main determining factors of this poor economic performance were the world economic slowdown, weak domestic demand, a drastic decrease in investment and tight monetary conditions. In 2001-2002, the slackening of domestic demand together with the monetary tightening sent the inflation rate on a sharp downward trend (from 5.3% in 2001 to 1.9% in 2002).
CZECH REPUBLIC SUMMARY

The Czechoslovak Socialist Republic was one of the most industrialised countries of the former Soviet block. It had also one of the most centralised economies (before 1989, only 1.2 % of the population was employed in the private sector) and no partial reforms towards economic liberalisation had been implemented until the change of regime in late 1989.

The circumstances in which this “regime change” came about – a change that was perceived as a real revolution – made it possible to implement a radical programme of economic reforms that included very tough economic measures which, under normal circumstances (or in circumstances like those occurring in other CEECs by the same time) would have been extremely unpopular.

Although at the time of the political change most economists agreed with the necessity to adopt the measures needed to transform the centrally planned economy into a market economy (liberalisation of markets and prices, opening of the economy to the world, privatisation of state-owned enterprises, prevention of uncontrolled inflation and establishment of a new institutional framework), there were different viewpoints as to the pace and sequencing of implementation of such measures. While some advocated for fast stabilisation and liberalisation, in order to take advantage of the population’s willingness to accept tough measures involving sacrifices and the temporary weakening of the power of the interest groups allied to the former regime (the nomenklatura); others were in favor of a gradual implementation of the reforms, in order to avoid economic decline and give the domestic business sector time to adapt to foreign competition.

In 1990, the Czechoslovak government opted for fast-track reforms: far-reaching liberalisation of prices (with the subsequent elimination of subsidies) and liberalisation of foreign trade was undertaken and accomplished in 1990-1991, thus rectifying the previously distorted price structure; in order to prevent an uncontrollable increase of prices and inflation, fiscal and monetary restrictions were implemented. These included a dramatic decrease in public expenditure, particularly on transfer payments to companies, as well as administrative limitations on bank loans (eliminated in 1992). The first stage of privatisations was completed in 1990-1991, and consisted in restitution of real estate, farmland and industrial property nationalised after 1948 to their former owners, as well as “small-scale privatisation” affecting about 23000 small enterprises or economic facilities, through public auctions only open to domestic bidders. Other state assets were transferred to municipalities; and a first wave of privatisations of large enterprises through “coupons” was implemented in 1992 (the second one was launched in 1994, after the separation of the Czech and Slovak republics). Banking sector reforms – which had been under preparation since the second half of 1980s - were also undertaken from an early stage (since January 1990); several partial changes of the tax system were implemented between 1990 and 1992 and a comprehensive tax system reform took effect at the beginning of 1993, when a new structure corresponding to the tax system in market economies was introduced.

Due to these reforms, but also due to other factors, such as the dissolution of the Council For Mutual Economic Assistance (CMEA/COMECON) and the related loss of foreign markets for Czechoslovak products, the output of the Czech economy, which had increased by 4.5% in 1989, fell by 1.2 % in 1990, by 11.5% in 1991 and by 3.3% in 1992; and only in 1993 started to grow again. However, despite this output decline, the Czech transformation recession was moderate, compared to the other countries in the region.

After four years of growth (even at 6% in 1995), at the beginning of 1997 economic growth slowed down dramatically and it was necessary to introduce a new package of economic measures, including further stabilisation measures (fiscal restrictions, re-introduction of temporary import levies to counterbalance the current account deficit, etc.) as well as a number of structural reforms designed to eliminate the systemic and institutional shortcomings of the Czech economy. Thus, six years after the beginning of liberalisation, economic recession became – alongside the prospect of EU membership – the driving force for long-needed structural reforms at the micro-economic level.

In sum, despite the inevitable costs and mistakes during the economic transition, it can be concluded that in the Czech experience, the early rejection of a “third way” between socialism and market
The economy was a very important factor for the relative success of the transformation process, measured in terms of an increase in economic efficiency and the welfare of the population, and the country’s accession to international economic and political structures of the market economies.

However, the Czech experience with economic transition also shows that liberalisation and stabilisation alone are not sufficient for successful transformation: adequate legislation and market institutions must be introduced.

**SLOVAKIA SUMMARY**

- **1990-1992: Early transition within Czechoslovakia**
  - Deep transition recession during 1991-1992,
  - Swift privatisation along three fronts (restitution, small-scale privatisation, voucher privatisation),
  - Price liberalization,
  - Break-up of Czechoslovakia in a negotiated way and with strenuous attempts by both sides to minimize any economic fall-out.

  - On January 1, 1993 foundation of the independent Slovak Republic,
  - New currency, split of the monetary union,
  - Expansionary fiscal policy,
  - Fixed exchange rate,
  - Liberalization of the foreign trade and prices,
  - High interest rates,

- **1998-2002: Initial reforms and cleaning up the economy**
  - Floating exchange rate,
  - Restored macroeconomic stability,
  - Restructuralization and privatization of the banking sector,
  - Restrictive fiscal policy measures,

- **2002- : Completing the transition – structural reform and EU and EA accession**
  - Reforms in many areas (tax reform, pension reform, social insurance, labour market),
  - Public finance reform,
  - Entry to the European Union, NATO, ERM II, Euro area,
  - Accelerating economic growth (10.4% in 2008).

**Best practice:** During the EU Integration process of the Slovak Republic, a *Pre-Accession Economic Programme (PEP)* was prepared under the aegis of the Slovak Ministry of Finance in co-operation with other ministries and government agencies as well as social partners.

The PEP included public finance objectives and structural reform priorities needed for EU accession and prepared further the institutional and analytical capacity necessary to participate in European Monetary Union. It can be considered as the precursor of the Convergence/Stability Programmes which are worked out by the EU Member States.

**Expertise:** Ministry of Finance of the Slovak Republic, Financial Policy Institute

**HUNGARY SUMMARY**

When the political change occurred in Hungary (1989-1990), the country had already undergone almost a decade of partial market reforms and its economy was relatively liberalised. At that time Hungary needed standard monetary and fiscal restrictions, but because of the specific circumstances of the Hungarian democratisation process, one-off drastic measures - such as a strong macroeconomic stabilisation programme – were not adopted in the early 1990s. The main focus during these first years was more on institutional reforms at the microeconomic level (regulation and supervision of competition, financial brokering, business start and termination/bankruptcy) as well as on privatisation, for which Hungary chose traditional cash methods (direct sales, auctions), among other reasons because funds were needed for repaying the foreign debt and covering budget deficits.
By the start of the transition to a market based economy, Hungary had serious challenges: breaking down the state ownership (privatization), liberalization of prices and foreign trade, and parallel to these, control of the surging inflation and unemployment (economic stabilization).

Hungary started the economic transition in a complicated situation: thanks to the greater openness, to extent (and wide-ranging) corporate experiences, relatively moderate inflationary pressures had made Hungary a leader in winding up scarce economy among transition countries. But there had been some disadvantages, which had held development back: markedly expenditures on social net and the high indebtedness – mainly government debt – resulted a severe burden on debt service.

The reform of the tax system, which was first implemented in Hungary in January 1988, and supplemented by additional reforms in January 1989, was an essential first step of the process. This reform replaced the firm-specific taxes and subsidies of the centrally planned economy, which typically removed surplus profits and made up shortfalls, with a system of predictable and non-discriminatory taxes to enable firms to reap the benefits of their improved efficiency.

The next important step was the credible bankruptcy practice, which discouraged opportunistic behaviour by agents, in commercial relations and in their approach to other institutional reforms, including privatization (which gained momentum at exactly the same time as the new bankruptcy law was introduced). The introduction of the new bankruptcy law caused massive macroeconomic changes. Although the law itself was no responsible for the shocks or the reasons behind corporate failures, it triggered them simultaneously in many companies. The negative microeconomic developments, coinciding in time, compounded to cause serious macroeconomic problems. One-third of the economy was threatened by liquidation and in a financial state to justify such a procedure. Fears of severe consequences were understandable, but the harsh bankruptcy institution proved to be efficient in reducing losses to a considerably lower level.

Besides above mentioned measures, extremely severe external and internal imbalances emerged until mid-1990s. Faced with the prospect of a balance of payments crisis, the government introduced in March 1995 a drastic stabilization programme that also accelerated the structural reforms initiated in the early 1990s. The programme included sharp adjustment: 9 per cent devaluation of the forint followed by pre-announced crawling peg and very rigid wage policy, and an impressive reduction in fiscal expenditures. The combination of the pre-announced, declining crawling peg, restrictive wage policy and tighter fiscal policies brought a steady fall in inflation to 10–11 per cent by 1999 (liberalization of consumer prices had been carried out simultaneously with the change of regime: regulated prices remained only by f.e.: heating and lighting charges, public transportation).

During 1995–1998, Hungary implemented a comprehensive programme of corporate and banking reforms that included privatizing major utilities and restructuring and privatization of all the major banks.

These and other (f.e.: Hungary was also the first CEE country to implement a systematic pension reform, involving reforms to the public pay-as-you-go scheme and the introduction of a fully funded private pillar) reforms restored the country’s image as a pioneer in structural reforms among the transition countries, generating a surge in the volume of FDI (which was one of the highest in the region) and heightening the prospects for major efficiency gains.

After the modest GDP growth rate in 1995–1996 (1,5-1,6%), growth accelerated again in 1997. The recovery was being driven by exports, which became the engine of growth bit by bit:

The Hungarian experience since 1990 provides strong evidence of the advantages of opening to foreign capital. Dramatic shifts in the composition of exports and Hungary’s successful reintegration into international markets demonstrate how investment by transnational’s, and to a lesser extent, outward processing have led to rapid modernization and readjustment of industrial capacities.

Hungary faced until the second half of the 1990s severe adjustment, which were in some cases a “shock-therapy”, but around the millennium, Hungarian economy seemed to be relatively healthy and
finally to be meeting the conditions for sustained growth. At a result of the transition procedure, Hungary entered to the European Union in 2004.

**SLOVENIA SUMMARY**

In a period of 13 years since declaring its independent statehood in June 1991, Slovenia underwent a threefold transition: from a socialist to a market economy; from a regional to a national economy; from being a part of SFR Yugoslavia to becoming a state member of the European Union.

Three key features that distinguish the transition process in Slovenia from that in other countries were: 1) Slovenia chose a gradualist approach to transition; 2) The transition from a planned to a market economy was accompanied by a transition from a regional into a national economy; and 3) Slovenia inherited from the former Yugoslavia a unique enterprise ownership structure based on self-management and a unique institutional setting.

The gradualist approach, which was chosen for a number of reasons (including the country’s high level of development and the tradition of consensus building in the face of any major collective decision) was reflected in numerous areas of Slovenia's economic development during the 1990s and in the privatisation process in particular. While there is no doubt that the overall economic, social and political sustainability of the reform process was a clear benefit of gradualism in Slovenia, this gradualist and conservative approach was accompanied by delays in the dynamics of the reform process. One of the drawbacks of this approach was a stalemate between interests groups, leading to postponed decisions and less-than-optimal compromises; to the point that continuation of such approach was already questioned in the eve of EU accession.

When Slovenia became independent, its first tasks included (as in the Baltic states) the creation of the institutions of a sovereign state, including a central bank and a national currency, customs systems, a worldwide diplomatic network; as well as the resolution of several open questions related to Slovenia’s succession to the former Yugoslavia (namely the apportionment of Yugoslavia’s external debt).

The legacy of the former Yugoslavia had, I turn, both positive and negative effects. Among the first, the fact that the country inherited a tradition of a quasi-market system with relatively independent enterprise management structures, already exposed to some degree of competition. On the negative side, this strong tradition influenced the approach that Slovenia took to privatisation, with a strong role conferred upon managers, workers and pensioners that in the long run proved to be and obstacle to efficient company restructuring and corporate management. Moreover, Slovenia inherited strong external and internal inbalances from the former Yugoslavia (high inflation, excessive external debt, no access to international lending).

Slovenia’s economic transition can be divided in two periods: the first one was carried out in the context of creating a new independent state; and the second one was driven by the process of accession to the EU. In both periods, two sets of policies were implemented in parallel: policies aimed at macroeconomic stabilisation and internal and external liberalisation; and structural and institutional reforms.

In retrospect, it can be observed that the reform programme laid out in Slovenia’s EU accession strategy (adopted in 1998) was successfully implemented as part of the country’s actual accession process.

**ROMANIA SUMMARY**

After the fall of the communism, Romania had to handle systemic economic changes. The transition to a market-based economy was more difficult in Romania than in other countries from the Eastern and Central Europe. At the end of the 80’s, the Romanian economy was on the point of the collapse, after 40 years of a severe centralized planning focused on the industry and big and inefficient projects.

At the beginning of the 90’s, it was hard to impose fiscal constraints and to privatize the big and inefficient factories due to social conditions. The attempts to impose macroeconomic stability without
a structural support, led to a negative economic growth and to the increase of poverty (the level of poverty grew from 20% in 1996 to 41% in 1999). As in other countries, the change of economic system was initiated by central reforms concerning the liberalization of prices, the establishment of conditions for market economy, openness of markets and the creation of new enterprises, as well as programs to sustain the price stability.

The economic growth registered in Romania starts in 2000, due to the fiscal and monetary policies meant to stabilize the economy. Institutional reforms were necessary to create a framework for markets to operate in an efficient and free way, to support sustainable development, to establish clear property rights, legal and financial infrastructure and a healthy and efficient administration. The sustainable development faced a difficult task; it had to abolish the production and commercial state monopolies, the centralised allocation of resources. As a result of the implementation of these policies, the rate of poverty decreased in 2007 at 9.8% of the population and at 5.7% in 2008.

MALTA SUMMARY
EU membership was a natural development for Malta for a number of reasons. Malta is a small economy with no natural resources, apart from its labour force. Thus, Malta has necessarily always been an open economy, to some extent or another. Moreover, the Maltese economy has been well synchronised with the EU since the mid-1970s. Furthermore, it is noteworthy that prior to Malta’s application to join the EU in 1991, trade with the EU consisted of around ¾ of total trade, while most foreign direct investment (FDI) in Malta was derived from the EU. Moreover, prior to EU membership, Malta had significant ties with the EU, through the Association Agreement. Thus, EU membership was the next logical step for Malta in developing and liberalising the Maltese economy. It was considered that EU membership would provide stability to the Maltese economy, giving direction to Malta’s economic policy. EU membership was expected to be conducive to higher capital inflows (in terms of EU funds and FDI) to finance investment, while reducing the vulnerability of small open economies to external shocks by bolstering investor confidence. Eventually, EU membership led to Euro adoption.

The transition towards a more market-based economy involved a restructuring process that has sought to shift the economy from one mainly based on the manufacturing sector to an economy that is primarily services-based. Meanwhile, an industrial restructuring process was developed so as to reform the domestic enterprise sector through the Government enterprise policy which sought to increase competitiveness in local production, promoting internationalisation of firms and attracting foreign investment. The industrial restructuring process was accompanied by the gradual dismantling of protective levies in imported industrial products during 1999-2003. Specific assistance packages were developed to assist companies undergoing restructuring.

Furthermore, through a steady process of liberalisation and structural reforms, government’s role in the economy changed from operator to regulator. The ultimate goal of these reforms was to achieve long-term economic growth through the creation of an enhanced competitive environment. To this end, with respect to competition policy, a series of amendments have been made to the Competition Act (Cap. 379) of 1994, bringing it better aligned with the Acquis. Moreover, the functions of the Office of Fair Competition and the Commission for Fair Trading were strengthened. The State Aid Monitoring Board was established to provide an appropriate legal framework for state aid in Malta.

Significant liberalisation and privatisation to the Maltese financial market, along with the updating of legislation concerning banking, insurance and the provision of investment services, has contributed towards increasing the importance of the financial services sector to domestic economic activity. Reforms also included the shifting of the regulatory and supervisory role from the Central Bank of Malta to the Malta Financial Services Authority in 2002. Furthermore, Government implemented a liberalisation process with respect to exchange controls which brought about the removal of all controls on capital movements by EU accession. This process commenced in 2000.

During the transition period towards an efficient market-based economy, Malta carried out a privatisation process following the setting up of the Privatisation Unit during 2000 that was to oversee the liberalisation of sectors previously considered to be natural state monopolies. Moreover, the regulatory reform process was implemented by the Malta Communications Authority (MCA) that was
set up in 2001 to regulate the telecommunications sector. Regulatory reforms were also carried out in the public and maritime transport and health sectors.

Careful public policy and planning ensured that the Maltese economy was characterised by a generally stable macroeconomic environment throughout the transition phase. For instance, the gainfully occupied population registered an increase during the five years to 2000, mainly due to new employment opportunities in the private sector. Increased job creation and lower growth in the working-age population contributed to bringing down the unemployment rate following modest increases registered over previous years. Moreover, Government sought to address the challenges arising from the restructuring of the manufacturing industry, the underemployment in certain sections of the public sector and the growing importance of globalisation and information technology namely by channelling more resources to the development of labour market initiatives, guiding the interaction of the tax regime and social insurance system and increasing the scope of wage negotiations to reflect labour productivity.
8. MACRO-ECONOMIC STABILISATION

Macro-economic stabilisation (curbing inflation and establishing a sound fiscal policy) was one of the first tasks that all transition countries had to undertake in their move towards market economy. This required the implementation of both monetary and fiscal policies and measures. In the countries that regained independent statehood during transition, a first and necessary step was the introduction of their own national currency, so as to detach their economies from that of the federations to which they were previously a part. And at this point, countries had to make decisions as to the type of currency exchange arrangements to be adopted, as a key element of the new national macroeconomic framework.

Inflation rose in all countries during the initial stage of reforms mainly as a consequence of price liberalisation and the elimination of subsidies to companies and products; in some countries inflation in those early transition years even reached four-digit figures (Estonia, January 1992). However, there were important differences between countries and in general – despite further surges in inflation at later stages in the transition process – the monetary and fiscal policies applied since the beginning of the process of economic transition were able to bring inflation down to single-digit figures and to maintain it in those levels till the date of accession to the EU.

In some countries, macroeconomic stabilisation rested primarily in a tight monetary policy, including the establishment of fixed exchange rate currency arrangements, as well as the setting of high interest rates and other restrictions to credit by the national banks. Restrictive fiscal policies were necessary in all countries, but played a particular role in some of them, where the option for a fixed or almost fixed exchange rate for the national currency – either in its more radical version, the currency board, or in the form of a crawling peg – and the prohibition for the national bank to fund the deficit of the state budget, left little or no room for further use of monetary policy. Although imposing a tight fiscal policy was not easy in any country, in some of them (for instance, in Poland or in Hungary) it was particularly difficult, due to government's obligations concerning wages and social security/protection systems, as well as the difficulty of cutting down subsidies to some sectors of the economy (agriculture).

However, what seems to be common in the experience of economic transition in the central and eastern European countries is that macroeconomic stabilisation alone is not sufficient for ensuring sustainable economic growth. Additional structural reforms are needed, and there is a price to be paid if some of the necessary reforms are postponed or not accomplished at an early stage. The same goes for reform processes that, while focusing only in micro-economic and structural reforms, neglect or postpone the adoption of the necessary macro-economic measures. Nevertheless, some experts believe that a period of more or less "wild" liberalisation in a context of stable macroeconomic policy is beneficial from the viewpoint of the rapid accumulation of capital that the enterprises and businesses need to cope with more stringent regulatory requirements at a later stage.

Another important lesson is – as the Estonian case shows - the need for continuity in the broad economic policies during the transition, beyond the changes in government or political majorities.

LATVIA

Macroeconomic stabilisation was one of the main determinants of recovery of Latvia at the beginning of transition. The strong macroeconomic fundamentals, which were laid down in 1992-1994, determined economic growth in 1996-1998 and the absorption of the impact of the Russian crisis in that year, thus facilitating the quick recovery of the path to growth as of late 1999 and in the years before EU accession. However, though the importance of macroeconomic stability in promoting economic growth at the stage of advanced transition cannot be overestimated (high and even moderate inflation impedes growth), in the Latvian experience is was absolutely clear that stabilisation along with further liberalisation is a necessary but not sufficient precondition for growth. There was a strong need for accelerating "second generation" reforms with the main focus on structural adjustment.
ESTONIA
As in the other two Baltic countries, Estonia's full integration into the economy of the USSR made it fully dependent and vulnerable to the economic developments in the Russia and the Russian rouble zone. In late 1991, reforms undertaken by the Estonian leadership (before May 1990) and by the Government resulting from the elections held in 1990 (basically price liberalisation, reduction of budget subsidies and privatisation of a certain number of state-owned enterprises), alongside the impact of liberalisation reforms undertaken in Russia (i.e. end of subsidised prices for energy, oil and raw materials) and the shortage/undersupply of the single currency used for economic transactions in the rouble zone (the Russian rouble), led to huge macroeconomic imbalances in the Estonian economy. Inter-annual inflation rose to four-digit figures (1076% Jan 1991- Jan 1992), there was a very sharp fall in output (particularly in industrial output), a collapse in trade with Russia and CIS countries; and the fiscal situation became unsustainable (the budget deficit soared).

In January 1992, after the resignation of the Government that had led the country since the May 1990 election, a “caretaker” Government was established, with the political mandate of start addressing the macro-economic stabilisation of the country and preparing a new Constitution and new elections to be held after the summer. This Government introduced the new Estonian national currency (the Kroon) and finally accepted the proposal from the Bank of Estonia for a currency board arrangement to be established as the base of the new monetary system.

However, it was the righ-wing Government formed after the September 1992 election who push forward the economic reform process by implementing – in the course of the following two years - a comprehensive package of radical reforms. It was this package that established the core elements of Estonia’s macroeconomic stabilisation and transition to a market economy. Since then, succesive governments basically kept these fundamental elements in place, and Estonia's macroeconomic policy has been based on a fixed exchange rate system, supported by a currency board system, liberal foreign trade policy, balanced central government budget with limited state borrowing, far-reaching privatisation, simple tax system with proportional income tax and, since 2000, exemption from the corporate income tax on reinvested profits. Since 1995, after the recession due to the transition from a planned to a market economy, developments were generally characterised by growth and sound performance.

POLAND
Macroeconomic destabilisation – which had its origins in the 1970s and had not been appropriately confronted during the 1980s with the necessary monetary and fiscal discipline - accelerated sharply in 1989. The removal of administrative price controls as regards a majority of foodstuffs, relaxed control over wages and prices in the enterprise sector, significant wage increases in the budgetary sector and low corporate income tax rates resulted in a rapid price increase, fall in real budgetary revenue and an increase in budgetary expenditure, leading to a very rapid growth of budgetary deficit and further increase in prices (in December 1989, wages in the enterprise sector exceeded the figures recorded in December 1988 by almost 470%, while prices were 640% higher than a year before). Inflation was accompanied by an increase of credit for enterprises.

High inflation, negative real interest rates and sharp depreciation of the zloty contributed to a rapid increase in the profitability of companies, which grew by ca 40% over the entire year. In spite of that, real budgetary revenue decreased by 25%. Budget deficit was growing rapidly. Macroeconomic destabilisation caused a slow-down in economic growth. In spite of a series of significant devaluation measures, the increase of internal demand resulted in the growth of import against convertible currencies and a deterioration of the balance of trade. The release of a majority of prices from administrative controls, adjustment of government-controlled prices (mainly prices for energy which grew more than threefold) and another devaluation of zloty caused a leap increase in prices in January 1990.

The government of Tadeusz Mazowiecki (the first post-communist government in Poland, which was appointed on 12 September 1989) inherited an economy in a state of near-hyperinflation and regulatory chaos. A month later Vice Prime Minister and Minister of Finance Leszek Balcerowicz presented a comprehensive program of economic transformation. This document was made up of
two key components: an anti-inflationary stabilization program and a program of fundamental institutional reforms including privatization.

The stabilization and liberalization program introduced from January 1, 1990 and drawn up in consultation with the International Monetary Fund, consisted of five major components:

- Restrictive monetary policy, most clearly expressed by a drastic reduction in the money supply as well as the establishment of a high interest rate (exceeding inflation in real terms from March 1990)
- Elimination of the budget deficit, predominantly through further drastic reductions in subsidies for food, raw materials, production input, energy carriers as well as the removal of tax exemptions.
- Further liberalization of prices (since January 1990 ca 90% of prices were determined by the market) as well as a significant increase of prices still under administrative control, for example, fuels and energy, transportation tariffs, housing rents and pharmaceuticals. Some other price deregulation steps were taken during 1990 (e.g. a liberalization of coal prices from 1 July 1990).
- Introduction of a current account convertibility of the Polish currency, linked with its considerable devaluation and the emergence of a single exchange rate, which was stabilized on the level 9500 zł per 1 US $ as a nominal anchor (it was kept on this level until the devaluation in the mid of May 1991). From October 1991 a preannounced crawling peg formula was adopted. The exchange rate policy was accompanied by liberalization in foreign trade (elimination of import quotas, most of export quotas, unification and decreasing of tariffs)
- Restrictive income policy manifested mainly in the elimination of general wage indexation in the enterprise sector and the introduction of severe taxation penalties on wage increases (during next years – especially after December 1992 - excess wage taxation was gradually relaxed and finally abandoned in the end of 1994).

The objectives of the above program (which earned the title of “shock therapy”) were: to stifle high inflation and to eliminate shortages; to open the economy to domestic and foreign competition; to deregulate the majority of commodity markets; to liberalize the structure of prices and to bring it closer to the free market; to break down the wage indexation policy; to make state budget balanced and stable. In general the operation was meant to create a macroeconomic basis for the microeconomic restructuring. Most of these objectives were achieved but not all to the same extent.

In any event, the Polish stabilization programme entailed far-reaching consequences for the country’s economy and heavy social costs including rising poverty levels. At the outset of the transformation from a centrally planned to a market economy, inflation increased to 70% per year. However, its gradual but constant decline over a ten-year period led to a level of inflation of 1.9% in 2002, comparable to that noted in western European countries.

CZECH REPUBLIC

Macroeconomic stabilisation was one of the components of the economic reform programme implemented by the Governments of the still Czechoslovak Republic in the years 1990-1992. It entailed both monetary and fiscal policies and was aimed at preventing an uncontrolled surge of inflation as a result of price liberalisation and the deterioration of the current account balance resulting from liberalisation of foreign trade and the loss of foreign markets arising from the dissolution of CMEA/COMECON.

The Czech inflation rate was one of the lowest of all the countries in the region in the first half of the 1990s. Consumer prices increased by 56% in 1991 as a result of price liberalisation, and by 21% in 1993 (partly because of the introduction of the new tax system). In the following years, however, as a result of fairly restrictive monetary and fiscal policies and the fixed exchange rate of the Czech crown, the inflation rate was kept around 10%.
A second package of stabilisation measures was implemented as of 1997 and, as a result of the recession that manifested as of that year and the restrictive monetary policy implemented by the Czech National Bank, inflation went down to 2.1% in 1999 and remained below 5% during the following years.

HUNGARY
Macroeconomic stabilisation became a priority in Hungary in mid 1990s, when the economy faced a threat of a serious financial crisis. The package, introduced in 1995, included devaluation, import restrictions, budget cuts and agreements with trade unions on salary decreases.

SLOVENIA
At independence, Slovenia inherited from the former Yugoslavia substantial economic imbalances, both internal (hyperinflation) and external (large foreign debt). At the same time, Slovenia lost markets in the former Yugoslavia, had no foreign exchange reserves to back up its new currency and had only begun to adopt an outward-looking, export oriented development strategy, which required the liberalisation of foreign transactions.

Macroeconomic stabilisation and liberalisation were an absolute necessity and a top priority of Slovenia’s early transition. Macroeconomic policies encompassed monetary policy, fiscal policy, incomes policy and trade policy; and the implementation of these policies was successful enough to overcome the initial transitional recession and return to a path of growth as early as in 1993.

• Monetary policies
Economic transition in central and eastern Europe in the early 1990’s provides some useful and good examples of processes of introduction of a new national currency, in a context of liberalisation and macro-economic stabilisation (Estonia, Latvia, Lithuania, Slovenia and later on, also Slovakia).

It also provides a range of experiences and examples of the use of monetary policy during economic transitions, including various models of exchange rate regime and of role and authority of a national bank.

In general, there was a preference for exchange rate systems providing either a totally fixed rate or a narrow margin for devaluations and revaluations, thus providing the stability and predictability needed for attracting foreign investors. High interest rates also contributed to this end, while helping reduce inflation.

However, in a context of weak regulatory frameworks and institutions, this strategy did also have some risks, as the banking crisis of the mid 1990’s showed in some countries (such as the Baltic states).

LATVIA
The Bank of Latvia (that already existed before full independence) became a full-fledged central bank, with the right to issue the national currency, in September 1991. The BoL was from the beginning set as an independent institution with a mandate to design and implement monetary policy. This independent status of the BoL was confirmed by the Laws on Banks and on the BoL passed in May 1992. The BoL is explicitly forbidden to finance directly the budget deficit and its ultimate goal is to maintain price stability.

In order to carry out quick reforms and to stabilise the macroeconomic situation, Latvia introduced its own currency at an early stage of the adjustment process, thus enabling the BoL to pursue an independent monetary policy. After leaving the rouble zone, the BoL launched a strategy of exchange rate stabilisation, in order to curb existing hyperinflation, which was implemented through a managed float of the Lat, high interest rates and limited lending to commercial banks and government. This policy fostered capital inflows, which led to a nominal appreciation of the Lat (although the Lat was at that time undervaluated, the bank intervened in foreign exchange markets to reduce the speed of the appreciation.). At the beginning of 1994, the BoL decided to introduced a fixed exchange rate and
pegged the Lat to the SDR basket of currencies. This fixed exchange rate policy served Latvia well in bringing down inflation and creating a stable framework for economic growth.

Due to the fixed exchange rate regime, the monetary policy of the BoL during the transition incorporated all the elements of a currency board arrangement (full backing of the monetary base, free convertibility of national currency, automatic interventions). However, in its operational practice the BoL acted as a fully-fledged central bank, managing the liquidity in the banking system by using a set of indirect market-based monetary policy instruments that were compatible with the set of monetary tools used by the European Central Bank.

This tight monetary policy, supported by other macroeconomic and structural policies (namely fiscal policy) resulted in low level of inflation coupled with restablishment of positive GDP growth.

ESTONIA
The Bank of Estonia was re-established in 1990, but it was only after the country regained its independence in August 1991 that it assumed the role and responsibilities of a monetary authority entitled to issue national currency. The BoE, staffed by a group of young market-oriented economists, under the leadership of a reputed reformer (Mr. Sim Kallas) played a core role in the decision to introduce the Kroon as Estonia's own national currency in the first half of 1992. Since then, the Estonian monetary system is based on a currency board arrangement – this means that for each kroon in circulation the Bank of Estonia (central bank) keeps a corresponding amount of foreign currencies (euro, dollars) or gold. The currency board arrangement was chosen with the aim to diminish the influence of currency speculations on the Estonian economy and to guarantee the stability of the monetary system. The Bank of Estonia is responsible for maintaining the value of the Estonian kroon and the stability of the financial system. Currency board arrangement itself could be considered one of the best practices Estonia used as it stabilized the economy.

POLAND
Starting in September 1989, the National Bank of Poland (NBP) began to tighten the money supply, to increase the nominal interest rate and to depreciate the exchange rate against the US $ both in nominal and real terms. This policy enabled to almost completely close the huge gap between official and free-market exchange rate by the end of 1989. This move was accompanied by a law regulating credit operations by introducing interest rate adjustments in all credit agreements that were made in the past. The law also restricted the so called `preferential credit'.

Introduction of a current account convertibility of the Polish currency, linked with its considerable devaluation and the emergence of a single exchange rate was a second step. From October 1991 a "crawling peg" formula was adopted.

The end of second quarter of 1990 brought a general relaxation of a macroeconomic policy. This reorientation was caused by the will to reactivate the Polish economy after the output decline that occurred as a result of the reforms implemented as of late 1989 (which was overestimated at that time) and triggered a lot of pressures on the Government and the NBP). This relaxation gave a new, very strong inflationary impulse in the second half of 1990. A rising inflationary pressure induced the NBP to start a monetary contraction. The adopted measures included three substantial increases of the refinancial interest rate (during the period since October 1990 to January 1991), the increase of the norm of required minimum reserves and the credit rationing for the state owned enterprises. This drastic package helped to stop inflation again.

The beginning of 1991 brought a new serious challenge for the macroeconomic policy connected with collapse of CMEA/COMECON trade, the second wave of output decline and the post-stabilization fiscal crisis. Fiscal policy became for the next three years the central issue of stabilization attempts.

CZECH REPUBLIC
In the initial stage of transformation, money markets did not exist and commercial banks were insensitive to standard indirect monetary policy instruments. Due to the fixed exchange rate adopted
for the crown, the Central Bank’s principal instruments for managing money supply in the economy were at that time administrative limitations on bank loans.

As of 1992, administrative liquidity management was gradually abandoned and replaced by indirect instruments (mandatory minimum reserves for commercial banks, interest rates).

In 1997 there was a speculative raid on the Czech crown, made possible by its fixed exchange rate and the 1995 liberalisation of movements on capital account. After several days of interventions, the Czech national bank decided to adopt a floating exchange rate and subsequently implemented a restrictive monetary policy.

**CZECHOSLOVAKIA**

The central banking system in Yugoslavia was reorganised as a result of the political arrangements introduced by the 1974 Yugoslav Federal Constitution. Central banks were established in each one of the Republics and their Governors constituted the governing body of the National Bank of Yugoslavia (NBY) and of the system of republican and provincial central banks, which under federal law was empowered to decide a single monetary policy for the Federation. Monetary policy was thus decided at Federal level (by unanimity) and its implementation was a matter of the republican and provincial banks.

Monetary policy in Yugoslavia was not conceived as independent from the concrete financing needs of enterprises. Rather, it was designed to support two main economic sectors: agriculture and exports. Yugoslavia was a net importer of capital, its investment needs exceeding the domestic savings available.

The establishment of the republican and provincial central banks coincided with the beginning of the period in which the external debt and the foreign currency-denominated domestic debt of Yugoslavia began to accumulate. Several factors brought the NBY to the brink of insolvency. The result was hyperinflation and, after unsuccessful attempts of reform at the end of the 1980s, the dissolution of the state.

*Introduction of new currency (tolar)*

Asserting monetary sovereignty was probably the single most important and demonstrative act of Slovenian independency. The October 1991 introduction of the new Slovenian currency, the tolar, by the Bank of Slovenia, acting as a fully independent central bank of a sovereign state, was only the final step in a process which had started long before.

At the time of introducing the new currency, the new Slovenian central bank, the Bank of Eslovenia, was confronted with a wide range of institutional and macroeconomic difficulties: double-digit monthly inflation, a highly indexed economy, no international reserves, low confidence in the new currency, a huge legacy of non-performing loans in two large commercial banks, and the absence of credibility in the newly established central bank itself and its policies.

The Bank of Eslovenia’s primary concern was price stability and accordingly, its main initial goal was to quickly bring inflation down. A monetary anchor was used to achieve this objective, but a floating foreign exchange rate regime was chosen. This regime implied that the Bank would exercise control over the money supply but would intervene in the foreign exchange market only within the constraints set by the chosen monetary policy.

In the years that followed, the Bank of Slovenia, together with the government, succeeded in lowering inflation gradually over a period of several years (very quickly in the period 1992-1995 and later at a slower pace), without compromising the recovery of real output.

From 28 June 2004, the tolar was pegged to the euro in ERM II, on 1 January 2007, Slovenia made a big step with her changeover to the new, common European currency, the euro.
• **Fiscal policies**

In the beginning of the economic transitions in the countries of central and eastern Europe, and for most of it, the general pattern was one of tight fiscal policies (even with budget surpluses in some countries and fiscal years). This policies were mainly based upon a drastic reduction of subsidies to prices and transfers to companies, since the tax base was weak and got even worse due to the recession and substantial drop of output. This had been originated by a radical change in foreign trade patterns and the inability of many enterprises to cope with higher supply costs and competition from imported manufactured products (despite the rises in prices of these products, already liberalised).

However, these policies were not applied uniformly in all countries, due to different reasons. Some countries started the reform of the tax system (with the introduction of figures such as a modern personal and corporate income tax, as well as VAT) at an early stage; while others preferred at that stage to rely in the income that could be obtained from quick privatisations, carried out for cash.

In any event, maintaining a mor or less balance budget was a core objective of the public authorities during the entire transition; and this objective led to the need for additional reforms on the expenditure side, especially in areas such as the pension and health care systems.

**LATVIA**

At the beginning of transition, the fiscal system in Latvia shared similar features with other former communist states: high public spending (45-50% GDP), a tax system that relied in tax base definitions characteristic of central planning; inexistence or underdevelopment of fiscal institutions such as tax administration, customs, treasury etc.

A fiscal (tax and budget) reform aimed at maintaining fiscal deficit and public debt at a reasonably low level in a sustainable way, was seen as an essential precondition for the implementation of economic transformation. Thus, Latvia implemented from the outset a tight fiscal policy, under very difficult economic circumstances: sharp output drop, excessive inflation unleashed by price liberalisation, increased population demands for public spending, due to worsening living conditions. Furthermore, the decision to adopt a fixed exchange rate in 1994 implied a very limited role for the active use of monetary instruments and placed fiscal policy at the centre of macroeconomic policy making. The experience of Latvia shows that success with fiscal reform at the early stages of transition paved the way for economic recovery later on.

At the early stage of transition public deficit was contained thanks to some particularly favourable circumstances: 1) Latvia inherited no debt from the Soviet Union; 2) The option of resorting to money printing by the Central bank to finance the budget deficit was excluded from the beginning, because such practices would jeopardise fixed exchange rates and the stability of national currency; 3) Latvia had no longer to contribute to the Soviet Union’s budget with large net transfers, which had been the case in Soviet era; and 4) the determination to reform enabled the Government to rapidly introduce tax reforms and control expenditures. Rapid implementation of this new tax legislation and strengthening of tax administration, combined with the relatively high discipline of tax payers in Latvia due to pre-war experience helped to secure adequate revenue. On the expenditure side, price subsidies were substantially reduced in the early stages of economic transition, the main remaining emphasis being on the traditionally important agricultural sector.

**ESTONIA**

Reforms in the fiscal area started after the formation of the Savisaar government in 1990 (restoration of fiscal independence, instituting a new budget process and designing new institutions to monitor economic policy, substantial reduction of state subsidies, etc.). However, it was in 1992 when, in parallel with the discussions about the introduction of Estonia’s own currency and monetary policy arrangements (the currency board) the main political decisions on fiscal policy were also made. While the fiscal deficit was soaring in the winter of 1992, the decision to implement a monetary policy based on a currency board arrangement involved a decision of totally ruling out the use of monetary instruments to finance the budget deficits. This constraint on deficit financing had an important effect
on Estonia’s public finances during the transition, in terms of efforts to keep the state budget in balance. Estonia implemented very tight fiscal policies, so that budget deficit was kept in very low levels during the entire transition. In the years 1994, 1997, as well as in the period 2001-2004, there was a budget surplus; the highest deficit occurring in 1999, as a result of the impact of the Russian crisis of 1998. Part of the budget surplus, alongside some of the proceeds from privatisation, was invested abroad through a Stabilisation Reserve Fund, established in 1997 in order to “cool” liquidity so as to maintain the restrictive monetary and fiscal policies, and also for building a reserve needed for ensuring the sustainability of the pension system.

**POLAND**

Wage explosion after the August 1980’s strikes, combined with continued price control, devastated completely the state budget. Under the martial law instated in February 1982 the process of creating excessive social obligations of the state was continued, especially in relation to the pension system (including many branch and professional privileges). The last pre-democratic government of Mieczysław Rakowski introduced corporate income tax. Despite achievements, the Program of Consolidation of the National Economy, a key policy document of this cabinet, neglected the role of fiscal discipline. The state budget for 1989 was adopted with a big deficit. During the next months, populist tendencies raised during the “round table” negotiations, instability created by the electoral campaign, as well as an across-the-board indexation of wages forced through by ”Solidarity” Independent Trade Union and the National Council of Trade Unions (OPZZ), helped further deteriorate the macroeconomic situation. The government decision of April 17, 1989 regarding the increase of the minimum procurement prices of agricultural products, which was influenced by the forthcoming election campaign, contributed to the final collapse of the state budget in the mid of 1989. The National Bank of Poland played at this time a rather passive role, financing the budget deficit through an unlimited and interest-free credit to the government.

The government which was appointed on 12 September 1989 inherited an economy in a state of near-hyperinflation and regulatory chaos. One of the five components of the stabilization and liberalization program introduced from January 1 1990 was elimination of the budget deficit, predominantly through further drastic reductions in subsidies for food, raw materials, production input, energy carriers as well as the removal of tax exemptions.

As of 1991, fiscal policy became the central issue of stabilization attempts. Every budget law, budget provisorium or budget corrections until the first half of 1993 were connected with the drastic adjustment measures related mainly to the unemployment benefits, pension system, wages of budgetary sphere, subsidies, removing tax and import tariff exemptions, introduction the new special taxes (6% import surcharge in December 1992), improving tax collection and execution, housing programs, etc. General tax reform was gradually implemented. The economic recovery and tax reform (especially introduction of VAT) improved the fiscal situation in the end of 1993 and in 1994. This fact contributed to the weakening of political interest in further fiscal adjustment in 1994, especially in the social policy sphere; and even to the reversal of some earlier decisions.

**SLOVENIA**

Fiscal policy issues and public finance reforms were key to stabilising the economic situation and facilitating the transition of the Slovenian economy. The main task of fiscal policy was to achieve stabilisation, particularly in the period 1990-1997.

A roughly balanced general government fiscal account and the creation of a fiscal environment capable of fostering economic growth were the main objectives of Slovenian fiscal policy during transition.

A strong fiscal stance was achieved through the reform of public finance institutions in 1991, which increased effectiveness of tax collection and improved control over spending. Together, these achievements formed one of the foundations of Slovenia’s transition to a market economy and provided a key support for monetary policy in stabilising the economy.
However, balance in the general government accounts was achieved with growing difficulty. Significant problems continued to exist in the structure of expenditure and revenue. On the expenditure side, fiscal policy was limited by large and institutionalised social transfers and the relatively high fixed costs of state administration for a small country. On the revenue side, it was restricted by the close connection of revenue to wages (direct taxes and contributions to social security are important sources of revenue).

In 1999 and 2000 Slovenia took two major, but still insufficient, steps toward the long-term viability of the fiscal balance. On the expenditure side, a pension reform was implemented. On the revenue side, a new value added tax was introduced in mid-1999.

- **State debt**

Not all the countries of central and eastern Europe that started their transition to a market economy in the 1989-1991 period had an important volume of state (foreign) debt at that point.

However, for some countries (Poland, Hungary, Slovenia) the question of the state debt was a very important problem to be tackled and resolved in the beginning of their economic transition; and for a number of years, despite the agreements on debt restructuring reached by the new democratic authorities with both public and private creditors (Paris and London Clubs), the service of the debt was a burden which influenced heavily economic developments in the country, in several different areas.

**LATVIA**

Latvia did not inherit any debt from the Soviet Union and during the transition process, due to its tight fiscal policy, managed to keep the volume of Government debt at a percentage of GDP (around 10-15%) that was substantially lower than the average in EU countries.

**ESTONIA**

Estonia never had significant state debt after breaking up from Soviet Union. In 1992 state debt accounted 2,7% and in 1993 7,5% of GDP (4% in 2004)

**POLAND**

In early 1970s very intensive modernization of the Polish industry and a consumption boom were financed, to significant extent, through large scale foreign borrowing, and this led to a dramatic balance of payment crisis in the end of that decade. After the economic collapse of 1979-82, resulting from the incapacity to continue servicing the rapidly increasing foreign debt, debt denominated in foreign currencies which was serviced only to a low extent continued to grow, finally reaching 40.8 billions USD in 1989 – about 65% GDP. In that year, in order to provide full foreign debt service - principal and interest- Poland would have needed to allocate 80% of its total revenue from export against convertible currencies.

Therefore, one of the key elements of the macroeconomic stabilisation programme undertaken as of 1990 was related to the restructuring and reduction of foreign debt. After difficult negotiations with creditors, final agreements were reached between 1991 and 1994 with both official creditors (Paris Club) and commercial banks (London Club) and Poland regained access to international financial markets and credit.

**HUNGARY**

At the end of the 1980s, Hungary’s foreign debt reached 75% GDP (2.1 billion USD).

In the 1990s, the central government gross debt to GDP ratio decreased substantially, falling to 71.5 % at the end of 1996 and about 51.6 % by the end of 2001. This decrease was mainly due to the primary budget surplus and the debt redemption effected from privatisation proceeds and the significant real GDP growth. However, since 2002, the central government gross debt to GDP ratio grew remarkably due to the high fiscal deficit. The fiscal restrictions introduced by the Minister of Finance in 2006 diminished the budget deficit. The total central government debt totalled HUF (Hungarian Forint) 18,103.9 billion at the end of 2008. The government gross debt to GDP ratio in
2008 was approximately 68.0 per cent., which is higher than the ratio as at the end of the previous year.

In Poland, central government debt includes debt of the Republic, debt of the social security and other extra-budgetary funds, but does not include local government debt. External public debt refers to public debt that is denominated in a foreign currency and almost always owed to a non-Hungarian party.

**SLOVENIA**

In the period 1972-1982 the external debt of SFR Yugoslavia experienced an eight-fold increase (from $2.1 billion to $16.9 billion). Thus, in the early 1980s Yugoslavia was faced with growing debt servicing problems and in 1982 the government was forced to ask its foreign creditors to restructure the country’s external debt obligations. As a result, SFR Yugoslavia entered into a number of restructuring arrangements both with official creditors and with commercial banks. Two specific conditions accepted during these negotiations had a major impact on Slovenia’s negotiations with foreign creditors since independence: first, SFR Yugoslavia provided a guarantee not only for public and publicly guaranteed debt, but also for restructured private debt previously not guaranteed by the state; second, SFR Yugoslavia accepted a joint and several liability clause in its restructuring agreement with commercial banks. According to this clause, each debtor under the contract was formally liable for the total amount of debt under the contract.

Because SFR Yugoslavia was completely denied access to finance in the international capital markets, its external debt did not increase further and between 1982 and 1991 this debt in fact declined.

This situation created strongly unfavourable conditions for Slovenia’s efforts to become a normal partner in the international financial community but nonetheless the Constitutional Law of the Republic of Slovenia provided a clear foundation for the future relationship with foreign creditors. According to this document, Slovenia undertook to take over the part of SFR Yugoslavia’s national debt that referred to the republic of Slovenia, as well as that part of the SFR Yugoslavia’s guaranteed debtor obligations whose beneficiaries were legal entities based on the territory of the republic of Slovenia. This was accompanied by a commitment to assume a portion of SFR Yugoslavia’s non-allocated debt (national debt whose immediate beneficiary was not ascertainable).

Before undertaking external debt negotiations, Slovenia underwent a process of admission to membership in the major international financial institutions (IMF, WB, IBRD) which, though politically difficult and contentious – due to the need to decide on the legal status of SFR Yugoslavia as a predecessor state – ended up satisfactorily and with a formula for the apportionment of the non-allocated debt of the SFR to the states resulting from its dissolution. Slovenia undertook to repay 16.39% of the outstanding obligations to the IMF. As for the allocated debt, the formula was established in February 1993 when the board of IBRD, as part of the WB membership procedure, confirmed the agreement whereby each of the successor states of the SFR Yugoslavia would take over and service those IBRD loans used by final beneficiaries based on their respective territories. On these grounds, and provided that the the international conferences called to discuss and arrange all issues related to the dissolution of SFR Yugoslavia and its succession were paralysed because of the hostilities still ongoing in its former territory, Slovenia decided to negotiate directly with the foreign creditors.

An agreement was reached with the Paris Club (official creditors) in June 1993 and stemming from this agreement, final bilateral agreements (technical reconciliation) were reached between Slovenia and each of the creditor countries, including $250 million of SFR Yugoslavia non-allocated debt to this group of creditors. This agreement (the “Slovenian model”) was later used as the base for similar agreements with Croatia, FYR Macedonia (1995) and Bosnia and Herzegovina (1998).

As for the London Club (commercial banks), negotiations started in summer 1993 and an agreement of principle was concluded in June 1995; the transaction being completed one year later, when
Slovenia issued bonds equivalent to $812 million, in exchange for the release of Slovenian obligors from joint and several liability under the NFA of 1988.

It was this agreement with the London Club of creditors in mid 1996 that enabled Slovenia to complete the process of establishing its fully independent international position and created the conditions for the country’s full access to international capital markets.

Most of the debt accumulated by Slovenia before 1996 was due to the restructuring of financial sector institutions (mainly banks) and some large enterprises. In addition, the government started issuing state guarantees for private sector institutions to lower their excessive credit risk due to the continued unfavourable macroeconomic environment in that period. For the same reason – high real interest rates on domestic markets and lack of domestic resources – most government borrowing had been in foreign currency or based on indexed instruments on the domestic market.

By the end of 1995, the total debt exposure of the public sector (direct government debt and government-issued guarantees) was less than 23 % of GDP. As in those years the government’s primary budget was constantly in surplus, current transactions did not contribute to the further accumulation of public debt.

However, since 1996 the situation deteriorated, as the budget situation worsened substantially and as Slovenia had to take on the repayment of its part of SFR Yugoslavia foreign debt, following up from the agreements reached with London and Paris Club debtors. Government policies in support of public infrastructure development (energy, highway and rail networks, local utilities, etc.) required the issuing of additional guarantees; and all that raised the state debt level to 34 % GDP in 2002. This relatively larger public debt did not represent a severe fiscal burden, however, because the structure of the debt improved significantly, and because large privatisation receipts were, under the Public Finance Act (1999) earmarked for repayment of public debt. Hence, Slovenia completed its transition (in 2004) as a relatively modestly indebted country.

ROMANIA
Although the decade of 1980s was for Romania a period of “sacrifices to repay external debt that exhausted the economy and the population”, Romania started its transition to market economy in 1990 with a quite low external debt (3% GDP).
9. **LIBERALISATION OF PRICES, TRADE AND FOREIGN EXCHANGE**

Liberalization – one of the three “legs” of economic transformation towards a market economy, alongside stabilisation and privatisation - meant abolition of price control and state monopolies, cutting down price subsidies, eliminating export controls and import quotas, and implementing currency convertibility.

All central and eastern European countries undertook a process of liberalisation at the beginning of their transition processes. In some countries (Poland, Hungary, Slovenia) significant liberalisation of prices and some liberalisation of foreign trade had already taken place before the political changes of the turn of the century.

Liberalisation of prices was implemented at a different pace in every country and in different stages of their respective processes of transition to market economy. Prices of foodstuffs and industrial products were liberalised first; while prices for housing, energy and other services were liberalised at a later stage. In all cases, the logic was to make it possible to set those prices in line with market conditions (supply and demand).

In order to avoid distortions resulting from the monopoly or quasi-monopoly situation of the companies producing the goods subject to price liberalisation, it was imperative to simultaneously liberalise foreign trade, so that final domestic prices could became in line with international prices for the same goods. This was done in different ways and at different pace in every country. Some countries wanted to still protect their agricultural production, or other productions considered important from the viewpoint of employment and economic stability. Others took a more radical approach to foreign trade liberalisation from the outset.

As a matter of fact, for some countries the adoption of the EU common trade policy at a later stage in their transition involved a certain “regression” in the extremely liberal trade policy which had been adopted during transition years.

Foreign trade liberalisation immediately demanded the liberalisation of foreign exchange, which most countries implemented for current account payments at a very early stage. Liberalisation of capital flows came, in most transition countries, a bit later. There were also significant differences between countries in what concerns the liberalisation of the foreign exchange operations: in some countries these operations were kept under the control of the banks; but in others foreign exchange was open to other market operators.

**LATVIA**

With the sole exception of a few (transport, housing rents, energy), all prices for goods and services were liberalised at an early stage in the transition process. Price liberalisation led to an adjustment of prices for goods and services to international market prices and this was one of the causes of high inflation.

Also from the beginning of the transition, Latvia liberalised trade (imports and exports of goods and services) and capital flows, implying full currency convertibility for most current and capital account operations.

By establishing one of the most liberal foreign exchange regimes in the world and by liberalising capital flows, Latvia created a stable framework for the growth of international trade and investment. As a result of these early reforms, capital and financial account of the balance of payments was positive since 1994. In 1993-1995, Government’s foreign borrowing was the major source of convertible currencies’ inflow; but starting from 1996, emphasis was shifted to attraction of foreign capital, particularly FDIs.

**ESTONIA**

Price liberalisation was one of the first measures implemented in Estonia in the process of transition to market economy. The process started in 1989 (when some level of economic autonomy was granted to the Soviet Republics, in the context of the reforms undertaken in the USSR under the
leadership of M. Gorbachev) and speeded up after the 1990 election, won by the Popular Front. By the end of 1991, only 10% of good and services had fixed prices in Estonia).

Price liberalisation and currency/monetary reform (with the establishment of an exchange rate for the national currency) were pre-conditions for the introduction of a new trade policy. Since the currency board arrangement adopted as part of this monetary reform requires full convertibility, these reforms were accompanied by the complete liberalisation of current account transactions and, a bit later, also capital account liberalisation.

Before independence, Estonia’s trade with the world outside the USSR had been small (2-3% of GDP, of which two thirds went to other countries in the CMEA/COMECON). While for a small country like Estonia, with scarce natural resources, trade is imperative for economic growth, Estonia’s trade collapsed with the fall of the Soviet Union. For this and other (political) reasons, in the early 1990’s it was clear that Estonia had to adopt a new trade policy that reoriented its trade from the Soviet sphere to the Western countries (in particular to Europe and regional neighbours such as Sweden, Finland and Germany). This policy was also widely supported by the population, eager to enjoy access to products manufactured in the West. The reform-oriented Government elected in September 1992 decided to do this through a radical and unilateral liberalisation of both imports and exports, which was achieved through the abolition of monopolies (including the trade monopolies enshrined in the so-called Foreign Trade Organisations), quotas and licensing systems which had been characteristic of the communist foreign trade system, without replacing them by tariffs (except for a small selection of products, such as alcohol, tobacco and fuels, with these tariffs removed in 1997). This policy boosted Estonia’s foreign trade, which relative weight in the overall GDP started to grow very quickly (also due to the fall in production during the first years of economic reforms). In 2005, both exports and imports to EU-25 amounted for more then 75% of the total, while exports and imports with CIS countries, including Russia, stood at the level of around 9-12%.

LITHUANIA
Following Lithuania’s general import policy, during the years of economic transition before accession to the EU, import duties were not imposed on the majority of goods (pharmaceuticals, medical equipment, alimentary products for children, fuel and energy resources, machinery, equipment, raw materials produced outside Lithuania but necessary for the national industry). Import duties were mainly imposed on goods that were manufactured in Lithuania, the import of which could have negative impact on the national economy, as well as for a number of agricultural products. With a view to protect interests of Lithuanian manufacturers, Lithuania applied export duties to wood (up to 2000) and raw leather (up to 2001).

POLAND
Partial liberalisation of domestic prices, partial demonopolisation of foreign trade and some liberalisation of state enterprise financing system and individual wage setting was already introduced in the Polish economy as part of the economic reforms implemented during the period of martial law (as of 1982); but the general economic logic of the system remained unchanged until 1987. The last pre-democratic government (1987-1989) had some important achievements in the liberalization and institutional sphere. It contributed, among others, to a significant liberalization of new entries, including private ones (the Law on the Economic Activity from December 23, 1988), to the liberalization of foreign trade and foreign exchange market, and to a limited liberalization of foreign direct investments. The "marketization" of the food economy - the freeing of prices and elimination of the rationing system - was decided by the government on August 1, 1989.

But it was the first post-communist government that introduced a comprehensive programme of economic reforms, with two main components: an anti-inflationary macroeconomic programme and a fundamental programme of institutional reforms, including privatization.

Through the stabilisation and liberalisation programme launched in 1990,
1. Further liberalization of prices (since January 1990 ca 90% of prices were determined by the market and coal prices were liberalised in July 1990), as well as a significant increase of prices still under administrative control (fuels and energy, transportation tariffs, housing rents
and pharmaceuticals) were implemented.

2. Foreign trade was further liberalised already in the first half of 1990 (elimination of import quotas and most of export quotas, unification and decreasing of tariffs), with further import tariff liberalization as well as removal of most export barriers in the third quarter of 1990. The majority of tariffs became either totally suspended or radically decreased. This was accompanied by he introduction of a Customs Law corresponding to EEC standards (as of January 1990).

3. All remaining forms of trade not based in market principles were abolished, as it was central planning.

4. Liberalisation reforms were introduced in the legislation governing socialised enterprises, giving them greater independence, with a simultaneous tightening of the rules governing so called rehabilitation actions and bankruptcy procedures against state-owned enterprises.

5. New legislation governing the insurance of persons and property allowed for commercialization and demonopolization of the insurance sector (July 1990)

6. Building rental laws were liberalised by the abolition of administrative allotment of usable spaces (May 1990), what contributed to speeding up small privatization.

7. New antimonopoly legislation was introduced, including the creation of an anti-monopoly office.

8. Cooperative associations were liquidated, and state-owned enterprises were break down in a number of industries (meat, sugar, grain, cement, coal, energy, energy generating machine, mining, internal trade, construction, commodity transport, bus transportation, public utilities and other)

9. New legislation on foreign investments (eliminating most of the licensing requirements and allowing for the repatriation of profits and investment capital) was adopted; and so was new legislation on banking, securities market and mutual funds (with the opening of the Warsaw Stock Exchange in 1991).

10. Small privatisation was accelerated and municipal ownership (abolished in 1950) was restored.

After 1991 the pace of reforms became slower. However, two important reforms in the period 1993-1994 were the housing reform that deregulated partly the housing market, reintroducing the institution of condominium; and the new Foreign Exchange Law (effective from January 1, 1995) introducing the full current account convertibility de iure and opening possibility for full convertibility in the future (including capital accounts).

CZECH REPUBLIC

Price liberalisation

The pricing system was almost entirely under administrative control in socialist Czechoslovakia. Relative prices and the relations between domestic and foreign prices were considerably distorted.

The first changes in the pricing system occurred as early as 1990. Soon after the elections held in that year, when it was less likely that the public would oppose the measure, the government took the politically very sensitive step of removing the subsidies on foodstuffs. Prices for diesel and petrol were also increased in 1990.

In January 1991, an extensive price liberalisation began, affecting 85 percent of prices of goods and services (measured as a percentage of total turnover). Prices of housing and utilities remained regulated and for foodstuffs, price fluctuations remained temporarily regulated to prevent dramatic price increases. As of January 1991, subsidies for coal, gas and heating prices were also decreased and subsidies for industrial products were abolished.

This massive price liberalisation involved a rapid elimination of price distortions. Prices started to reflect the relative scarcity of goods and services and also the demand structure. From then on, prices could serve again as a basis for effective economic decision-making.
**Liberalisation of foreign trade**

Prior to 1989, foreign trade was determined by a plan and Czechoslovakia’s main trading partners had been countries with convertible currencies, especially CMEA/COMECON countries.

Due to the monopolised nature of the economy, price liberalisation raised the danger that companies would abuse their monopoly supplier positions and increase prices inadequately. For this reason, it was important to complement price liberalisation with liberalisation of foreign trade. This would also make it possible to couple the Czech pricing system with international pricing mechanisms.

During 1990, laws were adopted enabling private and state-owned companies to export their products and import essential production inputs. Foreign trade liberalisation properly commenced in January 1991, with the introduction of the internal convertibility of the Czechoslovak crown (CZK). From that moment on, companies could purchase foreign currencies from the Central Bank in order to pay for imports.

However, due to concerns about the adverse effect of rapid liberalisation on the current account of the balance of payments, an import surcharge of 20% on consumer goods was firstly introduced. This surcharge was decreased twice during 1991 and later abolished completely.

**SLOVENIA**

Liberalisation of prices, imports and foreign exchange markets were part of the measures included in the economic stabilisation programmes already introduced in the SFR Yugoslavia in 1988 and 1989, so that when the SFR Yugoslavia began to collapse (autumn 1990), most of the preconditions for a transition to market economy – including price liberalisation and openness to the outside world – were at least partly met in the constituent republics of Yugoslavia. Thus, the greater part of Slovenia’s foreign trade liberalisation happened when the country was still part of SFR Yugoslavia and in the first years of independence.

Trade liberalisation within SFR Yugoslavia started with a radical removal of nontariff barriers in the late 1980s. Independent Slovenia continued this process by eliminating the remaining nontariff barriers and adopting a new tariff schedule, which ultimately abolished all other import charges except tariffs. This unilateral trade liberalisation further evolved into a multilateral phase with Slovenia’s accession to the GATT and the WTO. The second phase of Slovenia’s trade liberalisation was bilateral, driven by the process of EU accession, through a number of trade agreements and the Europe Agreement.

The combined result of all these processes was that the level of foreign trade liberalisation in Slovenia was, at the time of EU accession, lower than expected at the time of independence, and lower that it would have been in the case of multilateral reduction of most-favoured-nation tariff rates. Finally, EU membership and the consequent adoption of the Common External tariff aligned the level of trade liberalisation in Slovenia with that of the EU.

A Foreign Exchange Act adopted in March 1999 liberalized movement of capitals: it abolished considerable number of restrictions, such as the surrender requirement, and since then enterprises had been allowed to hold foreign currency accounts with the banks in Slovenia.
10. PRIVATISATION OF STATE-OWNED ENTERPRISES

Privatisation was one of the most important economic processes during the transition from a centrally planned to a market economy, because it reduced the role of the State and placed economic resources in the hand of private owners, thereby enhancing both capabilities and opportunities for entrepreneurship and the creation of new wealth.

According to some assessments, already in 1994, after only five years of reforms, transition countries of Central and Eastern Europe and the Baltic region had privatised 30740 large state-owned companies and, between 1990 and 1998, 60000 medium and large companies in these countries had changed hand; furthermore, hundreds of thousands of small companies and economic enterprises formerly run by the state had gone private.

Privatization of small-scale business undertakings was carried out mostly in the early years of transition. In most cases, these privatisations were implemented through auctions open only to local bidders, which in many cases could pay not only with cash, but also with vouchers or coupons that had been widely distributed to the population by the public authorities. These vouchers could also be used for buying real estate property (agricultural land or urban apartments and buildings).

Privatisation of large scale companies was also undertaken by some countries at an early stage; but in others this privatisation process was launched only after some years; and was in most cases preceded by a process of “corporatization” and sometimes by significant restructuring of the companies prior to privatisation.

A range of privatisation methods were used, each country following a different approach to the process. In Hungary, large scale privatisation was undertaken at an early stage, and the companies were sold to the best economic offer, frequently to foreign investors. Other countries (Germany, Estonia) followed preferentially the so-called “Treuhand” method, whereby companies were sold to the investors that not only were able to submit a suitable economic offer, but were also willing to undertake additional commitments concerning further investments, employment, etc. In a number of countries, managers and/or employees of the companies under privatisation were given especial rights or opportunities for becoming the owners of the privatised company (Lithuania, Poland, Slovenia). Finally, some countries gave a preference to privatisation methods in which vouchers or coupons distributed to the wider population were to play a major role. Each one of these methods had advantages and disadvantages; and in some cases the end result of the method chosen was not as the designers of the process had expected.

Some of the main problems and issues related to this type of privatisation were: the lack of entrepreneurial experience or even intention in some of the investors or groups of investors that bought some companies, mainly guided for the wish to get control of valuable assets that could easily be sold at a much higher price in a short time (purely especulativ investments); the problems of corporate governance created by the separation between ownership and management of the privatised companies, especially in the cases of privatisation by vouchers; the slow restructuring of companies privatised by sale to managers and employees, which hampered their competitiveness; cases of lack of transparency in the privatisation processes, which allowed some interest and economic groups and persons to seize control of some of the most valuable assets of the former state property and position themselves in a situation of privilege and economic influence in the new economic environment.

LATVIA

In Latvia the process of privatisation of state owned enterprises was slow in the early years of transition (till 1996). A number of factors influenced this delay, including the “decentralised” approach initially adopted by the Government (each Ministry was made responsible for the privatisation process in the relevant sector) and the priority given to the processes of restitution of property rights (particularly on land and real estate). The process of privatizations accelerated rapidly as of 1996, when a Privatization Agency was established and given the centralised responsibility to conduct the process.
The main methods of privatisation were international tenders – to attract foreign strategic investors – and public offers. In order to involve wider sections of society in privatization and to guarantee greater social justice, the government launched public privatization by certificates or vouchers in 1996 (for a minority share of assets). However, the idea of privatization certificates was only partly successful and did not encourage widespread ownership. For a long time, there was nowhere to invest certificates and many people, mainly the less well off, sold their certificates at a fraction of their nominal value (certificates were transferable and could be bought and sold like securities). This lead to concentration of ownership and capital on the wealthier segments of the society. There was insufficient interest from the population – more interested in using the certificates for purchasing real estate property - in the public share offers. From an economic perspective, the use of certificates for the privatization of state enterprises did not increase investment, as new shareholders tended to have a greater interest in allocating profits to dividends instead of to developing the companies.

Finally, delays in the privatization process had also a negative impact in the necessary restructuring of enterprises, despite the 1996 legislation on bankruptcy.

ESTONIA
Immediately after the restoration of independence the Estonian Government made an explicit commitment to privatize virtually all state-owned enterprises as quickly as possible. Estonian Privatization Agency (EPA) was established in 1993 to organize the privatization.

Smaller enterprises were sold by auction to the highest bidders for cash. As the process was relatively straightforward, sales of small enterprises proceeded quickly and nearly all such enterprises were sold by the end of 1994. The sale of medium to large enterprises, which had a greater impact on both employment and output, got off at a relatively late start. Reflecting political factors, the initial procedures were rather complicated, as a rule requiring governmental approval on a case-by-case basis. As a result only seven such enterprises had been privatized (through management & employee by-outs) by the end of 1992.

Following up from the Privatization Act passed in 1993, the Estonian Privatization Agency's implemented the tender method borrowed from Treuhand (East Germany’s Privatisation Agency), which resulted in the majority of sales to outside investors, both Estonian and foreign private companies (from enterprises sold by the EPA, about 70 percent were sold to outsiders.) There was, however, one significant difference between the Treuhand approach and Estonia's method: Estonia never tried to reconstruct companies before privatisation (Estonia could not afford it).

The experience in Estonia was that outsiders tended to bring modern management and marketing skills as well as the capacity to make capital investments, all of which were crucial for the effective turnaround. This experience is judged by many observers to have been successful, with most enterprises believed to be operating profitably and growing, while both investment and employment guarantees were over-fulfilled. For example, out of 472 medium or large scale privatization's concluded by the end of 1997, only about 19 privatized enterprises went later bankrupt.

A notable feature associated with the privatization process in Estonia was the relationship between the growth of the private sector and the process of privatization of the state enterprise sector. The sale of state enterprises often resulted in a decrease of employment, largely reflecting the over-manning characteristic of enterprise operations in Soviet times. Although many enterprises were sold with employment guarantees, these guarantees were usually for a lower number of jobs as compared to the pre-privatization period. This allowed for an improvement in productivity and competitiveness.

Another method of privatization of state enterprises was that of auction. For an auction, contrary to the tender method, no specific conditions were set in regards to employment guarantees or continuation of previous production. Although small, the primary value of auctioned enterprises was usually company trademarks or the value of the real estate. From 1991 to 1997 1348 objects were sold in auctions.
Voucher program, despite that it already started in 1993, played a secondary role in the privatization process. Two types of privatization vouchers were issued to the public; those to compensate owners of property prior to 1940 (restitution vouchers) and those based on the number of years of employment in Estonia (national capital vouchers). The two types of vouchers were used interchangeably for the privatization of housing and land, or for the purchase of shares of state enterprises or special funds. The trading of vouchers was fully liberalised in 1994. The market value of a voucher in February 1997 was about 37 per cent of its nominal value. The largest share of vouchers was expected to be absorbed through the privatization of housing and land. However, due to political reasons, initially calculated prices for land and housing were substantially reduced, this resulting in a decline of the market price for vouchers. It also decreased their relative share in total assets available for vouchers. Vouchers were also used to acquire directly owned equity in enterprises in two ways. The first is through participation in "initial public offerings"(IPO's). In these cases the EPA normally sold the majority interest to a core investor responsible for providing management skills and capital. A minority interest was then sold at public offerings, for vouchers. The second route was via a specific mechanism offered to investors at EPA tender auctions, whereby they could pay for up to 50 per cent of their purchase price using vouchers. That fact that vouchers were traded at a substantial discount to their nominal value, offered such investors a significant reduction in price relative to cash payment.

**Best practices**: Privatization was conducted quickly and irreversibly with the aim to depoliticise the economic activity. Estonia managed to create the stable economic environment and to become one of the most successful countries in attracting foreign direct investment.

**LITHUANIA**

**Voucher Privatisation 1991 – 1995**

The first stage of privatisation started in Lithuania in 1991. It was a very dynamic process compared with other Central and Eastern European countries. The aim of this stage was swift voucher-based (including partial payments in cash – from 5 to 50%) privatisation of state-owned property that had to enable all Lithuanians to take part in the privatisation process. For this purpose, over 2.6 million investment accounts were opened in banks, which accumulated vouchers of the value over 2.95 billion Euro.

During the first stage of privatisation 5714 entities were privatised of which 2928 large and medium companies through public subscription of shares, 2726 small entities through auctions, 12 companies through tenders for the best business plan, and 48 companies were sold for hard currency. Foreign investors had a possibility to participate in the privatisation process for cash. Some well-known international companies came to Lithuania during the first stage of privatisation.

A high level of privatisation was achieved in different industries: 98 per cent of the construction and 97 per cent of household service sectors was privatised. In the period 1991 - 1995, 81 per cent of state-owned assets to be privatised were privatised. As a result of this stage the private sector accounted for 68 per cent of the GDP in 1996.

**Cash Privatisation (1996 to date)**

The specific features of the cash privatisation were the following:

- state-owned and municipal property was sold to natural and legal persons for cash under market conditions following valuation;
- both local and foreign investors as well as legal and natural persons had equal rights in privatisation of state-owned and municipal property.

One of the main priorities of the cash privatisation was to make state-owned companies profitable by privatising them. Besides, it was important to transfer of know-how from potential investors to the companies, as well as to attract the contribution of investors to the Lithuanian economy.

In this stage, the biggest part of income (2.04 billion Euro) was raised through the privatisation of 60 per cent of state-owned shares in the joint-stock company Lithuanian Telecom in 1998.
The second biggest transaction in the history of privatization in Lithuania – privatization tender for the joint-stock company Vakarų Skirstomieji Tinklai AB -, was successfully finalized in 2003. The consortium (a group of 9 Lithuanian natural persons) paid a total of 45.28 million Euro for a 77 per cent stake in this company.

A scheme for the sale of the Government’s 34 per cent share in the Lithuanian Gas Company Lietuvos Dujos AB to a natural gas supplier was adopted in 2002. The Ruhrgas AG and E.ON Energie consortium paid a total of 9.73 million Euro for a 34 per cent stake in this company. The sell-off transaction was completed in 2004 when 34 per cent of Lietuvos dujos AB shares were transferred to Russian concern OAO Gazprom for 8.37 million Euro.

The national carrier of the Republic of Lithuania Lithuanian airlines AB was privatized in 2005. UAB and LAL Investicijų Valdymas consortium paid 7.53 million Euro for 100 per cent of company’s shares.

It is noteworthy that the privatisation of the insurance sector was successfully completed with the sale of joint-stock company Lietuvos draudimas AB in 1999. The privatisation of the telecommunications sector was finalised in 2000 and the last state-owned bank joint-stock company Lietuvos žemės ūkio bankas AB was sold in 2002.

In 2009, more than 2000 entities remained in the privatisation list. Real estate makes the biggest part of the list.

**Best practice:** 1) Legislation on privatization (several Laws); 2) Centralisation of the process of privatization in a single public or budgetary Entity of entrepreneurial type (subject to private/commercial law in its operations), even for the privatisation of property and enterprises of purely local character; 3) Prior or simultaneous creation of the legal and institutional base for the emergence of a private sector (Company/enterprise legislation and register, bankruptcy law, etc.);

**Expertise:** Institutional (State Enterprise “State Property Fund”); Individual: Mr. Stasiys Vaitkevicius (former Head of Privatization Agency) and Mr. Gediminas Vagnorius (Former Prime Minister)

**POLAND**

The Law on Privatization of State-Owned Enterprises was adopted in July 1990. Large-scale privatization started in the end of that year. During 1991 and 1992, the so-called liquidation privatization (the direct selling, renting or leasing of all or part of an enterprise assets) of small and medium size enterprises dominated. The so-called equity privatization (through corporatization and public offering or trade sale to a strategic investor) was rather slow. The latter became more intensive in 1993 and 1994. The debt-to-equity swap became in 1994 the most important method of privatization of some large enterprises.

From the beginning of 1992 the former state agricultural farms were subject of liquidation process and privatization, implemented by a special government agency.

The Mass Privatization Project, based on investment funds organized by the state and later privatized through equal distribution of their shares to all adult citizens (voucher privatisation) was discussed from summer 1990 and presented first time for the public discussion in June 1991. However, it took almost two years of political controversies before the relevant law (Law on the National Investment Funds and their privatization) was adopted by the Parliament, on April 30, 1993. The next one and half year took before this idea entered into the decisive implementation phase (the end of 1994). Finally 423 big and medium size enterprises were subject of mass privatization and 14 or 15 national investment funds were created.

Poland was not a leading country in respect to the speed of large-scale privatization (like East Germany, Czech Republic and Russia). The Mass Privatization Project was significantly delayed in comparison with many other countries.

Nonetheless, in 1995 ca. 60% of GDP in Poland was contributed already by the private sector
(including the new cooperatives). This happened, to a significant extent, due to a very successful small privatization and spontaneous development of the new private firms. Also, most of the cases of large privatization had a rather good quality characteristics in respect to restructuring effects.

CZECH REPUBLIC
An essential step in introducing the market economy and eliminating the deficiencies of the Czechoslovak corporate sector was the privatisation of a major part of state assets.

Privatisation commenced in 1990 through restitutions. The major part of these restitutions (affecting real estate, farm land and shares in some industrial enterprises nationalised after February 1948) was completed in 1990-1991, the total property privatised in this way amounting to approx. 200 billion Czechoslovak crowns (CZK).

Another means of transferring state assets from the state to private owners was known as “small privatisation”, consisting on the sale of about 23000 small economic undertakings (shops, gastronomic and accommodation facilities, etc.), through public auctions, open only to domestic bidders. This was organised by district privatisation committees, and gave rise to a highly influential group of people, who became not only business owners but eager promoters of the idea of a liberal market. In addition, state assets worth 350 billion CZK were transferred to municipalities; and cooperatives worth 150 billion CZK were transformed into businesses.

As for the privatisation of large industrial companies, forming the backbone of the economy, although it was done through a combination of methods (including direct sales, auctions and public tenders), the main method, which characterised the Czechoslovak privatisation process, was known as “coupon (voucher)” privatisation. More than 60% of the companies that the state decided to privatise (at the beginning of the process, it was decided that the state would maintain one hundred percent control over some companies, in the strategic and natural monopolies sectors- energy, mining, telecommunications) were privatised by coupons. For 1000 CZK, every Czechoslovak citizen could buy a coupon book containing investment points, which could then be used to bid in auctions for shares in state-owned companies undergoing privatisation.

This method was chosen at the very beginning of the privatisation process for a number of reasons: 1) The huge difference between the value of assets in state hands and the population’s savings would have made it a very long-term process to arrange the privatisation of such assets for their real value; but the majority of the population – and the politicians - would have opposed the sale of a majority of such assets to foreign investors (however, in the year following the establishment of the National Property Fund – August 1991 – more than 50 large companies were transferred to foreign investors, which had submitted successful privatisation projects or through direct sale); 2) Both the Government and the population wanted this privatisation to be implemented very quickly, within a fixed term, and in a transparent way in which all citizens could participate in it and have an opportunity to become shareholders. The privatisation by “coupons” was thus arranged to take place in two waves, each of which was divided into several rounds. Coupon privatisation was expected to be quick and massive and to manage the problem of transforming a huge volume of state assets within an acceptable time frame, also providing the base for immediately establishing a capital market.

Critical comments claimed that the mere participation of individual citizens – investment coupon holders – would result in a high number of scattered shareholders who, in the absence of well developed corporate rules, would not be able to exercise their ownership rights in a way that would ensure an effective and efficient administration and management of the privatised companies. To respond to these criticisms, during the preparations for the launching of the coupon privatisation it was decided to permit the creation of Investment Privatisation Funds (September 1991). Individual coupon holders could then entrust their coupons to these funds, which would have the capacity to acquire majority or control stakes in privatised companies and thus enough power to make managers respect the interests of the owners.

However, the regulation of these investment funds was extremely liberal, ad allowed almost anybody to establish a Fund. Many Funds were then created by groups that were not backed by any powerful or
known institution, such as a Bank. Highly persuasive advertising campaigns were launched to lure small investors to entrust their investment privatisation coupons to these Funds, with the promise of a high and quick return. Participation in Investment Funds became a great success; and despite a number of amendments introduced in the regulation of these Funds to secure a sufficient diversification of portfolios, possible re-purchase of investment certificates by the issuer, stricter rules for the granting of licenses to such Funds and so on, the control of the Companies, owned by millions of shareholders, was eventually transferred to a limited number of Investment Funds, without the individual shareholders having any real possibility to influence or control the decisions made by the managers of the Fund.

In sum, Investment funds, in which decision-making was in the hands of the establishers of the Fund – not in the hands of the individual participants – became the main decision-makers in privatised companies and, driven by the desire to obtain the highest possible short-term yield, gave rise to a number of purely speculative behaviours, namely the phenomenon called “tunnelling”. This form of asset stripping consists in decisions made by a group of people controlling a company (but not owing it entirely) to transfer its assets or profitable activities to another company that they own or control entirely, so that this group can then dispose freely of such assets. Due to legislation loopholes and the lack of control institutions and proper enforceability (such as a Securities Commission), “tunnelling” reached a significant weight in the Czech Republic and caused significant damage to the economy as a whole and to many minority owners, undermining public trust in the whole process.

HUNGARY

Since 1990, the Republic of Hungary has privatised nearly 1300 enterprises of the 1860 enterprises previously owned by the state by both direct sales and public offerings. The Hungarian Privatisation and State Holding Company (the “ÁPV Zrt.” or “APV”) managed such sales until 31 December 2007. At the end of 2004, most of the larger companies involved in the privatisation programme had already been privatised with only 139 companies being left with some degree of state ownership. Permanent government control was anticipated for 36 companies.

Methods of Privatisation Used

Hungary is unique in Central Europe in that a large majority of its privatisations was done through public tenders, with sales on a cash basis. Such outright sales, often to strategic long-term investors, have been successful in bringing new management and know-how to many Hungarian enterprises.

Until 2003, compensation vouchers were also used as a tool of privatization. In recent years the importance of compensation vouchers has decreased significantly. Compensation vouchers were rights distributed to individual Hungarian citizens pursuant to the Compensation Act which was designed to provide compensation for losses suffered, including the loss of property and personal freedom. These compensation vouchers entitled the holders to bid for shares in certain privatised entities. In 2003, in order to end the compensation voucher system, the government decided to offer the shares of FORRÁS Trust and Investment Company (a state owned asset management company) in exchange for the compensation vouchers. In June and July 2003, the offering was completed and the shares of FORRÁS Trust and Investment Company were listed on the Budapest Stock Exchange.

In 2003, the government announced a new and ambitious privatisation programme which aimed at selling 18 to 20 companies.

Of these, the privatisations of Postabank, Konzumbank and partial privatisation of Land Credit and Mortgage Bank (“FHB”) were completed in 2003. In 2004, the privatisation of MOL (Hungarian Oil Company) and Dunaferr (a steel company) were completed. In March 2004, the targeted sale of 25% plus one vote of Hungaropharma (pharmaceutical company) was accomplished. The issuance of an exchangeable bond on Richter (pharmaceutical company) shares has also been completed. In 2004 revenues of about HUF 413 billion were raised and HUF 209 billion were paid to the central budget. In 2005, approximately HUF 124.4 billion was raised through privatizations, none of which have been directly paid to the central budget. According to preliminary data available as of the date of this document, the total revenues of ÁPV amounted to HUF 154.9 billion in 2005, of which dividends amounted to HUF 28.4 billion and other revenues amounted to HUF 2.1 billion. Dividends paid by the
In 2005, the sale of a 75 per cent. plus one share of Antenna Hungária (radio and television broadcasting company), and the sale of the government’s 75 per cent. minus one share stake in Budapest Airport Rt. (the operator of Ferihegy Airport) and the right to operate it for 75 years were completed.

In 2006, the sale of the remaining stake of MOL owned by the Republic (12 per cent. of all the outstanding MOL shares) was completed. As of the end of 2006, the Republic owned one ordinary share and one share with priority voting rights of MOL.

In 2007, the privatization of Malev Hungarian Airlines, and the sale of 50 per cent. plus one share of FHB was completed.

On 1 January 2008 the Republic has closed up its asset management and privatization activities into one entity, Magyar Nemzeti Vagyonkezelő Zrt. (“MNVK”) combining ÁPV, the Nemzeti Földalap (National Land Fund) and KVI (Treasury Property Directorate).

SLOVENIA

One of the characteristics that Slovenia’s new independent economy inherited from the former Socialist Federal Republic of Yugoslavia (SFRY) was an economic system based on enterprise self-management that was for many years quite decentralised, market oriented and open to foreign competition. From the viewpoint of ownership, and in the absence of private property, this system was characterised as one of “social ownership”, whereby ownership of the enterprises was not so much seen as “state ownership” but an ownership that rested in a diffuse way to the entire population.

The Slovenian enterprise sector suffered a number of severe blows during the transition (loss of traditional markets, liquidity crisis as a result of restrictive monetary policy involving high interest rates, etc.); which, combined with overindebtement as a result of past losses and acute overstaffing led many of these “socially owned” enterprises to the verge of bankruptcy by 1992.

Thus, structural reform in the enterprise (and financial) sector assumed the highest priority after that year. At first, the government endorsed the idea that government subsidies to unprofitable companies should be stopped and their privatization (sale) should be speeded up, as an alternative to bankruptcy. Several “concepts” for this privatisation were discussed at the Parliament, but finally a compromise approach was adopted and embedded in the “Ownership Transformation Act” (OTA) which was passed in November 1992.

Enterprises were essentially divided into three groups: The first consisted of large unprofitable enterprises, which were set to be subject of a “restructuring” intended to prepare them for sale to the private sector. The second group consisted of enterprises in social ownership, to be privatised under the (normal) conditions of the Act. The third group included enterprises under the direct supervision of the government, such as public utility companies and steel works, which were to remain in the government domain. In all cases corporatisation and inscription in the Court Register was a first step.

Restructuring of the large unprofitable companies was limited to the short-term financial and organisational changes necessary to make the company salable, including reduction of employment and restructuring of the company’s debt (with partial conversion into equity). The Development Fund of Slovenia assumed the ownership of these firms (which shares were transferred to the Fund, and their workers’ council dissolved) and of the coordination of this pre-privatisation restructuring effort for
large unprofitable companies. About 217 companies applied to this programme, 98 of which - consisting of 250 separate legal entities – were ultimately included in it. The goal of the programme was to liquidate or sell companies through trade sales, debt-for-equity swaps and joint ventures, over a period of two years (with a promise that 20 percent of the shares would be reserved for sale or free distribution to employees).

Companies in the second group implemented their programmes of ownership transformation under the supervision and upon approval by the Agency for Restructuring and Privatization. These companies (1381, over a period of six years) were privatised through the free distribution of vouchers that citizens could exchange for shares in the privatising company either directly or indirectly through Privatisation Investment Funds (PIFs). In addition, 20 percent of the shares of each company were transferred to the quasi-governmental Pension Fund (KAD) and Restitution Fund (SOD), with the object of covering future state liabilities toward the underfunded social pension system and the former owners of nationalised property that could not be restituted. All these privately and state-managed funds became, in fact, the new majority owners of the entire Slovenian enterprise sector, while the rest of the privatisation shares were mostly taken up by employees, former employees and managers.

In sum, Slovenia implemented a gradual and multi-track approach to enterprise restructuring and privatisation, with the aim to ensure a consensus among the main stakeholders and a distribution of the burden among governmental, semi-governmental and private entities. Foreign investors were practically excluded from mass privatisation in Slovenia in the early years of transition, and only participated in the privatisation of companies that were not directly subject to the OTA or the much later process of privatisation of banks and enterprises initially kept under state control (public utility sector). Therefore, in Slovenia privatisation contributed little to FDI inflows during the transition.
11. DOMESTIC FINANCIAL SYSTEMS

The financial mechanisms and structures of a command/central planning economy were substantially different from their equivalents in a market economy. Thus, considering the crucial importance of these systems in the development of any national economy, the reforms in domestic financial systems in the countries of Central and Eastern Europe as of late 1980’s and during the period of economic transformations leading to their integration into the EU were among the most important economic reform processes.

The reforms of the banking system played the most significant role. Other sectors (non-banking financial systems, capital markets, insurance, etc.) had also to be put in place, but in most transition countries, and during most of their transition to a market economy, the importance and weight of these other elements was, when compared to the banking sector, relatively low.

A key aspect of banking reform was the replacement of the one-tier banking system which was a common feature of the central planning economy by a two-tier system, whereby separation of the central bank and the commercial banks was introduced. This had to be followed by a substantial change from traditional practices mainly based upon the financing needs of the state-owned companies and businesses towards new practices based upon the profitability of banks as financial institutions; as well as by the privatisation of state-owned commercial banks. In many of the countries of Central and Eastern Europe, state-owned commercial banks resulting from the early introduction of the two tier system remained the most important banks during the entire period of economic transition, and were usually burdened by loans granted to state-owned companies that became unable to repay them when the economic transformation started. These banks were only handed over to the private sector a much later stage. Quite frequently, before privatisation these banks had to go through a process of rehabilitation and modernisation that required not only important efforts and reforms, but also considerable public funds.

A second aspect of the reforms of the banking sector was the opening up of this business to “new” private banking operators. In general, the policies applied by all these countries in the beginning of their transition to market economy were quite liberal in what concerns the licensing of new banks; and the requirements (for instance, in terms of minimal capital and liquidity reserves) were quite low. This, in combination with other factors, such as high interest rates, lack of alternative options for capital investments (especially before large scale privatisation was launched), weak bank supervision systems, lack of professional skills and capacity of bank managers and staff for banking operations in market conditions (especially in what concerns risk assessment and international financial operations), an overall environment of “quick enrichment”, and external financial crises, rapidly led to a situation whereby domestic banking crises were unavoidable and had very negative effects in the functioning and credibility of the new economies. Mismanagement of banks, bad loans, excessive running costs, insider lending (lending to owners and shareholders, or to companies owned by them) and corruption were a quite common problem in these early transition years.

As of mid 1990’s, the process of preparations for accession to the EU forced the national authorities (Governments and Central Banks) to align banking legislation and practices (namely banking requirements and supervision) to common EU standards; and this helped reconduce the situation to a more sound one. Also in this second stage of the banking reform process, consolidation of the banking system – with the dissapearance of many of the small private banks established in the early 1990s – and significant take-overs of domestic banks by well-established foreign banks helped stabilising the system and making it more solid and credible.

Other than these common features and trends, the experience of each country was, again in this area, different. Some countries adopted more radical reforms from the outset; and among them, some were more cautious and active than others in regards to preventing the entrance of “dirty” money into the banking system. Others took a more gradualist approach, emphasizing the efforts, work and investments needed for the progressive reform of the state-owned banking sector, including rehabilitation and gradual privatisation of state-owned banks.
One of the common lessons of the process of banking and in general financial system reform in Central and Eastern Europe is that developing all what is needed to put in place a domestic financial system that is efficient, transparent and able to provide the necessary financing for the development of the real national economy under market conditions is a complex, multi-faceted and long-term process. And that this process requires not only the adoption of legislation that is in line with international standards and requirements, but more importantly, the progressive development of the institutional, technical and human resources’ capacities needed by both the market operators (banks and other financial institutions) and the regulatory and supervisory authorities. International expertise, assistance and advise can indeed be useful, but in this area – as well as in others, such as privatisation – reforms in developing countries need to take into account the existing conditions and capacities in the relevant country, which are not likely to be adequate for the immediate implementation of mechanisms and solutions that are common in the most developed countries, with many years of practical experience in the development of market-based domestic financial systems.

During most of the transition, banking regulation was a shared responsibility of governments and central banks, and these latter ones were responsible for banking supervision, while other separate authorities were established for the regulation and supervision of other financial services. However, in the years prior to their accession to the EU, a number of countries (Latvia, Estonia, Hungary) moved to a model of single regulatory and supervisory authority for all financial services together.

**Banking system**

**LATVIA**

The building of the banking system in Latvia was started almost from scratch as the inherited Soviet banking institutions and practices had nothing in common with commercial banking in a market economy. After independence, the Bank of Latvia (BoL) took over into its structure the Latvian Republican Bank (branch) of the State Bank of the USSR and other state credit institutions and, in the end of 1991, started issuing licenses for the creation of new private banks and credit institutions (the first Law on Banks was passed in 1992). Due to the minimum basic capital requirements set at that time, commercial banks mushroomed in those first years. In 1993, since the Law on the Bank of Latvia (1992) did not stipulate that the Bank had the right to conduct commercial operations, a process of restructuring and privatisation of its 49 branches was launched. This process, was managed by the Bank Privatisation Commission and Bank Privatisation Fund. By the end of 1993, over sixty banks had been licensed and by the end of 1994, the fundamental elements of the regulatory framework for banking in Latvia were in place.

However, the dramatic expansion of the banking sector in the first years of transition outpaced the emerging regulatory rules, which were not yet efficiently implemented at this early stage. As in other transition countries in similar situation, this process led to a banking crisis (1995) that in Latvia was even more severe. In a context of rapid growth of funds deposited with banks (there were no alternatives for investment) and a slow development of other economic sectors, managers and employees with no experience in banking under market conditions granted loans and undertook investments without a proper assessment of the solvency of debtors and the risks associated with such operations. Lending to shareholders (insider lending), although restricted by BoL regulations, became common practice and, all in all, the banks’ financial position deteriorated due to external factors, mistakes and fraudulent actions committed by bankers and stakeholders.

During the 1995 crisis, the BoL decided to liquidate the banks that became insolvent, instead of rehabilitating them and, together with the Government, in the period 1995-1997 undertook measures aimed at strengthening the legal and regulatory framework for banking activities. The new Law on Credit Institutions passed in 1995 started the process of harmonisation of legislation to the key EU banking directives; and the BoL undertook important steps to improve its supervisory practices. The implementation of these comprehensive reforms promoted the recovery of Latvia’s banking sector and restored the confidence of depositors, and lending to the real economy increased. Laws against money laundering and on deposit insurance were adopted in 1997 and 1998.
The Russian crisis in 1998 also had an impact in the Latvian banking system, since one third of the Latvian banks had important investments in Russia and other were financing export transactions to eastern markets. However, although some banks went bankruptcy and others had to be rehabilitated, the overall consequences of this crisis were not as dramatic as in the previous one.

By 2000, Latvia had 23 commercial banks and nearly the whole banking sector was in private hands. The restructuring of the banking sector was considered practically completed and its consolidation (with the 10 largest banks possessing 81% of the assets) was well underway.

In June 2000, the Parliament adopted the Law on the “Financial and Capital Market Commission”, which – as of July 2001 - gathered under a single and independent institution – funded by the financial institutions themselves - all the supervisory powers and authority on financial institutions (banks, insurance companies, equity markets, stock exchange and investment funds).

ESTONIA
In the beginning of its transition to a market economy, Estonia took an extremely liberal stance to the development of private banking. However, soon afterwards a banking crisis that had been smouldering for some time became public and threatened Estonia with total collapse. In co-operation with the Bank of Estonia, the government operated with total decisiveness to resolve it. A clear signal was sent to society, and especially the banking sector, that banking in Estonia must be based on clear and firm foundations and that no one should bother coming to Estonia with dirty money from Russia. After a few attempts, this was understood. As a result, the banking sector in Estonia developed somewhat more slowly, but consistently; and soon became the strongest in the region.

Economy was positively affected by banking sector consolidation in late 90s, where small and unstable banks were taken over by two strong banks based at the Swedish capital. This move made banks balance sheets stronger and guaranteed inflow of inexpensive credits that was needed for giving strong positive push for economic activity.

Initially the Bank of Estonia carried out supervision of commercial banks also but now the task belongs to the responsibilities of the Financial Supervision Authority. The Financial Supervision Authority was established at the Bank of Estonia in 2002 and it carries out supervision of all Estonian financial institutions, i.e. banks, insurance companies, investment and pension funds and the securities market.

POLAND
In the Polish experience, the most important aspects in banking sector reform seem to be the legislative framework and enforcement capacities. Changes in patterns of behavior of private economic agents were prompt and flexible; in contrast with unenthusiastic and slow changes in behavior of state enterprises seeking for political protection.

Adopted guidelines of reforms:
• To create competitive and effective banking system, composed of various types of institutions (with state, municipal, private and foreign participation)
• To allow the banks to allocate capital basing on their own considerations (risk assessment) and control the efficient use of funds
• To induce domestic savings and to transform them into profitable investments
• Banking reforms crucial as banks were the major existing financial intermediaries in the command economy
• Few banks that existed at the outset of reforms were also well known among the public and enjoyed some public confidence
• Other financial institutions were of minor importance (only insurance companies – due to compulsory insurance)

Measures and steps undertaken:
• Gradual removal of administrative controls (interest rates ceilings, imposed directions of lending, credit ceilings, …)
• Withdrawal from automatic refinancing of banks by the central bank
• Split of NBP into the central bank and 9 regional commercial banks
• Liberalization of entry of new banks onto the market

Legal changes:
• Introduction of new banking law and the Act on NBP (1989), many subsequent changes and major amendments until 1997
• Setting basis for prudential regulation
• Establishment of prudential supervision and providing it with necessary tools and staffing (reporting system, on-site examination capacities)
• Implementation of flexible system of banks restructuring and rehabilitation, as well as liquidation in the case of permanent insolvency
• Shift from protection of borrowers and debtors into more balanced approach (protection of interests of creditors and investors)
• Introduction of laws that were not yet in force: on public trading in securities and stock exchanges, on issue of bonds, on accounting and many others

Results:
• Establishment of great number of banks, some poorly capitalized and badly managed
• Decision taken by the Government (May 1991) to modernize and then privatize state owned banks (one of the reasons - to eliminate the danger of political interference)

Side effects of reforms:
• Transformation shock created difficult conditions for banks & their clients
• Failure of many small and medium sized banks, mostly private or with mixed ownership structure
• Failure of many state companies – banks’ customers, after imposition of hard budget constraints
• Many enterprises caught into a financial trap by high and unstable inflation and high interest rates and opening up the economy for external competition
• Growing burden of bad loans in state banks, banks with ample liquidity but in danger of insolvency
• Public assistance urgently needed to recapitalize and restructure banks
• Special but temporary law passed by the Parliament on Financial Restructuring of Enterprises and Banks (1993)

Built-up of supplementary institutions:
• Creation of efficient and reliable payment system, establishment of the national clearinghouse
• Built-up of modern telecommunication network among banks and the NBP
• Standardization of banking documents
• Creation of training centers, publication of modern banking manuals
• Twinning agreements of domestic banks with banks from developed countries to speed up the process of modernization
• Creation of Credit Information Bureau collecting information of individual borrowers performance records

Further developments:
• Creation of deposit guarantee scheme to protect the savings of small savers and to assist in banks’ rehabilitation
• Privatization of major banks, mainly with participation of foreign strategic investors
• Gradual improvement in corporate governance, adoption of modern technology and risk management skills
• Consolidation in domestic banking sector as a result of M&A among parent banks abroad
• Development of new distribution channels, products and markets
• Growth in the use of non-cash transactions (payment cards, ATM)
• Growth in retail lending and to SMEs
• Changes in the households savings patterns, result of lowered interest rates and tax on interest income
• Shift of households’ savings from banking deposits into riskier financial instruments, equities, bonds and investment funds certificates
• Strong growth in housing loans, mostly denominated in foreign currencies (Euro and Swiss Franc)
• Other tasks: adoption of Basel II and International Accounting/Financial Reporting Standards

Conclusions / lessons from Polish experience:
• No general experience on how to properly sequence reforms to avoid consequent problems
• Policy issues. Prepare groundwork: legal and regulatory framework, necessity to set up the supervisory authority, train the specialists
• Liberalize the entry of new institutions, imposing some constraints (capital requirements, etc.), encourage foreign participation, introduce deposits protection scheme to avoid bank runs
• Create financial markets, promote the issue of various financial instruments and setting up of diverse financial intermediaries, than lift remaining restrictions,
• In practice everything must be done simultaneously
• Errors inevitable but their negative results must be minimized
• Safety net must function properly (not too generous but provide adequate coverage of majority of households’ deposits)
• Level playing field must be safeguarded to facilitate the competition

There are numerous question concerning the economic transformation:
• The key question is why not all the objectives were achieved in expected timetable?
• Underestimated problems, costs and side effects of reforms, lack of appropriate experience and expertise in performing the general economic transformation
• Slow progress in judicial system functioning and law enforcement, seizure of collateral, etc.,
• Gaining of reputation and confidence in the banking sector took several years,
• Positive effects of reforms: development of saving instruments, open access to credit, growing competition and its impact on the banking market
• Banks developed into an important element of economic landscape, have been the main providers of funds to companies and households, their products are widely accepted and popular

Best practice: Process of restructuring of state-owned banks prior to privatisation

Expertise: National Bank of Poland (Mr. Paweł Wyczański)

CZECH REPUBLIC
At the end of the 1980s, Czechoslovakia had – as it was typical of socialist economies – a one-tier banking system (the central bank also playing the role of a commercial bank). Alongside the Czechoslovak State Bank (SBČS) and subject to its decisions, there were other specialised banks: the Czechoslovak Trade Bank (administering foreign payments operations of the corporate sector); the Czech and Slovak Savings banks (serving the general public); the Investment Bank (specialising in long-term investment loans) and the Trade Finance Bank (performing operations with foreign entities for small private clients).

Czechoslovakia was one of the last countries in central and eastern Europe to prepare for banking sector reform within the framework of “perestroika”. However, it began to do so a few months before the fall of the communist regime and, a few days before the November 1989’s “velvet revolution”, a new Law on the State Bank was adopted, that became in force on 1st January 1990. Through this Law, the State Bank was divided into a Central Bank and two commercial banks: Commercial Bank Prague and Credit Bank Bratislava. This Law applied also to the old state-owned commercial banks and all of them (the pre-existing ones and the two new banks created by the Law) acquired the character of universal banks. Clients could then choose their bank, and this introduced competition into the Czechoslovak commercial bank system. The Law also set the rules for the creation of private banks, that required licensing by the Central Bank.
However, even after this first reform the Central Bank still had the authority to influence the procedures of other banks; and was not only responsible for currency stability and the money market, but also participated in the formulation of economic and social development plans and national budgets. It was only after a further reform at the end of 1991 that the Czechoslovak Central Bank (that subsisted until end of 1992, when it was divided into the Czech and the Slovak Central banks after the separation of the Czech and Slovak Republics) turned into a standard market economy central bank, with the corresponding functions: issuing currency, determining monetary policy, acting as the banker of banks and the bank of the state, as well as regulating and supervising the banking system.

The privatisation of state-owned banks was delayed in the Czech Republic. In 1992, only the Trade Finance Bank had been totally privatised and in the same year, parts of the Commercial Bank, Investment Bank and Czech Savings Bank were privatised through the coupon method, the state still keeping a control majority of stakes in these banks (administered by the National Property Fund). It was only at the end of the 1990s that these state-controlled banks were finally privatised (sold to foreign banks). In most cases, prior to the privatisation – which was problematic in some case – further injections of state money were needed.

The Central Bank originally wanted to make it as easy as possible to obtain banking licenses by newly established business entities. Therefore, the number of new private banks was not limited a priori and the minimum capital required was set at a very low level. As a result, the number of new banking institutions increased dramatically in the first years (almost sixty new banking licenses were granted in the first four years). The continuously increasing number of new banks with very low levels of capital considerably exceeded initial expectations for the renewal and revitalisation of the market-driven banking sector and forced the Central bank to gradually tighten the conditions (arriving at a de facto moratorium on the establishment of new banks at the end of 1993).

The commercial banks originating from the old system bore considerable burdens dating from the communist era in the form of various debts and many suspect loans dating back to the economic practices of the centrally-planned economy. In the first half of the 1990s the state helped these banks to get rid of this burden, through a consolidation programme which total cost, as estimated in 2000, was approx. 100 billion CZK.

As for the “new” banks, problems started emerging already between 1993 and 1994 when some of these banks got into serious trouble, because of soft lending and bad loans. While some of such bad loans were the result of lack of experience with risk management and the changing and unstable economic environment (banks lacked sufficient and reliable information about clients, their assets and their economic background, as well as the technical capacity to assess business plans for which financing the loans were requested), others were plainly the outcome of a number of other factors, such as political pressures (banks were pushed to provide loans to new enterprises regardless of potential financial risks), high-risk operations in international financial markets and, in not a few cases, corruption and fraud.

For this reason, while progressively tightening the regulation and supervision of the sector, the state (National Bank) had to introduce a second Consolidation programme in mid 1990s (1996), which was preceded by a number of non-systematic ad hoc interventions (usually entailing the imposition of forced administration or even the liquidation of the affected bank) and followed by a Stabilisation Programme and the “Solving the Problems of the Large Banks Initiative”; all of which eventually required a further investment of public money in order to stabilise the system. In total, the Czech state is estimated to have spent more than 300 billion CZK in this type of bank “revitalisation” programmes at the beginning of the new millennium.

Some of the problem issues that influenced this problematic development of the banking sector in the Czech Republic during the transition were: 1) Insufficient regulation and supervision; 2) Lack of technical capacity and skills among the managers and staff of the banks in regards to banking in a market economy, in particular concerning operations in international financial markets; 3) The overall “political” environment and subsequent pressure for the banks to provide financing for the privatised
companies; 4) The fact that both in these privatised companies as well as in the banks themselves, practices (and managers) from the “old” system were still entrenched for quite a long time; 5) The oligopolistic structure of the Czech banking sector during those years, where just a few banks (including the formerly state-owned and still state-controlled banks) played a predominant role; 6) The overall “culture” of “getting rich quick and capitalize on the atmosphere of big and sudden profits”, which led many to search for loopholes in the imperfect legal system, according to the rule that “what is not forbidden, is allowed”; 7) The high costs of operation of banks, particularly in what concerns the opening of an excessive number of luxurious branches and the very high salaries paid to their employees (especially to the managers and board members); 8) The tendency to self-financing (providing preferential loans to enterprises owned by the banks themselves or by their owners and managers.

SLOVAKIA

The separation of the banking system into two parts - the central bank and the network of commercial banks (credit, commercial) was the beginning of a new banking system, which on the other side meant a weakening of the impact of the Center on the allocation of specific loans.

A milestone in the development of banking was the adoption of Act no. 21/1991 Coll. on the banks and 22/1991 Coll. on the ŠBČS, which created a legal framework defining the activities of the central bank and commercial banks.

Emerging network of commercial banks had common problems - these were mainly the unstable and still just transforming economic environment, inadequate staffing of banks, lack of hardware, software and other issues.

Crucial in that era was the establishment of central bank - The National Bank of Slovakia – which, in addition to fulfilling multiple roles, provided a meaningful process of development of commercial banking system and performed the supervision over it. The National Bank of Slovakia was established 1st January 1993 on the basis of Act no. 566/1992 Coll. the National Bank of Slovakia as an independent central bank of the Slovak Republic.

After the year 1998 major banks and insurance houses from Western countries joined the banking sector. From 2001 to 2007 the share of foreign investors in the total capital of banks increased by almost a third to 92%. Further development of banking regulation in the Slovak Republic based in particular on the obligations arising from the application and subsequent membership in the European Union. In that period the Slovak banking sector had to undertake a number of fundamental changes - the transition to Basle II, the preparation of financial statements according to international standards, the introduction of the euro.

Currently in Slovakia there are different subjects, institutions providing banking services by banks with seat in the Slovak Republic, foreign bank branches and credit institutions providing freely cross-border banking services on the principle of a "single passport", which neither have a seat in the Slovak Republic nor their branches (foreign banks, foreign financial institutions or institutions of electronic money).

Best practices: Experience in the Slovak Republic is that best practices are reflected in laws, in particular in the form of setting the minimum requirements. Banking is regulated mainly by the relevant acts.

Expertise:
Institutional:
National bank of Slovakia
Ministry of Finance – Financial Services Department (Mr. Ján Foltán)

Academic
Ing. Vladimír Baláž, PhD. (vbalaz@yahoo.com)
Mgr. Vladimír Bačšín (bacisin@bacisintkac.com)
HUNGARY

The Credit Institutions Act provides for three types of credit institutions:
• banks;
• specialised credit institutions; and
• cooperative credit institutions.

Only credit institutions are entitled to receive deposits from the public and provide money transmission services. In addition, banks are entitled to provide the full range of financial services listed in the Credit Institutions Act, including granting loans, issuing guarantees, trading foreign currencies, issuing bank cards and providing deposit services. On their own account or on the accounts of their customers, Banks may also engage in the trading of government and corporate securities, trading in derivatives and may provide investment services. Specialised credit institutions are limited with respect to the scope of services they may provide and with respect to the types of clients to which they may provide such services. Specialised credit institutions include the two housing savings associations and three private mortgage banks. There are two special state-owned institutions: the MFB and the Hungarian Eximbank (in which the state owns directly a minority stake of 25 per cent. plus one share; and the rest indirectly through the MFB). The total assets of the credit institutions (including specialised credit institutions) were HUF 32,063.0 billion in December 2008.

Cooperative institutions may only provide limited types of financial services, primarily the taking of deposits and the making of small loans. Hungarian cooperative institutions had, as of 31 December 2008, an aggregate of HUF 1,577.1 billion in total assets.

In addition to the credit institutions discussed above, several other financial entities play an important role in strengthening the Hungarian banking and financial sectors. These entities include:
• the National Deposit Insurance Fund, which credit institutions are required to join, insures the deposits up to HUF 13 million per depository, but does not cover the deposits of the government or certain other entities;
• the Credit Guarantee Corporation, which guarantees loans to small and medium size business;
• the National Savings Cooperatives Institutions Protection Fund, which is a voluntary consortium of about 200 Hungarian cooperative credit institutions designed to further such institutions’ mutual interests; and
• the Hungarian Export Credit Insurance Corporation, which provides insurance for export credits and exchange rate risks, and the Hungarian Eximbank.

After the dynamic growth of foreign share ownership in the sector in previous years, the proportion of registered capital held by foreign investors stabilised in 2002. In 2005, approximately 80 per cent. of the total equity capital of the Hungarian banking sector (excluding the MFB and the Hungarian Eximbank which are owned by the State) was held by non residents.

The only banks in which the Republic now holds controlling interests are the MFB and the Hungarian Eximbank. The Republic retained a golden share in OTP Bank, which granted the holder certain special shareholder rights. For example, there could be no shareholder quorum without the presence of the golden shareholder and decisions regarding changes in the registered capital of the bank, the merger, dissolution, transformation or liquidation of the bank, the transfer or encumbrance of rights necessary for the operation of the bank and the appointment or removal of directors and supervisory directors of the bank who represent the holder of the golden share, could only be made with the consent of the holder of the golden share. In compliance with the EU directive on the liberty of the
capital markets, this form of the State’s special ownership rights has been abolished and the golden share has been transformed into common shares.

**Supervision of the Hungarian Banking System**
Supervision of banking activities in Hungary has strengthened as the banking system has developed. Since April 2001, bank supervisory responsibilities have largely been transferred to the Hungarian Financial Supervisory Authority, with the National Bank of Hungary retaining a more limited supervisory role.

The Hungarian Financial Supervisory Authority must license a credit institution before it may be established, commence operations, establish a representative office or a subsidiary abroad, elect its management, acquire shares of a non-resident entity representing a qualifying holding (10 per cent.) or terminate its operations. Since Hungary became an EU Member State on 1 May 2004, this will not apply to credit institutions having their seat in an EU Member State.

The Hungarian Financial Supervisory Authority is responsible for verifying compliance by the credit institutions with the Credit Institutions Act and applicable banking regulations. The Hungarian Financial Supervisory Authority is entitled to impose various sanctions on credit institutions, including issuing warnings of non-compliance, withdrawing licenses, instituting liquidation proceedings and imposing fines on credit institutions and the managers thereof.

The Hungarian Financial Supervisory Authority does not have the power to issue regulatory decrees. Act CXX of 2001 on the Capital Markets (the “Capital Markets Act”) and the Credit Institutions Act set forth matters upon which the government or Minister of Finance may issue regulatory decrees.

The Credit Institutions Act requires Hungarian credit institutions to maintain a solvency ratio of 8 per cent. Pursuant to its authority under the Credit Institutions Act, the Minister of Finance has issued a decree on the calculation of the solvency ratio. The decree adopts Bank of International Settlements (“BIS”) standards prescribing how the ratio of a bank’s regulatory capital and such bank’s risk weighted assets (on and off balance sheet items) must be calculated. In addition, the Minister of Finance has issued decrees requiring credit institutions to create provisions based both on the quality of their assets (which include loans, investments and off balance sheet items) and on certain foreign country risks present in their assets.

Portfolio risk provisions are calculated by categorising the assets of a credit institution into the following categories: standard, watch, substandard, doubtful and bad. Assets are placed in the categories based on the performance of the asset and the financial condition of the debtor. Provisions are made based on the asset category: 0 per cent. for standard assets, 0 per cent. to less than or equal to 10 per cent. for watch assets, greater than 10 per cent. to less than or equal to 30 per cent. for substandard assets, greater than 30 per cent. to less than or equal to 70 per cent. for doubtful assets and greater than 70 per cent. to 100 per cent. for bad assets.

The value of any collateral, including real estate, held against an asset may be used to offset the need to make provisions. The decree requiring provisions does not provide guidelines on the extent to which collateral may be used for this purpose. Individual banks are required to create their own guidelines, which are to be approved annually by their auditors.

Country risk provisions are determined using a table, which sets forth the amount of provisions required based on the nationalities of the debtors in a credit institution’s portfolio. The country risk decree also requires credit institutions to set absolute limits on the proportion of the relevant credit institution’s total assets which may be from a particular country.

**Role of the NBH**
While the NBH has no legal obligation to support Hungary’s credit institutions, the NBH may serve as a lender of last resort to the credit institutions if such credit institutions encounter temporary liquidity difficulties. Any loans made by the NBH to Hungary’s credit institutions in its capacity as lender of last resort constitute general unsecured obligations of such commercial banks.
SLOVENIA

Slovenia has a long tradition of sound banking, which dates back to 1900 (when the first incorporated domestic bank, Ljubljanska Banka, was first established). Slovenian banks operating until the end of WW II were abolished as independent commercial banks during the early socialist period from 1945 to 1960. They reemerged as profit-oriented financial institutions during the period of economic reforms that began in 1965, but later they were converted into captive financial service providers to self-managed enterprises. Only later, in the 1980s, did banks increasingly regain their role of for-profit financial institutions.

Certain salient features of Slovenian banking – including the early introduction of a two-tier banking system in the late 1950s, the ownership of banks by enterprises, and openness to the world – led to a unique starting point for the country’s banks at the beginning of transition in the 1990s. Later on these particular features also paved the way for specific solutions in the area of banking restructuring. Rehabilitation of the sector after independence was undertaken according to the Western model for rich countries, using government budget resources and government intervention.

Due to the changes in the early 1990 (transition and separation from Yugoslavia) the “old” banks (smaller “new” banks started to emerge as of 1991) lost their assets in other parts of Yugoslavia, most loans to domestic companies became non-performing due to the collapses of the companies, and there was no money to repay foreign exchange deposits of the population both in Slovenia and in the branches of the two banks (“Ljubljanska banka” in particular) in other Yugoslav republics. The two largest “old” banks were placed in formal rehabilitation status at the beginning of 1993 and a third, smaller bank followed at the beginning of 1994. These three banks accounted for more than a half of the entire banking sector, making banking restructuring in Slovenia a venture of unprecedented scope. The Bank Rehabilitation Agency (BRA), established in 1991, became the main (temporary) owner of these banks and played a major role in the supervision of banks under rehabilitation, in the management of bad assets, and in the management of part of the public debt, through its servicing of government bonds swapped for bad bank assets. In the year 1997, the rehabilitation of two biggest banks that were turned into state property, Nova Ljubljanska Banka d.d. (NLB) and Nova Kreditna Banka Maribor (NKBM) was successfully completed. The privatization of the two above mentioned State owned banks through a tender was announced in 2002.

The key legislation or legal framework for banking sector’s business activity was laid down in the Savings and Loan Undertakings Act (March 1990) and the Banks and Savings Banks Act (June 1991), both derogated by the new Banking Act adopted in January 1999 (changed in November 2006).

The regulatory framework for the banking sector was liberalised gradually. Throughout the transition, the sector was open to entry by foreign banks (through subsidiaries until 1999, and thereafter also permitted to operate branches). At the end of 2003, over half of Slovenian banks had some foreign ownership participation, and in four banks foreign capital forms a majority stake.

Banking supervision

The Bank of Slovenia, independent institution established under the Bank of Slovenia Act of June 1991, is in charge of banking licensing and supervision. Within the framework of the Bank of Slovenia a Banking Supervision Department was established in the beginning of April 1992. It implemented the so-called four-eye-principle, meaning that both off-site analysts and on-site examiners are responsible for monitoring banks and saving banks.

Since 1994, the Slovenian legislation on the financial system has changed and updated in order to the further development and regulation of the Slovenian financial system. Initially it was primarily aimed at establishing a suitable regulatory framework, and later also at the integration of the Slovenian financial system into the European. This meant mostly to assume the acquis of the European Union (EU) and its transposition into Slovenian law.
**Best practice:** Bank rehabilitation in Slovenia was well thought through, with much learning by doing. Cooperation among the key players (Bank of Slovenia, BRA, Ministry of Finance and the banks themselves) was satisfactory. Banks in rehabilitation achieved improvements in their corporate governance, organisation, lending procedures, loan monitoring and recovery and risk assessment. External advice and experience were helpful in designing and implementing the rehabilitation programme, although that advice was taken selectively, and specific domestic solutions were implemented as well. The cost of bank rehabilitation (measured by the amount of public debt attributable to the operation) was less than 10% GDP, what is estimated to be an acceptable price for the rehabilitation of more than a half of the country's banking sector, when compared with the cost of similar operations in Western industrial economies.

- **Capital markets and non-banking system**

**LATVIA**
The Riga Stock Exchange was established in 1993 and commenced its activities in 1995. Although the securities market in Latvia experienced a strong growth from its beginning (in terms of number of companies, licensed exchange members and turnover) and the Stock Exchange itself has quickly developed its mechanisms as a modern electronic stock exchange based on continuous trading, its size when compared with the banking system is rather small. The number of shareholders in Latvia is around 4% of the population and Latvia was in 2000 still lagging behind other countries in the region in terms of market capitalisation (mainly a reflection of a somewhat slower pace of privatisation of natural monopolies and some other large companies).

A Treasury Bills market also developed in Latvia since 1993 and, although during the transition the most important non-bank financial institutions were insurance, brokerage and leasing companies, venture capital funds (one of the most active foreign portfolio investors in Latvia), investment funds and pension funds (a Law on Private Pension Funds is in force since 1998) have also played a role in capital markets.

**Best practice:** Pension fund supervisory system

**ESTONIA**
Estonia was one of the first transition countries that started a secondary market for securities. Similarly, it was in Estonia and a few other countries (Hungary, Poland and Russia) that the stock market really took off already during the period of rapid privatisation. The Tallinn Stock Exchange was born in mid-1996 and primarily constituted by securities of banks and financial firms. Trading volumes were initially small and the securities markets were generally volatile as stabilisation had not yet been completed. The Tallinn Stock Exchange index (TALSE) dropped in the first months but recovered at the end of the year and continued to grow until the Russian financial crisis in 1998. Since then, there has been a rapid growth, particularly from late 2003. When 2005 came to end, the TALSE stood at 664. From the low point in October, 1998, to year-end 2005, TALSE had grown with more than 700 percent.

**SLOVAKIA**
Capital markets in Slovakia developed in a rather specific context. They emerged not from the needs of investors and issuers, but as a by-product of voucher privatization. Capital market in Slovakia has started to form since 1990 with the development of the first joint-stock companies. Organization of securities markets has become the domain of three entities: the Bratislava Stock Exchange, the Bratislava Stock Exchange Option and the Slovak Stock Exchange. The Central Securities Depository provides a record keeping of securities, changes of their owners and other data related to these securities. The Agency of State Supervision over the Capital Market was established. By 2006, the supervision of financial markets was operated by the Financial Market Authority and since 2006 the National Bank of Slovakia is the only Supervision Body.

Bratislava Stock Exchange was founded in 1990 and trading on the stock exchange opened up in 1993 after completion of the first wave of voucher privatization. It became the first organized spot markets in securities in the Slovak Republic. In 1995 a Stock Exchange Arbitration Court was
established, its main task being to resolve disputes arising from stock transactions, but also from transactions outside the stock exchange. In 1997 the Slovak Republic Government approved the Concept of Capital Market Development in the Slovak Republic and was introduced by the new structure of markets Bratislava Stock Exchange. On the stock exchange it is possible to conclude the following businesses: price-setting transactions, negotiated deals, repo transactions, take-over bid. European Federation of Stock Exchanges at its General Assembly in Brussels in 2002 accepted the Bratislava Stock Exchange as associated member.

Slovak capital market at present is one of the smallest in Europe. It does not fulfill its basic economic functions such as the creation, valuation and allocation of available financial resources, and is not as effective meeting place for capital and investment opportunities. The main obstacles to the development of capital market in Slovakia include the lack of liquidity and market performance, lack of investors, lack of quality of emissions, distrust of small investors in collective investment.

**Insurance**

Slovak insurance market has acquired a strong grow after 1990 when the Slovak state insurance company lost monopoly position (except the case of mandatory motor third party liability insurance). Significant change in regulation was the adoption of Act No. 24/1991 Coll. on Insurance. The law allowed access to the Slovak insurance market to other domestic and foreign insurance companies, and thus began the gradual phase of transformation of the Slovak state insurance company into commercial insurance institution. In November 1991 a joint stock company Slovak insurance company was founded.

During the demonopolisation another insurance companies were established and authorization was also given to several foreign insurance companies, which usually established subsidiaries. Act No. 24/1991 Coll. regulated also the field of insurance supervision which was performed by the Ministry of Finance of the Slovak Republic (since 2000 by the Financial Market Authority and since 2006 by the National Bank of Slovakia). Insurance market in the Slovak Republic has gradually expanded both quantitatively and qualitatively.

One of the most significant changes in the insurance sector in a later period was a transition from mandatory motor third party liability insurance to compulsory motor third party liability insurance. The concept was presented in 2000. In 2006, the supervision of whole financial market was passed to the National Bank of Slovakia.

Further development of insurance regulation in the Slovak Republic is based primary on the obligations arising from the membership of the Slovak Republic in the European Union.

**HUNGARY**

In the course of the transition to a market economy, Hungary attached great importance to the development of a sound capital market in order to promote economic development and to finance Hungarian enterprises. The Capital Markets Act regulates the offering and trade of securities (including government securities) and the institutional framework of the Hungarian capital market (including stock exchanges, investment funds and clearing houses). State control and supervision of the capital markets was delegated to the Hungarian Financial Supervisory Authority. In line with international changes, Hungary has moved towards a universal financial system when regulating the relationship between investment and banking services. With effect from 1 January 1999, banks with proper authorisation may carry on investment and financial service activities within the same organisational frameworks, thereby offering universal banking services. Regulation of the capital markets in Hungary is substantially compliant with EU regulations and guidelines.

**Stock Exchange**

The Budapest Stock Exchange Limited, which opened in 1990, is a self-governing and self-regulating organisation, which elects its own bodies and officials, adopts its own regulations, defines its operating rules and fixes the fees charged for its services.
SLOVENIA
The Ljubljana Stock Exchange (LJSE) was officially established on 26 December 1989, following the adoption of two federal laws of the former Yugoslavia (Securities Market Act and Capital Market Act), which provided the necessary legal basis for the re-establishment and re-opening of the Slovenian capital market. Slovenian ZTVP, adopted in 1994, offered a new legal basis for LJSE operations. Trading through electronic order driven trading system, which offers real time information on trading, was introduced in 1995. On June 1996 the transfer of clearing from LJSE to Central Securities Clearing Corporation (KDD) was done. KDD was founded on 10 January 1995 as a company, providing central securities custody services, clearance and settlement of securities transactions and maintenance of the central registry of holders of dematerialised securities in the Republic of Slovenia.

In order to increase competitiveness, transparency and deepen the financial system and capital market in Slovenia adopted Securities Market Act (ZTVP) and Investment Funds and Management Companies Act (ZISDU), both in 1994. On the passing of mentioned two laws, the Securities Market Agency was established in 13 March 1994 for supervising the market in financial instruments. In the time of further development, the ZTVP was replaced by Market in Financial Instruments Act in 2007 and ZISDU with new ZISDU-1 in 2002. On 1999 the Book Entry Securities Act.

Securities Market Supervision: Independent Securities Market Agency, established in 1994, is in charge for supervision of investment. Its basic mission is to maintain a safe, transparent and efficient market in financial instruments.

The Insurance Market
Before 1990, the insurance industry was dominated by a single company »Triglav« with 95 percent of market share and one reinsurance company. In 1990, Triglav was broken to five companies, all of which were to be changed from mutual insurance companies to joint-stock companies with mixed private and social (state) ownership. The problem of determining the share of state in insurance companies are still hindered by the ownership transformation process (In January 2000 Insurance Agencies Ownership Transformation Act was adopted.)

The insurance market was at first systematically regulated with Insurance Companies Act (September 1994), which was in January 2000 derogated by Insurance Act.

Insurance Supervision: In accordance with the Insurance Companies Act, September 1994, Insurance Supervisory Authority (ISA) was established in 1995 as a body of the Ministry of Finance. According to the new legislation, The Insurance Act – January 2000, ISA became operational as an independent agency. The objective of the central supervisory institution in the insurance area is mitigating and eliminating irregularities in insurance; protecting policyholders’ interests; and facilitating the functioning of the insurance economy, which in turn has a positive impact on the entire economy.

From 1990 the Czech Republic started the process of foreign trade liberalization and opened the domestic market to foreign competition. The Czech Republic signed the Free Trade Agreements (FTA) with EU, which was considered as a preparatory stage for the full EU membership. Best practice: harmonization of standards, norms and legislation with EU, metrology, testing Expertise: Czech Office for Standards, Metrology and Testing (ÚNMZ) http://www.unmz.cz
12. PRIVATE SECTOR DEVELOPMENT

Perhaps the most important aspect of the transition to market economy was the rapid and spectacular development of the private sector, in practically all segments of the national economies, both in quantitative as well as in qualitative terms. In some countries (for example, in Poland), there was already a limited private sector before the actual change started in late 1980s; and in others (Slovenia) there was a system that, while not including private ownership, was already operating under quasi-market conditions. But in most countries of the socialist block, private sector was absolutely non-existent before the political change happened.

The emergence of the private sector in the economies of these countries was immediately facilitated by legal changes introduced in the beginning of their transition, allowing for the creation of private companies and economic undertakings and establishing company registers. Property restitution and small scale privatisation carried out in the early years of transition gave rise to a myriad of new private businesses in different sectors, which started to operate under free market conditions and were filling the gaps left by the withdrawal of the state from certain economic activities and by the difficulties experienced by state owned companies – especially manufacturing companies – to adjust to the new situation. Furthermore, in a context of liberalisation of foreign trade (which in some countries was very radical) a key factor in enterprise restructuring and development was the need for the industries and enterprises in the countries moving to an open market economy to compete in both the domestic as well as the international markets with the enterprises and industries of the same sector in more developed economies. In some areas (banking and financial services, large manufacturing companies) FDI (either through privatisation of existing companies or through green field investments) played a major role. But in others, particularly in the field of SMEs, this challenge had to be met with the support of specific public policies and measures.

• Foreign investments

Although the stance and approach of the different countries towards foreign investments were not the same – especially in the beginning of the transition – in general terms attracting foreign investments was one of the most important objectives of the economic policies implemented in the early years of transition. There were two main reasons for this: in most transition countries, there was a lack of domestic capital allowing for the privatisation and modernisation of the economy; and there was also a lack of know-how concerning the management of enterprises in a situation of market economy and free competition, not only domestic but international (due to liberalisation of foreign trade). Reorientation to the West – for political reasons, but also due to the contraction of the trade with the CMEA/COMECON and CIS countries – which was particularly acute in countries like the Baltic states - was another factor that triggered an interest in attracting foreign capitals and investors.

Attracting foreign capital investments during the process of privatisation of large scale enterprises was not difficult, but the merit was in establishing an economic framework that could continue attracting foreign capitals after the end of the privatisation process; and that would attract not only “portfolio” investments but also direct investments (FDI).

The common experience of the central and eastern European countries in what concerns the preconditions or enablers for the attraction of foreign investments shows that the following elements were the most crucial: 1) Macroeconomic stability (low inflation/stable prices, transparency of monetary arrangements and policy, stability of exchange rate), as the key factor; 2) Full currency convertibility (for current and, to the maximum extent possible, capital accounts); 3) Clear and simple tax system, (but not necessarily tax holidays); 4) Free movement of capital and free repatriation of profits; and 5) Privatisation (assets and enterprises to be sold).

Other than these common elements, each country took a different approach. In some of them, not only foreign participation in the process of privatisation, but also foreign capital flows were absolutely welcome from the outset; and in some cases this created some problems at a later stage (for example, in relation to purely speculative flows in the financial sector). Other countries welcomed only strategic foreign investors which were offering a guarantee of capitalisation but also of modernisation and restructuring of privatised companies. A few countries took a more cautious approach to such
foreign investments, which were carefully screened during the first years of transition and the early stages of privatisation and only at a later stage fully promoted and accepted.

**ESTONIA**
According to Estonia’s experience, the main factor that supports foreign investments is a stable macroeconomic environment. The transition process in Estonia was facilitated by large and continued inflows of FDI (in 2002, FDI stock amounted to 63.1 billion krowns, the main flows being from Sweden – 41% - and Finland – 27%)

**POLAND**
Limited and controlled opening for small-scale foreign investments was one of the reform measures already implemented by pre-democratic governments during the 1980’s. However, full liberalisation of foreign investments did only take place in 1991, as part of the liberalisation and stabilisation programme and the institutional reforms undertaken by the first two democratic governments. The Foreign Investment Law adopted in July of that year eliminated most of the licensing requirements and allowed free repatriation of profits and capital investments.

Poland’s robust economic growth in the decade 1990-2000 reflects large inflows of foreign direct investment (FDI), as well as the dynamism of small private enterprises. In 1998 Poland attracted 40% of all FDI flows to Central and Eastern Europe and the Baltic States. Foreign investors initially focused on the domestic market, which after all is the largest in the region, although later on they started to show interest in using Poland as a base for exporting goods to other western markets, including high-tech activities.

**SLOVENIA**
Just before accession to the EU, the level of FDI penetration in Slovenia was relatively low compared with that in the EU countries and other EU accession candidates. Almost 70 percent of the FDI stock and most of the relevant FDI projects in Slovenia had at that time been realised as foreign acquisitions of companies that were not directly subject to the OTA (Ownership Transformation Act, laying down the normal process of privatisation).

In Slovenia, privatisation contributed little to FDI inflows for several reasons. The first was that the form of mass privatisation used in Slovenia implicitly favoured internal buyouts. A second was the slow restructuring process in the privatised enterprises, which gave them little encouragement to search for strategic foreign partners. A third was the hesitant privatisation of enterprises in the financial and public utilities sector, where initiatives were undertaken only after 2000. Other reasons were related to the small size of the local market, monetary considerations, administrative barriers, problems in acquiring industrial locations, relatively protective labour legislation and a relatively rigid labour market.

- **Development of enterprises (in particular, SMEs)**
In the beginning of the transition, the prevailing economic approach in many of the countries of Central and Eastern Europe and the Baltic region was very reluctant (if not frontally opposed) to any type of state intervention in the development and restructuring of the national enterprises, whether these were already existing ones or newly created enterprises. It was understood that privatisation, liberalisation and market forces and mechanisms would by themselves produce the necessary restructuring and adjustment of the companies to the new conditions of free competition at domestic and international level.

Modernisation and further development of large companies (mainly industrial enterprises) was in most cases the result of a process of restructuring that involved in some cases the liquidation of non-competitive ones; and in most cases profound restructuring, undertaken either as a preparation for their further privatisation (in some countries and sectors) or following up from privatisation. In both cases, the demands of the new market conditions, opened to competition from foreign companies and products but at the same time providing new opportunities for exports to foreign markets, played a major role. And so did in many cases the managerial know-how and new technologies brought to
them by foreign companies and strategic investors that took part in the process of privatisation and became the owners of such companies.

As for the SMEs, which had developed as entirely new businesses or as a result of the small-scale privatisation, in which mostly domestic investors and capitals had participated, it was soon obvious that in order for these small and medium-sized companies – now called to play a major role in the national economy – to develop and to became efficient and competitive not only in the domestic market, but also in the new context for international trade, state or public support was needed, in various forms (access to credit and financing, renovation and upgrading of technology, enhancement of management know-how and skills, training of workforce, support for their participation in exports, etc.).

For this reason, after the two or three first years of economic transformation, Governments started to develop and put in place policies and schemes to support the development of SMEs and entrepreneurship, oftenly supported by the financial and technical assistance provided by the EU through the PHARE Programme. This process intensified in the second half of the 1990s, where such policies and support schemes became consolidated and started to be linked to the process of preparations for the more effective and efficient management of EU structural funds after accession, in particular the funds aimed at promoting balanced economic development within the various parts or regions of the national territory and the overall competitiveness of the national economies.

The experience of the central and eastern European countries that joined the EU in 2004-2007 with the design, development and implementation of policies and instruments in support to SME development offers a wide range of examples of approaches, instruments and good practices, some of which are presented below.

**ESTONIA**

Privatisation was only one part of the efforts to increase the role of the private sector in output. Promoting new enterprises by other means was the other part and it proved to be very important to Estonian business and the Estonian economy.

Already in 1995 new start-ups represented approximately 50 percent of GDP. There are three explanations to the rapid growth of new companies. First, after independence, and with the liberalisations, the underground economy became legal and was from then registered on the books. Second, due to strong bankruptcy laws that were enacted soon in Estonia, many state-owned companies went bankrupt and this opened markets for new businesses. Third, the privatised enterprises were burdened by old habits and were slow in adapting to new market standards. Companies were often occupied by defensive reconstructions – laying off staff or selling physical capital – and had little time or resources to launch new offensive strategies to stay in business or increase their market share. New companies could start afresh and focus on the opportunities provided by internal and external liberalisation. In addition, Estonia’s perverted company structure from the Soviet days – many large enterprises but few small ones (in relation to population) – was difficult to integrate in the new market-based order. New and smaller companies were much better at responding to consumer demand and market signals generally.

Estonian governments tried to stimulate new businesses by means of policies of general liberalisation and instituting a tax system that promoted savings, investments and labour. Again, simplicity was a guiding principle (Estonia was the first country in Europe to introduce a flat-tax system).

Today, Estonia has many support measures to promote and support entrepreneurship and enterprises:

1. Improving Access to Finance for Enterprises
   a. Start-up grant
   b. Business infrastructure grant
   c. Business loan guarantees
2. Human Resource Development
   a. Training grant
b. Consultancy grant

3. Supporting Enterprises’ Export Opportunities
   a. Export plan program
   b. Export guarantees

4. Supporting Research and Development
   a. Support for R&D projects

Enterprise Estonia currently advises start-up businesses and other enterprises. In regional level every county has a development centre. There are several web pages to advise entrepreneurs like www.aktiva.ee (basically for start-ups), www.juhtimine.ee (for leaders) www.investinestonia.com (for investors), www.visitestonia.com (for tourists). Also there are grants for start-ups and growing enterprises. Enterprise Estonia also organises and supports different trainings for different target groups on different subjects. Also grants for developing clusters and to support investments in new technology and innovation are available.

Export guarantees are also important, especially in the current context of financial crises. Credit and Export Guarantee Fund KredEx deals with this issue. Enterprise Estonia supports activities to enter foreign markets and sharing contacts.

Additional information about business environment in Estonia can be found at: http://investinestonia.com/index.php/investment-guide

Best practices: Enterprise Estonia (EAS), established in 2000, promotes business and regional development in Estonia. Enterprise Estonia is one of the largest institutions within the national support system for entrepreneurship, providing financial assistance, advisory, cooperation opportunities and training for entrepreneurs, research establishments, public and third sector.

Enterprise Estonia operates in the following areas:
- Increased sustainability and accelerated growth of startup companies;
- Improved export and product development capability of Estonian companies;
- Greater impact of foreign direct investments on the Estonian economy;
- Increased tourism export and the development of domestic tourism;
- Promotion of regional development and civil society.

Pursuant to the accession of Estonia to the European Union, Enterprise Estonia became one of the implementing units of the European Union structural funds in Estonia. Today, most of the EAS programs and grants offered are co-financed from the EU structural funds. In the 2007-2013 financing period of the European Union, 13 billion kroons, out of more than 53 billion kroons of structural assistance for Estonia, will be applied by Enterprise Estonia.

For providing free-of-charge consultation service regarding the base services to the companies, local governments, non-profit associations and foundations the county development centres were establised in each county. The county development centres operate as networks, the role of the network coordinator is fulfilled by Enterprise Estonia.

Expertise/resources: 1) Enterprise Estonia; 2) Credit and Export Guarantee Fund KredEx; 3) Estonian Association of SMEs; 4) Estonian Chamber of Commerce and Industry; 5) Faculties of Economics and Business Administration in Tallin University of Technology and in University of Tartu; 6) PRAXIS Centre for Policy Studies

LITHUANIA
In 1993–1995, the first Business Advisory Centres were established with the support of PHARE assistance funds in Lithuania. Their activity experience revealed that a comprehensive and complex service package, which covers both financial and non-financial (information, consultancy) services, must be provided to SMEs in order to render effective support to the SME sector. At that time, a considerable share of aid for SMEs was represented by municipal budgetary funds. From 1998, an increasing number of municipalities established SME promotion funds. Municipal funds were used to
issue soft loans, to compensate interests on credits issued by banks and to grant tax loans. These measures also encouraged creation of new jobs, helped organization of conferences, fairs, business missions and promoted business information spread.

In 1996, a non-profit organization, the Lithuanian Small and Medium–sized Enterprise Development Agency, was established (in 1997, it was reorganized as a Public Institution accountable to the Ministry of Economy). The goal of this organization was to promote and improve SMEs, coordinate projects and programmes being implemented in support of SMEs, and analyze economic and legal conditions that would be conducive to SME development in the country.

Also in 1997, an Inter-institutional Council for SME issues was established on proposal of the Ministry of Economy. The Council was responsible for fostering SME development and representing the common interests of SMEs.

From 2000 the Government’s SME policy was targeted at improving the legal and economic environment, financial possibilities and development of the business information network. The strategic goals were set by Resolution of the Government No.1175 “On Strategic SME Development Directions until 2004 and SME Development Measures for 2002–2004, that provided for the strategic SME development goals: the priority development of the SME sector, promotion of integration of the SME sector into the EU economic area and settling the implementation measures. Priorities for SME development were laid down in Resolution No. 1104 “On Approval of the Schedule of the Strategic Directions for the Development of Small and Medium-sized Business until 2008 and the Schedule of SME Development Measures for 2005–2008.

Best practice
In the process of integration to the EU, the legal basis was harmonized with the EU acquis. The aim was to enhance enterprise competitiveness and ensure sustainability of measures that were started to be implemented. In the regular report from the European Commission in 2002, considerable progress made by Lithuania in the area of SME was underlined. It was also highlighted that Lithuania had an adequate legal basis for SME development and that the SME policy was being well implemented. Besides, Lithuania had signed the European Charter for Small Enterprises that committed Lithuania to further improve the business environment.

POLAND
During the entire post-war period Poland maintained a predominant private sector in agriculture and a limited private sector in commerce, services, transport, construction, etc.

The 1980s were marked by a steady growth of the private sector. A significant rise in its growth occurred in 1989 and next years, after the Rakowski’s government (last pre-democratic government) removed the majority of administrative barriers preventing private firms from entering the market (Law on the Economic Activity from December 23, 1988). The economic system of Poland at the end of 1989 was comparable to those of Hungary and Yugoslavia and was markedly different from those of GDR, Czechoslovakia and the Baltic countries (by then, still integrated into the Soviet Union).

Poland’s robust economic growth reflects the dynamism of small private enterprises. With deregulation and small-scale privatisation, a vibrant sector of small and medium-sized enterprises emerged. More than two million entrepreneurs now operate in retail trade, construction and light manufacturing industry. They make an important contribution to output growth and job creation, and form a new class of consumers.

The concept of “private enterprise” has a relatively short history in Poland, but the fast growth of small private companies in the first years after the start of post-communist transformations in the 1990s is considered one of the greatest successes of Polish economic reforms. The restructuring and modernisation of industry in recent years has had a positive effect on the economic environment. The privatisation of state-owned enterprises, liberalisation of markets and sectors, opening up to international competition, and removal of price controls on raw materials and energy costs have resulted in greater modernisation of technologies and production efficiencies.
Combined with the introduction of government policies to encourage entrepreneurial activity, create an environment that is supportive to innovation and change, and facilitate easier access to markets, SMEs have emerged as a significant component of the Polish economy, influencing economic growth, competitiveness, changes in the economic structure, and employment growth. Job creation has been one of the most important aims of the government in promoting SME development. From the beginning, the government has considered that the wave of unemployment generated by the restructuring and disappearance of State enterprises could be absorbed by the large-scale creation of SMEs.

During the 1995-2000 period, SMEs in Poland created about a million new jobs and by 2000, SMEs were responsible for two-thirds of non-agricultural employment and 49.4% of GDP. Since 1991, the number of registered enterprises has grown from less than half a million to almost 3.7 million in 2007, out of which 48% are “active”. In 2007, SMEs accounted for over 99.8% of active enterprises and employed an average of 3.5 workers per enterprise, totalling over 6.2 million people.

The Polish authorities have recognised that a long-term strategy for SMEs requires coordinated action across a range of policy domains, including education, R&D, government regulation, competitiveness, labour market and social policies, and financial reform. Over the past 14 years, the country has seen numerous policy initiatives and programme measures to influence a more favourable operating environment for private enterprises and SMEs.

The Government of Poland’s first policy targeting SMEs was adopted in 1995, with the goal of improving the conditions for the functioning of SMEs. Subsequent SME policy guidelines were adopted in 1999 and 2003, providing the impetus for a range of policy initiatives, programs, and measures to address barriers to SME development and growth, specifically in the areas of access to external sources of financing, provision of training and counselling services, and reduction of legislative and regulatory burden for the creation of new enterprises and the growth of existing SMEs. In 2002, the government adopted the European Charter for Small Enterprises and agreed to develop actions consistent with the 10 enterprise policy areas specified in the Charter.

In 2004, Poland joined the European Union, which provided expanded opportunities for Polish enterprises, but at the same time created pressure for small and medium enterprises (SMEs) to become more competitive. This stimulated a further set of structural reforms to better prepare SMEs for the expanded trade environment, including a greater emphasis on quality improvements, technology upgrading, innovation and exporting competence. The most recent framework for SME policies is outlined in the National Reform Programme for 2008-2011, the main strategic document defining the economic programme for Poland, and the National Development Strategy 2007-2015.

Current SME-related policies are heavily oriented towards improving the innovation capacity and competitiveness of SMEs as well as increasing their productivity and share in value-added. One of the Polish government’s key priorities is to bring Polish SMEs in line with European quality standards. Otherwise, their ability to access European and other international markets will be impeded. Funding of SME-related activities is largely by EU Structural Funds, which is to a great extent driving SME programme priorities in the country.

Policies oriented towards the development of SMEs are currently dispersed among the many ministries, agencies and regional authorities, as a horizontal theme. Ministries and agencies implicated in the development and implementation of SME policies include the Ministry of Economy, the Ministry of Regional Development, the Ministry of Education, the Ministry of Science and Higher Education, and the Ministry of Labour and Social Affairs, as well as several agencies, the foremost of which is the Polish Agency for Enterprise Development (PARP), but also the National Bank of Poland, the Economy Bank of Poland (BGK) and several regional institutions, such as the Regional Financial Institutions (RFIs).

**Expertise:** 1) Ministry of Economy (SME area); 2) Polska Agencja Rozwoju Przedsiębiorczości (www.parp.gov.pl); 3) Agencja Rozwoju Przemysłu S.A. (www.arp.com.pl); 4) Polska Akademia Nauk
CZECH REPUBLIC
While at the beginning of the transformation process large state-owned companies dominated in the Czech Republic, they have been gradually replaced by SMEs. Today the SMEs constitute over 99% of all enterprises. The fast growth of SMEs was a characteristic aspect of the economic transformation.

Act No. 299/1998 Coll. on the state support of SMEs laid the foundations for the support of SMEs. The Act defined SMEs as enterprises with a maximum of 500 employees, based and conducting business in the territory of the Czech Republic. At the same time it excluded agriculture and forestry. The support was targeted on capital consolidation of firms, capacity building, consultancy, data acquisition, applied research, technological development, creation of new job opportunities, etc. The support was provided by the Ministry of Industry and Trade (and its predecessors), the Ministry of Finance and since 1997 by the Ministry for Regional Development as well. In 1992 the Ministry of Health also participated in these programmes.

The support of SMEs includes programmes aimed at various goals. The Government of the Czech Republic approves specific support programmes for each year. The programmes define the scope and purpose of the support, range of recipients, type and amount of the support and eligibility criteria. The decision on the provision of the support rests primarily with the Czech-Moravian Guarantee and Development Bank. The programmes are aimed at easier and faster realization of business goals of SMEs, economic stabilisation of this group of entrepreneurs (START, DEVELOPMENT, CREDIT), higher employment rate of socially disadvantaged people (SPECIAL), business development in urban conservation areas (REGENERATION), and development of economically depressed regions (REGIOM). The assistance to SMEs is financed mainly from the state budget. The total amount of the financial resources allocated between 1992 and 1997 was almost 8 billion Czech Crowns. The assistance included mainly contributions for paying interest on bank loans, job creation subsidies and guarantees on bank loans.

**Best practice:** START Programme

The START programme was one among the programmes launched each year by the Ministry of Economy of the Czech Republic to support small and medium-sized enterprises.

The programme was aimed at creating favourable conditions for the establishment and development of small and medium-sized enterprises (SMEs), at helping them implement their business plans and contribute to a faster economic stabilisation of the business sector.

**Expertise:** Ministry of Industry and Trade

SLOVAKIA
At the formation of the independent Slovak Republic (January 1993), the Slovak industrial sector was characterised by: 1) High concentration of economic activities in large state-owned enterprises; 2) Industrial production based in heavy industries with high consumption of energy and raw materials; 3) Low level of finalization of production; 4) Low involvement in foreign trade; and 5) Conversion of armaments industry.

The development of the Slovak enterprise sector as of 1993 took place in a context of reforms in the business environment (banking sector reforms, labor market reforms, tax and public finance reforms, bankrupcy reforms and streamlining procedures in registration of business). Main obstacles that were hampering this development were: Weak enforcement of law (insufficient quality and lack of stability of legislation, long duration of resolving disputes); significant administrative burdens; high financial
burdens for employers (social security payments); a non-functioning capital market and lack of skilled labour force in some sectors.

At the end of 2007, there were about 100 thousand SMEs (between 1 and 249 employees) registered in Slovakia, plus 375 thousand small trade sector licenses.

The National Agency for Development of Small and Medium Enterprises (NADSME) was founded in 1993 by a common initiative of the EU and the government of the Slovak Republic. The agency supports development and growth of small and medium-sized enterprises (SMEs) in the Slovak Republic with the aim to improve the competitiveness of the sector within the single EU market and the markets of third countries by means of 4 main priorities:

- stimulation of the sector growth,
- increase of its competitiveness,
- internationalization – penetration into new markets,
- the facilitation of the access of SMEs to funding sources.

In 1997 the agency changed its legal form into a non-profit professional association of legal entities whose main members are the Ministry of Economy of the Slovak Republic, the Slovak Association of Entrepreneurs and the Slovak Association of Crafts.

NADSME’s mandate and activities cover: 1) identification and analysis of barriers to business development and preparation of proposals for their elimination, including drafts of legal regulations (to be processed through the Ministry of Economy); 2) elaboration of proposals for the formulation of state policies and strategies that are important for SMEs; 3) tasks connected with expert realization of projects and programmes aimed at the support of SMEs in Slovakia (as of May 2004, it takes part in the implementation of projects financed from structural funds within the Sector Operational Programme - Industry and Services - SOP IS); 4) in cooperation with financial institutions it participates in the set up of loan and guarantee systems for the establishment, stimulation and development of SMEs; 5) supports the development of SMEs by means of support programmes and financial contributions (repayable and non-repayable) which are provided to entrepreneurs; 6) secures the execution of support programmes for SMEs in individual regions of Slovakia via the cooperation with regional organizations aimed at the support of SMEs, 7) secures the building of the infrastructure for business development (incubators) with the aim to support starting entrepreneurs and innovative technologies, 8) secures the connection with existing European information networks and databanks in business area; 9) initiates and encourages the development of activities of citizens in the sphere of SMEs by means of promoting programmes for the public, release of information literature, organizing conferences, seminars and exhibitions.

Best practices: 1) Training and counseling programme for selected groups interested in business; 2) Support scheme of counseling and training of SMEs; 3) Fund of Funds s.r.o (a company managing 6 funds of venture capital); 4) Micro-loan programme; 5) Businesswoman of Slovakia

Expertise: Institutional: National Agency for Development of Small and Medium Enterprises Academic: The University of Economics in Bratislava (UEB) - Faculty of business management.

HUNGARY

Best practice:
Microcredit Programme
The Microcredit programme was launched in 1992, based on the sources of the pre-accession instrument of the EU (Phare programme). The implementation was carried out by the Hungarian Foundation for Enterprise Promotion. The first disbursements started in 1993. Within the programme consultancy was also insured for enterprises regarding the microcredit. During the following years several changes were introduced in the system, which is steadily operational (http://www.mva.hu/tevekenysegunk/mh/index.php)
**Guarantee**

The Garantiqa Co., established in 1992, has remarkable track record in providing guarantees first of all for loans, but during the years also for bank guarantee, lease and factoring transaction, involvement of venture capital and for European Union tenders (http://www.garantiqa.hu/en/introduction)

**Act on SMEs**

In 2000 January the Act XCV on SMEs and the support of their development of 1999 entered into force, which determined the SME definition, created the SME budget appropriation, defined the governmental tasks and the Enterprise Development Council as an instrument of conciliation in SME development.

The Act XXXIV on SMEs and support of their development of 2004 replaced the former act from 1 May 2004. This Act adapted the SME definition to the EU definition.

**Grant Programmes**

The SME budget appropriation was created by the Act on SMEs. As of 2001 the national budget appropriations (SME budget appropriation and some others) for enterprise development aims were significantly increased. The main form of using these sources was providing grants for developing business infrastructure, support for technological development, increasing employment. After the EU accession the sources and significances of these appropriations were decreased.

However after the EU accession the EU resources mainly the Structural Funds significantly take over the leading role of the sources available for SME development. A new institutional system was set-up and new proceedings were introduced to manage the new programmes. In 2004-06 economic development was oriented towards technological modernization, innovation activity, networking, electronic infrastructure and content through grants.

**Financial Instruments**

As of 2007 beside the grant schemes (R&D and innovation activity, business environment, complex development), financial instruments (JEREMIE) got an increasing role in SME development (http://www.nfu.hu/?lang=en)

In Hungary the introduced Financial Instruments (Jeremie) are as follows: New Hungary Microcredit, SME Credit, New Hungary Working Capital Credit, New Hungary Portfolio Guarantee, New Hungary Venture Capital Programme (http://www.mvzrt.hu/content.php?id=0)

**Credit possibilities**

Several state supported credit possibilities were introduced for SMEs, during the years. The Hungarian Development Bank Co. has a leading role in this field (https://www.mfb.hu/en)

**Széchenyi Card**

The Széchenyi Card programme is operational from 2002 by KA-VOSZ Co. The card offers unrestricted-use credit on state supported preferential terms for SMEs with a minimum business history of one year to manage liquidity risks. The credit limit is between HUF 500 000 - 25 million (http://www.szkartya.hu/index.php?id=1&cid=1228)

**SME Strategy**

The SME strategy 2007-13 sets the aims in the areas of developing the business environment, entrepreneurial infrastructure, entrepreneurial knowledge, access to finance (http://nfgm.gov.hu/data/cms1553600/SMEs_Strategy_2007_2013.pdf)

**Annual Reports**

From 1996 an annual report series summarizes the statistical data, main changes in business environment, results of programmes, organizations promoting SMEs' development. For further information please see our Annual Reports on State of Small and Medium Sized Business in Hungary (http://nfgm.gov.hu/en/our_tasks/sme/sme_policy)
**Expertise:** Ministry for National development and Economy / Department for Enterprise Development.

**SLOVENIA**

In the late 1990s Slovenia experienced fast growth of entrepreneurship and competitiveness as other developed countries. However, development has not been a steady one. It may be well characterised as cyclical. Given the favourable conditions for enterprises creation in the early years of transition, the number of small companies increased significantly since 1990.

The same increase in number was also noted in the field of commercial companies and businesses established by natural persons (self-employed, independent entrepreneurs and, before 1994, in craft industries, additional activities carried out at home, cottage industry, applied art, seasonal craft...).

The size distribution of Slovene enterprises changed after 1990. The Law on Commercial companies adopted in 1988 enabled private property in companies and thus stimulated rapid growth of private sector in Slovenia. Due to liberal policy related to creation and registration of new companies the number of registered companies dramatically increased. However, only 60% of recorded units were active while 40 % were "dormant" or "dead".

The Law of Ownership Transformation (OTA), the central element in the complex legislation on privatisation, enabled transformation of large economic systems into smaller companies emerging from sound economic base of large companies. Such structure provided high competitiveness of Slovene enterprises in comparison with their counterparts in other east European countries. However, management structures of these sound companies were much more engaged in providing equity shares than in company’s development and investments.

**References**

Law on Commercial companies - Zakon o podjetjih (Ur.l.SFRJ, št. 77-1021/1988)
The Law of Ownership Transformation - Zakon o lastninskem preoblikovanju podjetij (Ur.l. RS, št. 55/1992)

Small business in Slovenia, Maja Tomanič Vidovič, Ministry of Small Business and Tourism, 2000
13. TRADE DEVELOPMENT AND REGIONAL INTEGRATION

For the countries of Central and Eastern Europe (including the Baltic states) that abandoned the economic area led by the Soviet Union in the late 1980s, radical and profound changes in their trade patterns (partners and commodities) were an essential part of their transition to a market economy and their integration into the wider world economy and international trade.

Other than liberalisation of foreign trade (with the abolition of the previously existing state monopoly and its instruments), this change involved for many countries a complete shift from trade totally or to a great extent circumscribed to countries belonging to the so-called CMEA/COMECON and based on a fundamental division between countries producing raw materials and countries producing manufactured goods, to a trade pattern mostly oriented towards the West and subject to free international competition.

Some of these countries, even for political as well as economic reasons, took from the outset a quite radical approach involving unilateral disarmament and dismantlement of protectionist barriers; while others took a more gradualist approach, trying to preserve the domestic markets (for instance, in agricultural products) from the open and free entrance of imported products.

A second step was the negotiation of a number of bilateral and multilateral trade agreements, these latter ones frequently aimed at the creation of regional free trade areas (Baltic States, Central Europe). Free trade agreements with the European Union were signed and came into force also at an early stage, involving trade with all the EU member states (12 in 1990 and 15 since 1995). Through these agreements, not only EC products had access to the group of transition countries in Europe, but also their products started to have free access to the EU market.

Next step was for some of the countries (others had been members since its foundation) the process of negotiations and domestic reforms needed for joining the WTO, which required a comprehensive overhaul of their internal legislation in many areas, including customs tariffs, provision of services, intellectual property rights, etc. These reforms and negotiations took several years; and were immediately followed – or even overlapped in time – with reforms related to the alignment with the EU’s common acquis on foreign trade and institutional and technical preparations for its full implementation after accession.

LATVIA

In the first years of transition, Latvia’s foreign trade basically reflected – both in trade partners as well as in commodity groups – the former ties. However, by 1994 export was somewhat more diversified and this trend continued in the following years. The share of trade with EU countries, which was already 40% in 1994, reached almost 60% in 1999. As for Russia and other CIS countries, while the share was 36% in 1994, there was a sharp decrease as a result of the Russian crisis in 1998. The foreign trade balance of Latvia turned negative in 1994, when imports exceeded exports for the first time, and the balance remained negative during the entire period of economic transition.

Due to the very liberal policies adopted unilaterally in the beginning of the transition concerning import and export of goods and services (with only some exceptions for agricultural products) and the almost total dismantlement of the import tariffs and duties, the main challenge Latvia had to face during its transition concerning its trade (exports), in particular to the EU, was about compliance with technical requirements and standards.

ESTONIA

After the initial and unilateral reforms, Estonia entered discussions and negotiations on bilateral and regional agreements. This second phase in Estonia’s trade policy post-independence started in April 1994 when the Baltic Free Trade Agreement came into force (which, initially portrayed as a common market for the Baltic countries, fell short of its ambitions because many products were exempted from the zero-tariff and most agricultural products were not covered until a further agreement was signed in 1996). From the mid 1990s, Estonia concluded a number of bilateral Trade Agreements with EFTA countries, Visegrad countries, Ukraine, Turkey and others (a total of 25 agreements). But the most important steps were the signature of a Free Trade Agreement and a subsequent Association
Agreement with the EU and the accession to the WTO (which was in fact a pre-requisite for accession to the EU and its internal market).

Accession to WTO required 4 years of negotiations and internal preparations and reforms, (1995-1999) since Estonia had to change its regulations to conform with WTO obligations (binding tariffs, change in turnover tax, etc.). This was the first time in which WTO was confronted with accession of a country with a more liberal trade policy than the one resulting from WTO global agreements.

Adoption of the EU *acquis* on foreign trade was also a challenge for Estonia, for it had not only to introduce EU common tariffs (several thousand) and repeal/renounce previous bilateral agreements, but more importantly, the country had to build all the bureaucratic machinery required to run an EU-style trade policy (internal and external), in all areas of the internal market.

**Best practice:** 1) Role of the Ministry of Foreign Affairs as the coordinator of negotiations for the conclusion of free trade agreements and in the process of WTO accession and in particular, experience of the negotiating team; 2) Roundtables between representatives of different sectors (public authorities and business) for exchange of information and discussion on the implications and advantages of EU common trade policy replacing bilateral agreements.

**Expertise:** 
*Institutional:* Ministry of Foreign Affairs (External Trade Division); Ministry of Economic Affairs and Communication; Ministry of Agriculture; *Academic:* University of Tartu (Faculty of Economics and Business Administration)

**LITHUANIA**

A Coordinative Working Group for Changing Customs Duty Tariffs was formed under the Ministry of Economics on 10 March 1994. The Working Group consisted of representatives from different ministries and other public authorities. The task of the Working Group was to consider the import and export regulation procedure and changing of customs duty tariff rates, so as to meet the requirements and standards required for accession to the WTO and later to customs duty tariff rates applied to the EU trade with third countries.

Changes in customs tariffs on export/import of Lithuanian goods to/from the EU took place before accession to the EU, whereas, following the Europe Agreement establishing an association between the European Communities and its Member States on the one hand and the Republic of Lithuania on the other hand, a one-sided reduction of the EU customs tariffs on goods of Lithuanian origin was started as of 1995, and before 2001, all duties on the non-agricultural products were also eliminated by the Lithuanian side.

On 31 May 2001, Lithuania acceded to the WTO and became its 141st member. The status of a Member in this organisation not only led to international recognition but also brought real benefits: larger foreign investment flow, new markets for national exporters and their increased reliability in markets of the WTO member states. Upon accession to the WTO, Lithuania also obtained the right to defend its commercial interests both through involvement in the process of further liberalisation of global trade and negotiations regarding more favourable trade conditions with acceding countries to the WTO.

In pursuance with the national legislation drafted in line with relevant WTO/GATT agreement provisions, Lithuania applied trade defence instruments (antidumping and safeguard measures) before its EU membership. Upon the accession to the EU, the referred national legislation is not longer in force because these issues are regulated by Regulations of the European Council that are directly applied to all EU Member States. Trade defence instruments applied on imports of certain goods from third countries (cement, burnt lime, baking powder) were lifted.

It is noteworthy that membership in the WTO has contributed to successful accession to the EU in view of the fact that WTO membership is one of the most important aspects of the EU *acquis* in the area of external relations.
The WTO remains a significant international forum to Lithuania in pursuing its strategic economic goals: increase of export volume of Lithuanian goods and services to markets of third countries, facilitation of conditions for trade with neighbouring countries and foreign investment attraction. Besides, WTO membership provides possibilities for participation in the processes of bilateral and multilateral negotiations, development of rules regulating international trade and the dispute settlement system.

**Best practice:** Assessments and analyses related to the changes required in trade/customs areas for joining WTO and EU and their impact in national economic sectors.

**Expertise:** Ministry of Economy of the Republic of Lithuania (Foreign Trade Division of the Trade Department)

### POLAND

Poland was a member of GATT since the 1960’s and was one of the founding members of WTO. Therefore Poland participated in the negotiation and elaboration of all international agreements produced in this context and, although in some cases their implementation in the country raised some problems of legal adaptation, Poland had the necessary capacity and resources to do it.

In pre-transition Poland, international trade was monopolised by a certain number of specialised state-owned organisations (around 50), which had excellent technical and financial resources. These organisations were closely linked to the “nomenklatura”; and their privatization was not undertaken at an early moment, but at a later stage. Limited demonopolisation of foreign trade had already been introduced in the 1980s and, before the start-up of the transition reforms, there was in Poland an important volume of small-scale international trade which, although not legal, was tolerated.

At the beginning of the transition (late 1989 and 1990) trade was demonopolized and liberalized (elimination of import quotas and of most export quotas, decrease in tariffs). Despite these significant steps the relative level of tariffs was still rather high in the first half of 1990. Abolition of some export quotas and export taxes, especially in the raw materials and energy industry as well as the removal of most of export barriers came in the third quarter of 1990. Most tariffs became either totally suspended or radically decreased. From the end of 1990 a strong political pressure to return to trade protectionism rose first from the agricultural lobby, later also from the industrial lobby. In Spring 1991, several custom rates for agriculture products were increased. From August 1, 1991 all custom tariffs were doubled. After the Association Agreement with EEC was signed by Polish government in December 1991 (followed by free-trade agreement with EFTA and creation of CEFTA) import tariff policy became more stable.

Later, the agreements on the creation of the free trade area with the European Union countries were signed. Even before Poland’ accession to the EU, the country had become closely integrated with the countries of the region by the establishment of economic relations, which had a direct impact on economic development of Poland, particularly due to the increased trade in goods and resources with the EU countries. In addition, regional integration enabled the stimulation of investment and integration with the global trade system.

In 2004, Poland joined the European Union and its internal market, which contributed to the elimination of the remaining barriers to trade with the EU Member States and to the liberalization of the movement of factors of production. Poland’s accession to the EU in May 2004 also resulted in a significant change in the trade policy of our country since, according to Article 133 of the Treaty establishing the European Community, the EU Common Commercial Policy is based on uniform principles and belongs to the powers of the Community.

**Best practice:** *Internet Economic Information System (INSIGOS)*

INSIGOS is an internal information system developed in Poland following the model of the EC’s Market Access Database, which, operating on the basis of standard Internet browsers, provides free-of-charge access from Internet to statistical data on the Polish economy and foreign trade. The data
presented by INSIGOS system come from the Economic Information Database which has been functioning in the Ministry of Economy for over 10 years.

Its objective is to provide the users with access to statistical and economic information for analytical purposes. The data in the database are obtained from the Central Statistical Office, the Ministry of Finance and from own research of the Social and Economic Information Centre (CISG). The Insigos system is mainly addressed to entrepreneurs, students, analysts and to people who use multiannual statistical data, both detailed and aggregated, in their work.

CZECH REPUBLIC
In the Czech Republic, the crucial elements of the export promotion mechanism are export promotion agencies and institutions (CzechTrade and CzechInvest, Czech Export Bank, Export Guarantee and Insurance Corporation), the Czech Trade and Investment Council (advisory body of the Minister of Industry and Trade), and the Czech business web portal BusinessInfo.cz.

**Best practice:** BusinessInfo.cz

BusinessInfo.cz is a project of the Ministry of Industry and Trade inspired by the portals Strategis.gov.ca (Canada) and Citizen.gov.sg (Singapore). Launched in 2001, BusinessInfo.cz is an official government website serving as one-stop shop for businessmen and exporters. It brings together business and export information from different administrative authorities, agencies, business associations and chambers, and provides access to support services. Great attention is paid to the relevance, timeliness and accuracy of the data. The website is administered by the CzechTrade agency in cooperation with many partner institutions.

BusinessInfo.cz is one of the best-known business websites (in 2008 the average number of visitors was 250,000 per month). The most visited sections are the sections on taxes, legislation and a section offering advice on business conditions, export opportunities and economic situation in different parts of the world. The portal was included in the 2008 good practice selection under the European Charter for Small Enterprises ("The portal is successfully overcoming institutional fragmentation. It is a very good channel of communication from state administration to business. User comments are positive.").

**Expertise:** Ministry of Industry and Trade of the Czech Republic (http://www.mpo.cz/default_en.html); CzechTrade (http://www.czechtrade.cz)

HUNGARY
Hungary became a Contracting Party to the GATT in 1973 (and is a founding member of the WTO).

Prior to the systemic change in 1990, the Hungarian trade regime was of a dual nature. Trade relations with market economies were conducted in convertible currencies, based on GATT rules. At the same time, trade with socialist countries in the framework of the CMEA (Council for Mutual Economic Assistance) was exempt from GATT regulations and operated subject to intergovernmental arrangements regarding the quantities and prices of exports and imports.

Trade reforms undertaken in the 1980s included the adoption of a modern company law, regulations allowing FDI, substantial reductions of customs tariffs, and the elimination of the state monopoly of foreign trade. While these measures had no or little effect on CMEA trade, they put in place a framework ready for general use by the time of the changeover to a market economy. The dissolution of the CMEA and its specific trade conditions in 1991 led to a substantial change in trade patterns. Affected by a massive privatisation process and strict bankruptcy provisions, companies that earlier accounted for over 30 per cent of Hungarian trade suddenly disappeared from the market, and the share of former CMEA partners in total trade decreased by half. It was largely due to the previous gradual legal and institutional reforms, that economic operators were able to adapt relatively quickly to the new market economy conditions.

The EU-Hungary Association Agreement of 1994 provided not only for the creation of a free-trade area, but also the approximation of Hungarian practices and regulations to EU norms. In the field of
basic trade regulations this requirement posed no difficulty. Adaptation, however, in the field of technical standards necessitated a longer period and a carefully organised process. Over 19,000 Hungarian standards needed to be reviewed and adjusted or eliminated. Laws on competition, government procurement, state aid has also been changed in particular with a view to the goal of EU accession.

In the framework of the Uruguay Round agreements Hungary has undertaken further substantial tariff reductions bringing down the average tariff rate from 9.6 to 6.9 per cent. In agriculture, the formerly used extensive import licensing procedures were abolished and replaced with tariff only protection. It is worth mentioning, that the WTO liberalisation commitments generated some initial domestic concerns but the developments in trade flows demonstrated that producers could successfully adapt to increased competition. Similar concerns popped up also around the EC-Hungary free trade agreement. In particular, agricultural producers were worried about a potential flood of imports from EU countries. In reality, Hungary has managed to keep continuously the substantial surplus in agricultural trade vis-a-vis the EU countries. On another note, WTO partners seemed to be concerned that regional integration may lead to trade diversion. Again, these fears proved to be unfounded. While import duties for EU countries were gradually eliminated, the share of MFN suppliers grew in total Hungarian imports.

**Expertise:** Ministry of National Development and Economy / Trade Policy Department

**SLOVENIA**

As an independent state (from 1991), Slovenia continued the process of foreign trade liberalisation that had already begun in SFR Yugoslavia. The need to redirect sales to foreign markets (to replace lost markets in Yugoslavia and other CMEA/COMECON countries) and to open up the domestic market to foreign competition, especially through integration in the rest of Europe as well as in the world economy, accounts for Slovenia’s determination to continue the process of foreign trade liberalisation and to participate in various multilateral, regional and bilateral trade initiatives.

Concerning foreign trade, Slovenia adopted a radical approach that was in stark contrast to the gradual approach adopted in many other aspects of transition. Nevertheless, the slow pace of privatisation and a reluctance to open up to foreign direct investment before the 1999’s acceleration in structural reforms probably contributed to a foreign trade performance that was less impressive than those of many other CEE economies (especially Hungary).

Throughout the first period of foreign trade liberalisation, the previous Tariff Schedule Act remained in force (although with amendments involving a substantial reduction in tariff protection, with the exception of consumer goods).

Multilateral trade was the next step, with Slovenia’s accession to GATT and WTO. Upon accession to this latter organisation, Slovenia made some quite substantial commitments. After that, Slovenia opted for bilateral liberalisation of its foreign trade policy, driven almost exclusively by the goal of joining the European Union.

The first step in this direction was to sign a Europe Agreement (EA), which was similar to those signed between the EU and the Central European countries, on December 1991. Negotiations on the EA were lengthy. The EU objected to Slovenia’s real estate legislation banning foreigners from owning property. Pending ratification of the EA, its interim trade component went into effect in January 1992, replacing the Cooperation Agreement signed with SFR Yugoslavia in 1980.

A series of bilateral Free Trade Agreements (FTA) that Slovenia signed with other “enlargement” countries (EFTA, CEFTA and Baltic States) and with the successors countries of SFR Yugoslavia somewhat weakened the potential for trade diversion inherent in the trade component of the EA or, for that matter, in any FTA. Slovenia did not choose its FTA partners in random. Their choice reflected both the country’s determination to participate in the EU enlargement process as well as its own economic interests. The FTA with EFTA countries (soon thereafter complemented by the CEFTA agreement) was viewed as a preparatory stage for full EU membership.
ROMANIA
The basic reform of Romania’s trade regime was in place by the beginning of 1990s, respectively: the end of the State’s monopoly on trade and the use of the customs tariff as the main instrument of commercial policy. During 1997-98, Romania intensified the process by implementing temporary tariff exemptions subject to quotas. Finally, all remaining quantitative restrictions on exports were eliminated, replaced with automatic licensing for statistical purposes. No antidumping, countervailing or safeguard measures have been taken under the WTO Agreements. The “road” to an open and free market was ruled by specific trade regulations, according to the international obligations taken by Romania.

The economic evolution of Romania in the period 2000-2006 was under the influence of the accession to the European Union, a process which was accomplished on 1 January 2007. For this purpose, many trade measures have been adopted in order to fully implement the EU related legislation.

All these activities were carried out in the context of fulfilling the general criteria of accession, which are based on the conclusion of the European Council from Copenhagen (1993) and as a consequence of the criteria from the nominal convergence programs settled under the Maastricht Treaty.

All the those mentioned above, as a broad, were put in place by MSMECBE’s experts, their tasks being to:
• Elaborate the framework of the external trade policy of Romania, on the base of national economy development in concordance with European Union legislation;
• Promote trade in relations with third countries;
• Improve and adapting the external trade policy to the European standards through internal and external measures;
• Modernize the national commercial policies;
• Implement the European Union recommendations of towards improvement of internal trade.

MALTA
On 17 November 1964 Malta signed the multilateral GATT agreement which has governed international trade in goods since 1947. Malta has been a member of the WTO since its establishment on the 1st January 2005.

Trade relationships between the then EEC and Malta date back to 1967 when Malta informed the EEC that it wished to establish formal relations. In 1970 Malta and the EU signed an Association Agreement which came into force in April 1971. Under this Agreement and EU-Malta Association Council was set up consisting of representatives from the highest political level on both sides.

Further more a Joint Parliamentary Committee was established to discuss matters of mutual interest. The main focus of the Agreement was to gradually remove barriers to trade and secure unhindered access to each other’s markets. Closer trade relations resulted, with 43.9% of Malta’s exports being directed to the EU (excluding re-exports) and total imports from the EU being 67.35% (NSO figures for 2002).

During the period ranging from 1970 to the year of accession to the EU, Malta has gained significantly from technical and financial assistance, in the form of the Financial Protocol, which entered into force in November 1978. Specific sectors in Malta gained from the financial contributions made in these protocols.

Malta as a member of the 12 Mediterranean countries was involved in the Euromed Process with the EU. At the Euro-Mediterranean Conference held in Barcelona on 27 and 28 November in 1995, the Barcelona Declaration was adopted. The Euro-Mediterranean Partnership is intended to establish a free trade area, including free movement of goods, services and capital by 2010.
On 16 July 1990 Malta formally applied to join the EC which was subsequently followed by a favourable opinion by the European Commission in June 1993. Malta closed all the chapters and concluded the negotiations with the EC during the Copenhagen Summit in December 2002. On the 1st May 2004 Malta acceded to the European Community.

**Best practices**

Part of the process for Malta to accede to the European Community involved the gradual removal of import levies. Accession to the EU also meant that Malta had to terminate a number of bilateral trade agreements it had with other countries and adopt the EU's Common Commercial Policy.

**Expertise:** Ministry of Finance, Economy and Investment
14. REFORM OF PUBLIC FINANCES

Transition from a centrally planned to a market economy also involved a comprehensive fiscal reform supported by the reform of tax policy and fiscal administration, as well as the reform of the budgetary structure and process.

The first was needed to avoid the rapid decline in revenues observed in many transition economies and required mutually supporting tax policy measures, including implementation of an effective system of taxes and tax rates, limitation or elimination of tax exemptions and implementation of an efficient and market-oriented tax collection system.

The second involved establishing the institutions needed for fiscal management in a market economy, such as a centralised treasury system, an effective state revenue service, a modern customs administration and new mechanisms and instruments for the management of public debt.

The third required design and implementation of predictable budget procedures and a clear legal framework based on the Constitution and the Budget Law; as well as a substantial revision of the expenditure side of the budget in a framework of hard budget constraints. In this revision, both the overall size and the composition of expenditure – current expenditure and investment – had to be improved.

Although all transition countries in Central and Eastern Europe had to tackle all these issues, and even if the basic instruments and mechanisms to be put in place were to some extent common – the standard ones in more developed market economies – there were substantial differences in the pace of reforms, the priorities and the policy options chosen in different countries at the various stages of the transition process.

In general, reduction of public expenditure and the setting up of a new tax system was the first priority. This was followed by the development of the tax administration and the efforts to consolidate the multiplicity of budgets and extra-budgetary funds that existed in the command economy. And only at a later stage these countries started to deal with the introduction of single treasury system and the upgrading and modernisation of the budget process and structure.

SLOVAKIA

A public finance management (PFM) reform programme was launched in 2003 to support fiscal consolidation in Slovakia. Reform changes in public finance management in Slovakia focused on the creation a compatible modern public finance management based on “best practices” in the EU and OECD countries.

The public finance management reform project followed the implementation of the following key elements:

- Creating a core for macro-analytical and prognostic capacities within the Ministry of Finance of the SR,
- Creating the institutional and manpower capacities to coordinate SR fiscal policy with EU and to fulfil fiscal reporting requirements,
- Implementation and improvement of programme budgeting,
- Implementation and improvement of multi-annual budgeting,
- Strengthening the institutional capacity for budgeting (in the above stated three areas),
- Finalization of staffing and qualification building of the centralized State Treasury System, its full integration into the public finance system and connecting of the so-called State Treasury clients to its system,
- Improving debt and liquidity management by means of a new institutional and operational set-up of competencies.

Expertise: Public Budget Department – Ministry of Finance

HUNGARY

The Ministry of Finance is responsible for supplying information to support decision making and for
co-ordinating issues falling within the government’s scope of authority in relation to public finances. Specific responsibilities include the preparation of the bill on the final accounts of the central government and the central government budget, which is presented to Parliament each year.

The Ministry of Finance must ensure central budget execution, solvency of the central government, central government financing and registration of government debt guarantees, including loans granted and claims of the central government. These tasks are executed through the Treasury and debt and liquidity management tasks are carried out by the Government Debt Management Agency Private Company Limited by Shares (the “ÁKK”).

SLOVENIA
After its independence in 1991, Slovenia swiftly gained experience in reforming public financial management (PFM) system, including significantly improved accountability, transparency and good governance. Public finance reform is recognized as one of the most advanced areas in Slovenia’s economic transition. This is proven by the fiscal consolidation realized during the last two decades, and the ease with which Slovenia was able to meet the Maastricht criteria for its entry into the Euro Area as the first of the new European Union (EU) members in January 2007.

The Public Finance Act adopted in 1999, together with other government legislation, is consistent with the legislative framework at the level of other countries. Macroeconomic reasons dictated the implementation of reforms in public finances and in management of public expenditure. The harmonization of patchy and incomplete legislation was possible only by changing the laws. Because of the legal reasons the complete management of public expenditure had to be organized in one systematic law.

In the process of the preparation of the Public Finance Act the efficient management of public resources has been regarded. Therefore, the objectives of the law were:

- Establishment of a comprehensive and consistent legal system,
- Effective implementation of the macroeconomic policy,
- Multi annual budget planning,
- A higher level of transparency of the budget presentation based on new methodologies, which enables different international comparisons,
- Introduction of the internal control over the budget spending and the increase of the competence and the responsibilities of the heads of direct budget users,
- Obligation to prepare medium and long term projections,
- Creation of the basis for issuing the Decree on the Common Criteria and Procedures for the Preparation of Draft National Budget, which enabled the renewal of the budget preparation process,
- Introduction of a unified treasury system.

The experience learned in Slovenia triggered the establishment of the Center of Excellence in Finance (CEF) in 2001. CEF serves as a platform for capacity building and exchange of knowledge and best practices in the fields of PFM and central banking.

**Expertise / Resources:**
1. Ministry of Finance of the Republic of Slovenia
   Contact: robert.rampre@mf-rs.si

2. The Center of Excellence in Finance (CEF)
   Contact: Andrej Kavar (andrej.kavar@cef-see.org)

The CEF was established by the Government of the Republic of Slovenia on the initiative of the Slovenian Ministry of Finance and in close cooperation with ministries of finance of other SEE countries. When the CEF was established in 2001, it was clear that the existing education system -- mainly universities supported by local institutes and a limited number of international training centers -- did not provide sufficient support to the training needs of transition countries in SEE.
Currently the CEF serves eleven member states, namely Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Montenegro, Moldova, Romania, Slovenia and Serbia, as well as other interested countries. In designing its programs and activities the CEF follows reform developments and related needs of its member countries and the latest trends and standards in PFM and central banking.

With its knowledge of the region’s training needs the CEF has become a leading training institution for capacity building in PFM and central banking in SEE. The CEF provides tailor-made programs that aim to be practical and applicable to the professional challenges of civil servants and central bankers across the region. Its program is demand driven and practically oriented, and designed in close cooperation with the participating states with the goal of effectively sharing experiences in solving specific problems in all areas of PFM and central banking.

The above is performed through a set of five groups of activities:

- Short programs that respond to the immediate training needs of the region;
- Permanent programs that include introductory, certification, and specialization programs aiming at achieving sustainable trainings in the areas of special attention;
- Policy and Research Projects that support agenda setting and policy making in member countries by promoting new ideas and encouraging exchange of experience;
- Delivery of fully financed Projects; and
- Technical Assistance that targets specific needs in member countries.

With a wide range of specialized experts and extensive experience the CEF has proved to be a reliable partner in promoting knowledge in all areas of PFM and central banking. Since its establishment, the CEF has organized up to forty events (workshops and policy events) with more than a thousand participants per year and has built a panel of experts (approximately 400) from a wide network of institutions (48 partner institutions). The areas of the CEF’s expertise cover Public Financial Management, including Taxation, Budget, Treasury, Accounting, Auditing and General PFM; Central Banking; and People and Process Management.

The CEF is committed to promote awareness of international standards and best practice in public financial management and central banking by providing specialized training, encouraging knowledge sharing and research, and providing technical assistance. Its program is demand driven and practically oriented. Slovenia can contribute offering the CEF as a platform to organize training, exchange of experience, sharing of best practices and peer learning, and providing technical assistance in capacity building, PFM and central banking.

- **Public expenditure / Budget reform**
  The fiscal issues that are of particular interest to transition economies broadly centre on the role that the government should play in the transition from a planned to a market economy. This involves the size of the public expenditure as share of GDP and the composition of expenditure.

In the countries of Central and Eastern Europe moving from central planning to market economy, a number of additional issues had to be resolved: the consolidation of the state budget, with the abolition of the multiple extra-budgetary funds that were common feature in the communist budget system and their full integration into the state budget (with only a few exceptions, such as the Social Security/Pension system and the Health Care system budgets); the separation of state budget from the budgets of the new local self-governments or other sub-national self-governing administrations; and the progressive alignment of the state budget with macroeconomic forecasts, fiscal policy objectives and the short and medium-term policy priorities of the government, which involved a move from the traditional bottom-up and merely incremental approach in the budget process to a top-down and policy oriented approach.

**LATVIA**

Although not stable during the transition period (an excessive increase in public spending in 1998-1999 was caused by a GDP growth lower than expected, due to the impact of the Russian crisis in the Latvian economy), the size of the government in Latvia measured by public expenditure as a share of
GDP increased substantially between 1992 and 1999 (from 28.9 to 46.6) so as to become higher than in countries with similar income levels (Estonia, Lithuania) and almost as high as in lower income members of the EU. In Latvia, consolidated general government operations cover central and local governments plus national extra-budgetary funds, of which there existed about 20, the most important ones being the Social Security budget and the Special Health Care budget; and in total amounting for 44% of consolidated budget expenditure.

As for reforms in the budget preparation process so as to ensure that this process is used by the government to set up a list of short-term and medium-term economic priorities, outlining the main public sector activities and emphasizing public policy choices, some progress was made during the 1990 decade. However, few priorities were identified at that time. Allocative efficiency made progress as of the preparation in 1999 of a National Development Plan aimed at the identification of core areas and most important projects for financing from national and external resources, including EU pre-structural funds.

**POLAND**

Until 1990 the public finance sector was composed of three principal segments, i.e. the state budget, extra-budgetary funds and extra-budgetary units.

The state budget consisted of the central budget, voivodes’ budgets and local (city or commune) budgets. However, due to the strict administrative dependency of authorities at the voivodship and local level, this division was purely formal.

Extra-budgetary funds were used for the financing of separate tasks. In 1990 there were several dozen of such funds, the most important ones being the Social Security Fund, Farmers’ Social Security Fund and Labour Fund. All funds had their own sources of revenue, i.e. compulsory contributions made to the funds or other payments. In a majority of cases, however, 50 to 100% of fund revenues were supplied as a transfer from state budget.

A major reform of the budgetary system was implemented in 1991. Within the framework of this reform, local budgets, i.e. the budgets of the newly established local self-governments introduced in 1990, were separated from the central budget. Local authorities took over a part of taxes and payments which had so far been flowing into the central budget. At the same time local authorities receive target and general grants from the central budget, for the implementation of certain specific tasks. A majority of extra-budgetary funds were liquidated and their total number was reduced to 13. On the other hand, several new funds have been created since 1990. Extra-budgetary funds of local authorities were also established.

**SLOVENIA**

Before independence, Slovenian public expenditure was fragmented into hundreds of programmes at the local community level and some large social funds at the republican level (60 local communities, each with up to 10 independent budgets organised in the form of “self-management interest associations” for education, social care, science and technological development, infrastructure, etc.; and parallel budgets for these activities for the republic as a whole – more than 600 budgets in total).

Hence, on the public expenditure side, the transition started, upon independence, with the abrupt abolition of fiscal “self-management” and the centralisation of government functions. The public expenditure management programme was centralised and hard budget constraints were imposed for the first time in many decades.

The main feature of Slovenian general government expenditure throughout the transition period has been its similarity to EU average: expenditure fluctuated in a narrow range between 42 and 45% of GDP and its structure remained very much in line with EU averages (wages and salaries 18% GDP, transfers to households and subsidies 21%, debt servicing costs 1.5% and capital expenditure 3.3%).

On the legislative side, articles defining budget and public expenditure management rules were first integrated into the Slovenian Constitution adopted in late 1991. The Standing Orders of the National
Assembly, adopted in 1993, comprise many detailed procedural rules, including the need for the Parliament to adopt every year, alongside the state budget, an annual budget implementation law. These laws were used until the adoption of a new organic budget law in 1999 (the Public Finance Act), which came into effect in January 2000. This Law included many of the rules and propositions that remained unchanged in the previous annual budget implementation laws, as well as a number of additional rules. In March 1999, the Parliament also adopted a Law on Accounting for the Public Sector.

Out of the state budget, the most important part is the Central Government budget which, excluding transfers to pension and health insurance funds, amounts on average to about 21% of GDP. The budgets for the Pension and Health Insurance Funds (somewhat smaller than the central government budget) are submitted to the National Assembly at the same time as the draft state budget but are voted on separately.

In addition to these two main extra-budgetary funds, there were (at the time of EU accession) a large number of extra-budgetary operations with various legal statuses; some of them of a transitional nature, whereas others permanent (for instance, the state highway company-DARS). EU pre-accession funds were channelled through the National Fund at the Ministry of Finance and fully integrated into the state budget.

The state budget was structured mainly according to spending units, with expenditure in each unit subdivided into economic categories, in turn further subdivided. In total, about 9000 budget lines.

The state budget for 2000 was prepared on the basis of a two-year framework. However, the Public Finance Act prescribes that the budget proposal shall include a three-year financial perspective and that, in April of each year, the Government shall adopt a draft budget memorandum for the next three years, containing the main macroeconomic assumptions (economic forecasting is carried out by the Institute of Macroeconomic Analysis and Development, which works closely in cooperation with the Ministry of Finance), the fiscal policy targets (mainly the government deficit) and the measures planned for achieving them. The budget memorandum also includes the expected allocation of expenditure by policy area and main programme.

On the basis of this memorandum, the Minister of Finance issues a budget circular specifying the priorities, economic indicators, ceilings for spending units, technical provisions and forms to be used. Spending units are invited to submit their detailed budget proposals in June.

Through this legislation introduced in 1999-2000, the budgetary procedure in Slovenia was changed from a bottom-up to a top-down procedure; and its structure was re-arranged by policy areas and main programmes (the latter based on the international functional classification – COFOG – of the OECD)

- Tax system and tax administration reforms
Tax system in the central planned economy was mostly based on taxes paid by the state-owned companies according to the income generated by their activities, with a multiplicity of rates depending on a number of factors. This was supplemented by payroll contributions – basically aimed at financing the pension system – and in some countries, by a personal income tax and a complex system of indirect taxes on consumption.

In the beginning of their transition to market economy, and as an integral part of it, all countries of Central and Eastern Europe adopted new legislation introducing a tax system in line with the systems that are standard in market economies: personal income and corporate tax, property tax, value added tax and excise taxes for certain products (fuels, alcohol, tobacco). However, there were significant differences between countries in what concerns the specific configuration of all these new taxes, and particularly regarding tax rates and exemptions.

As a fundamental part of their economic policy, and also in view of their limited capacities to manage effectively from the outset a complex tax system, some countries placed a great emphasis in adopting
rules and requirements – particularly as regards rates and exemptions – which were as simple as possible. In this respect, some countries opted for setting flat rates for both corporate and personal income.

However, as important as establishing a new and market-oriented tax system was the need to invest resources and efforts in the building up of effective and efficient tax administrations, so that the state could actually obtain the revenue corresponding to the pace of economic growth and respond to the demands for modern public services. The EU assistance provided under the PHARE programme was crucial in this respect.

LATVIA
Latvia moved very quickly to dismantle the uniform legal models inherited from the soviet system and adopted new tax laws that generally reflected market-oriented and internationally accepted practices. These laws, as well as their further changes during the transition period, were designed to be in harmony with the tax system prevailing in the EU.

A new and unified system of corporate and personal income tax was introduced in 1991 (reformed in early 1995 when a unified rate of 25% was introduced). During the transition process, revenues from corporate income tax decreased sharply (from 7.2 GDP in 1993 to 2.4 in 1998), first due to output drop and later on due to greater opportunities for private enterprises to decrease their tax liabilities. On the contrary, the weight of personal income tax in total state revenue increased (from 3.8 GDP in 1993 to 5.8 in 1998).

VAT was introduced in 1992 (with a uniform rate of 18%) and a new set of excise taxes (oil products, luxury goods, alcohol and tobacco) was implemented as of 1996. The share of indirect taxes in state revenue increased steadily (from 11.2 GDP in 1994 to 13.2 in 1999), reflecting the Government policy to shift the tax burden away from production to consumption; as well as the relative simplicity of their administration.

Property and land taxes (merged together in a single real estate tax since 1999) were also put in place, although the revenues from these taxes during the transition period were relatively small (1% GDP). The share of trade taxes (mostly consisting of some import duties aimed at the protection of agriculture) was very low.

Primarily used to finance expenditures related to pensions, unemployment benefits, health insurance and other social payments, payroll tax (which in Latvia was set at 37%) had also an important weight in revenue collection (9.8 % GDP in 1993 and 11.3 in 1998).

From a broader fiscal policy viewpoint, Latvia’s experience shows that the development of an effective and efficient tax administration is almost as important as appropriate tax policy and instruments. Once these policy and instruments are in place, the effort needs to focus in tax administration, as the only way to provide the government with resources without increasing the tax burden and encouraging tax evasion (growth of undergound economy). In Latvia, the strengthening of tax administration was a very important component of fiscal policy since the early years of transition and this was implemented through a number of reforms aimed at tackling the two main problems: tax arrears (some 6% of GDP, mostly related to the energy sector) and tax avoidance (manifested, for instance, in falling corporate income tax in periods of high inflation or customs revenues in an environment of booming imports). During transition, estimates of the Ministry of Finance calculated the size of the informal economy in Latvia around 30% of GDP.

ESTONIA
After the first tax reform in 1991, Estonia had several tax rates on income and corporate profits. The personal income tax was progressive and the top marginal tax rate was 33 percent. Similarly, there were three different tax rates on corporate profits depending on its size. In 1994, the Laar government reformed the system and introduced a 26 percent flat tax rate that applied equally to personal income and corporate profits. This was the flagship tax reform in Estonia’s post-independence history. It simplified the tax code and made it proportional; no progressive taxes existed after this flat tax reform.
The VAT code was a bit different: the number of exemptions were reduced, but it still contained exemptions and was not applied across the board. Therefore it is not entirely correct to speak of an Estonian flat-tax system.

In the new Millennium two additional tax reforms were accomplished. In 2000, Estonia established the principle of only taxing profit that is taken out of companies. In other words, reinvested earnings are not any longer taxed. This provided a considerable push on investment. The second reform was to lower the flat tax rate (common for both personal income and corporate tax) to 24 percent.

Declining tax rates and the growing economy led to a decreasing tax burden. The general government revenue in Estonia declined considerably – from 44 percent of GDP in 1995 to 37.5 percent in 2005. Estonia still has a higher tax burden than the other Baltic countries but it is declining rapidly and is forecasted to be below 35 percent of GDP. The declining tax burden is mainly a consequence of rapid economic growth, creating more revenues, and primarily not a function of cuts in government spending.

LITHUANIA

Best practice: Excise Information System

The State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania is increasing the use of information technologies and seeks close cooperation with competent authorities of EU member states. Significant changes were made in the field of excise administration when the Excise Information System (EIS) was introduced in April 2003. The system ensures better administration of taxes as the standardized procedures can be managed in a more efficient way, while the computerized new functions of tax administration replaced the former manual or partly computerized functions.

Management was also improved by introducing a uniform precise tax accounting system in all County State Tax Inspectorates of all counties. EIS enables efficient exchange of information with EU information systems and risk management in excise administration.

The purpose of the Excise Information System is to ensure control over the registration of excise warehouse keepers, registered traders, agricultural entities and other persons engaged in activities related to excise goods, electronic declaration, the processing and verification of electronic tax returns, the issue of accompanying documents, the accounting of excise duties, guarantees and the use thereof. This system also ensures timely processing of information from/to EU countries. Prompt results of tax declaration, tax (obligation) accounting and audit allow timely tax exaction procedures as well as risk assessment. In 2004, EIS was further developed for aligning it with the revised Lithuanian legal acts and EU requirements. This resulted in better provision of relevant information to all areas of tax administration and facilitated its processing.

Hence, EIS allows excise warehouse keepers issuing accompanying documents of excise goods in time, as well as enable tax administrators, irrespective of their location, to monitor movements of excise goods, collect, manage, analyse and control transportation data, as well as ensure proper discharge of tax obligations.

It is noteworthy that information exchange is very important in the process of excise administration in EU countries in order to ensure control over the movements of excise goods between these countries. EIS ensures timely information about the movements of goods between EU countries and allows carrying out checks during transportation, as prescribed by EU legislation. It is especially important that thereby Lithuania will successfully join the project for developing and implementing the EU Excise Movement Control System (EMCS). EIS was presented to EU experts and excise administrators of the Baltic States and was evaluated as one of the most advanced in Europe. It is a successful start establishing a control system for movements of excise goods between EU member states.

POLAND

Corporate income tax was introduced in Poland by the last pre-democratic government.
A tax on wage increases (*popiwek*) was introduced in 1982 and existed during all period of 1980s, though the detail construction of this instrument and even formal name of tax were changed almost every year.

Creation of a uniform tax policy for all ownership sectors of the economy, removal of a significant number of allowances, exemptions and special benefits from the tax system and reduction of top bracket tax rates for direct taxes were some of the reforms undertaken by the first democratic government elected in 1989 (Mazowiecki government). The second stage of the tax reforms started in the second half of 1991 and included the introduction of a personal income tax from January 1, 1992, a new law on corporate income tax (adopted in March 1992 but working retrospectively from January 1, 1992) and introduction of the value added tax (VAT) from July 5, 1993.

Improvement of the procedures governing the tax collection system (possibility of tax execution from SOEs - March 1990); establishing the fiscal police (Law on Fiscal Control Offices from September 1991, in place since February 1992) were also reforms undertaken at an early stage in the transition process.

The economic recovery and tax reform (especially introduction of VAT) improved the fiscal situation in the end of 1993 and in 1994.

CZECH REPUBLIC
The Czechoslovak tax system prior to 1989 focused on obtaining tax revenues and achieving political goals without too much consideration of its impact on economic efficiency. Corporate taxes, whose rates differed according to sector and type of ownership, where the most important source of budgetary revenues. Corporate tax ranged from 55 to 100 percent. The principal form of indirect tax was a complicated system of sales tax (at the beginning of the 1990s, there were more than 1500 rates of this tax). Companies also paid wage taxes. The population was also taxed with rates not only related to income, but also to age and number of dependent persons.

Between 1990 and 1992, several partial changes of the tax system were implemented, but a comprehensive tax system reform was not introduced till 1993. The structure of the new tax system corresponded to the systems of western market economies: income tax levied on natural persons and legal entities; property taxes; value added tax; and excise tax (imposed on fuels, alcohol and tobacco products). After the reform in 1993, the tax system was simplified, with a smaller number of rates and more neutrality.

The reform included also the strengthening of the tax administration, since tax collection is more difficult in a market economy than in a centrally planned economy, due to the much higher number of economic activities, the decentralisation of such activities and the incentives for private business in such market economy to avoid taxation (more space for tax evasion). However, a change in the population’s way of thinking about taxation is crucial; and it depends very much on the practical demonstration that taxes are no longer imposed to finance non-elected elites, but services provided by the central and local governments.

SLOVENIA
Upon independence, a successful tax reform introduced a personal income tax, which was an important change from the previous situation, as Slovenian residents became “tax payers” overnight and for the first time had to fill out tax returns.

The existing sales tax and customs duties were the other key sources of revenue.

VAT was introduced in 1999.

ROMANIA
In the pre-accession period, Romania has consolidated its existing fiscal laws into a single Fiscal Code, which entered into force as of 1 January 2004, and which provided for further alignment in
various areas. In the area of taxation, a National Agency for Fiscal Administration (NAFA) was set up and became operational in January 2004

**Expertise**

National Agency for Fiscal Administration (NAFA)
DG Fiscal Information (Nicoleta Pirlitescu) – VAT administration
DG Reg. Budgeting Collecting Debts (Violeta Stanescu) – Collection of tax claims

- **Treasury system and public accounts**

**LATVIA**

After Latvia regained independence and the first independent State budget was adopted, the functions of the central government budget financial management and execution, as well as the accounting of the central government budget funds, were assigned to the Bank of Latvia (established on 2 March 1990).

The development of a modern Treasury system started in 1992, when the technical assistance mission of the IMF proposed to form the Treasury as an independent entity. The Ministry of Finance, with technical assistance provided by IMF, prepared the Treasury formation project. Following up from a decision of the Council of Ministers on the Transfer of Treasury Function to the Ministry of Finance, in January 1993 the Latvian State Treasury was established as a Department within the Ministry of Finance “with the status of a legal person”; and in November of the same year the Ministry adopted the first Regulation of the Treasury Department. and arranged a gradual transfer of state budget treasury functions from the Bank of Latvia to ensure accumulation of budget resources for the financing of budget spending, as well as complete accounting of state budget resources. The 1994 Law on Budget and Financial Management consolidated these developments and set the basic legal rules concerning the central government budget execution procedure and the role of the Treasury in central government budget execution.

Since then, a number of further developments have been introduced in the budget execution and accounting procedures (economic classification coding, state budget and social insurance accounting systems and financing plans, central government budget information system, unified Treasury account in the Bank of Latvia, transition to the accrual principle, budget and financial reports, etc.). Since 1996, the Treasury is not any longer a Department, but an institution with the status of a legal person subordinated to the Ministry of Finance. The most updated version of its Rules of Procedure is dated January 2009.

**LITHUANIA**

Lithuania has been implementing a public sector accounting reform since 2005. The main objective was to introduce accrual based accounting. The National Public Sector Standards and other methodological guidance have been prepared/adjusted, envisaged training sessions of accounting experts on implementation of new accounting standards have been completed and the Feasibility Study for creation of unified and/or centralized IT system with conformed accounting software packages has been performed.

Also, as a result of implementation of the Audit Directive (2006/43/EC) public oversight of auditors and audit firms in Lithuania was established. Public oversight function has been performed by the Authority of Audit and Accounting since September 2008.

**Expertise:** Ministry of Finance, Accounting Methodology Department

**HUNGARY**

The Treasury was established on 1 January 1996 as a central budgetary organisation. The legal and professional supervision of the Treasury is performed by the Ministry of Finance. Within its budget execution responsibilities, the Treasury’s main task is the management of budget appropriations and government cash flows and the determination of the daily financing needs of the central government. The management of budget appropriations includes the registration of annual appropriations, the
monitoring of their changes and the right to authorise payments from appropriated amounts.

The cash management duties of the Treasury include account management for the budgetary institutions, who, in accordance with the Act on Public Finances, are authorised to keep their account with the Treasury. The Treasury administers the Single Treasury Account, which is the cash account of the Treasury held at the NBH.

In addition, the Treasury’s responsibilities include the provision of funds for government investments and other investments based on government decisions, the transfer of contributions and subsidies to municipalities, and the management and collection of loans and other claims of the central government.

**SLOVENIA**

Implementation of a modern Treasury system was one of the reforms undertaken in the second half of the 1990s. The introduction of the treasury single account started in June 1999 for treasury bills, and it was extended to all budgetary expenditures in the 2001-2002 period. The treasury ledger and new treasury payments and receipts office (replacing the former Agency for Payments) was part of this reform.

As of January 1999, a new accounting software (MFERAC) was introduced in the Ministry of Finance, allowing for all new liabilities, payables and outgoing and incoming payments to be accounted for and controlled within the accounting department, so that the budget department ceased to be involved in these activities.

In late March 1999 the National Assembly adopted the Public Sector Accounting Act. Under this legislation, the central government, local authorities, social security funds and a range of other public institutions started to use uniform accounting and annual reporting systems and rules. Under this legislation, accounting for budget-financed operations was on a cash-basis. A uniform economic classification of expenditure and revenue complying with IMF’s Government Finance Statistics (GFS) and ESA95 (European Statistical Agency rules) requirements was introduced.

The Government is obliged to draw up a financial statement on the state budget of the previous year and submit it to the Court of Audit not later than March 31; the financial statement and the report of the Court of Audit must be submitted to the national Assembly no later than in June.

- **Public debt management**

In addition to dealing with and resolving the problems of high foreign debt that some countries had to tackle in the beginning of their transition to market economy (in order to regain access to international sources of financing very much needed for the implementation of the necessary reforms), during the transition practically all these countries developed their new public debt instruments and management systems, in accordance with the new conditions.

A number of valuable experiences and practices in this area, including new institutional arrangements and the development of domestic market for Treasury’s market; a common characteristic being the move from passive servicing of the debt to an active and more strategic management.

A range of diverse experiences are also available nowadays in these contries concerning the separation between strategic conception of public debt issues and operational/liquidity management, including examples in which placement of treasury securities in the market has been entrusted to the regular stock exchange.

**LATVIA**

As the amount of investments and the need for central government budget deficit financing increased, central government debt management became very important in the development of the Latvian financial system in the early 1990s. The country had to decrease the financial risks that could affect the central government debt servicing costs, due to exchange rate and interest rate fluctuations.
In the first half of the 1990s and later, the central government budget deficit was largely covered by central government domestic bills and central government domestic bonds, which were issued by the Ministry of Finance (actual borrowing activities were mainly organized by the Treasury). However, since 1992, Latvia has also taken an active part in the international financial market, for during this period the central government budget was limited and a lack of domestic credit resources was observed. That is why significant foreign borrowing occurred, resulting in an increase of the central government foreign debt, and in turn, the total debt of Latvia. Until 1996, management of foreign debt was the responsibility of a specific Department within the Ministry of Finance (Dept. of Foreign Economic Affairs, later re-nominated as dept. of Foreign Debt). As of 2007, all the tasks and responsibilities concerning central Government’s debt (both domestic and foreign) were assumed by the Treasury.

As of 1998, there is a Central Government Debt management Strategy, that is updated annually.

LITHUANIA

In order to secure sound and transparent borrowing of the Government at the best conditions, the auction system of Government securities was renewed. The Government securities’ auctioning process was transferred from the Central Bank of Lithuania to NASDAQ OMX Vilnius stock exchange. Now Litas-denominated Government securities are issued using an electronic system developed by the NASDAQ OMX Vilnius stock exchange.

Characteristics of Government securities were aligned to the market conventions used in the Euro zone. Yields of the Government securities are calculated using the ISMA method. Treasury bills accrue interest on actual/360 basis and bonds accrue interest on actual/actual basis. Bond coupons are paid annually. Litas-denominated Government securities are cleared and settled through the Central Securities Depository of Lithuania. Settlement for T-bills is T+2 and for bonds it is T+3. Euro-denominated Government securities are cleared and settled through Euroclear or (and) Clearstream.

Euro introduction in Lithuania was postponed from January 2007 to at least 2011. However, the initial target of EMU membership was not abandoned by Lithuania. Having in mind a change in currency, access to a single financial market, change in the borrower’s comparative size and role – a new Government borrowing strategy is being prepared. The main challenges are caused by changes in methods and procedures of Government securities issuance and settlement, necessity of redenomination of the existing Government securities (redenomination principles, procedures, issues to be addressed during the conversion), possible changes in cash management (targeted cash balance in commercial banks, operations and money market instruments used, etc.).

**Best practice:** 1) Borrowing and debt management strategy; 2) Introduction of auctions and later transfer of the management of such auctions to Vilnius Stock Exchange

**Expertise:** Ministry of Finance, State Treasury Department, Borrowing and Cash Management Division

POLAND

**Development of the Treasury securities market in Poland**

- Starting point in 1989: only vast amount of foreign non-marketable debt existed at that time, there was no framework for treasury debt securities issuance and trading.
- Since 1989 the development from passive servicing into active management of public debt, at a pace dependent on market development (range of available instruments)
- Establishment and development of domestic market of Treasury securities
  - regular T-bills auctions since 1991
  - regular fixed rate T-bonds auctions since 1994
  - extending the yield curve and range of instruments
  - increasing liquidity of the secondary market
  - retail debt as a supplementary source of financing
- Development of domestic investor base
  - increasing role of stable investors from non-banking sector

150
• increasing participation of stable, long-term investors (especially pension funds and insurance companies)
• key significance of the pension reform in 1999 (open pension funds created)
• diminishing role of domestic banks and gradually increasing share of foreign investors
• primary dealers system established
• Borrowing on international markets - first sovereign bond issued in 1995
• Dramatic changes in debt structure, institutional and market environment, legal framework, organisation, infrastructure, methodology and instruments

Changes in debt structure and risk profile, resulting from the adopted debt management strategy
• Dominant role of domestic market in financing the borrowing needs (increase of domestic debt share from 0 to about ¾)
• Increasing significance of the euro, as a prospective domestic currency, in foreign currency debt (to above 70%)
• Decreasing refinancing risk (average maturity of 4.3) and interest rate risk (duration of 2.9) of domestic debt - thanks to extending the yield curve and extensive use of switching auctions
• Low refinancing risk (average maturity of 8.4) and interest rate risk (duration of 5.4) of foreign debt – thanks to long maturities of new foreign-currency bond issues and early redemption of non-marketable debt)

Public Debt Management Committee
• set up in 1994 to co-ordinate public debt management with monetary policy
• Advisory and opinion-making body but smoothes decision-making due to high rank of its members - co-chaired by the (under)secretary of state in the Ministry of Finance responsible for public debt management and the vice-president of the National Bank of Poland
• Main topics discussed: budgetary situation, issuance strategy, money, credit & balance of payments, market situation, new instruments and operational co-operation
• Areas where the objectives of public debt management and monetary policy can be conflicting:
  • Interest rate level
  • Central bank: high interest rates in order to stem inflation
  • Public debt: high interest rates mean high debt servicing costs
  • Possible solution: to develop the market, extend the yield curve (less dependence on short term rates, long term rates should be lower if disinflation policy is credible
  • Foreign currency financing
  • Public debt: borrowing in foreign currencies can be cheaper, currency risk can be limited if the economy is strong and depreciation not probable
  • Central bank: inflow of foreign currencies interferes with monetary policy (either appreciation pressure or costs of sterilisation)
  • Possible solution: take into the account the cost and risk impact on the public sector as a whole (MoF and CB)

Organisational framework - public debt management is the responsibility of the Ministry of Finance - organisational structure evolves together with market developments and scope for active debt management
• The process – gradual move towards:
  • Active debt management (from passive debt servicing)
  • Integrating all public debt issues in one unit
  • Clear functional structure (Front, Middle and Back Office)
• The structure
  • Division in the Financial Policy Department
  • 1992: Public Debt Department in the Ministry of Finance (financing, domestic debt management)
  • 1998: domestic and foreign merged in one department
  • 2002: foreign debt separated again
  • 2005: full functional integration of public debt management
• Methodology of public debt management – towards advanced risk management
• Implementation of the IT system (completed in 2003)
• Integrated data base: substantial reduction of operational risk
• Customised reports that meet specific needs for debt management
• Monitoring debt cost and risk parameters in real time
• Strengthening of analytical and planning capabilities
• Infrastructure for market operations – derivatives, liquidity management (dealing room infrastructure completed in 2007)
• Development of debt management models
• Introducing elements of a benchmark portfolio

**Best practices**

- **Robust legal framework – macroprudential measures**
  - 60% constitutional limit on public debt-to-GDP ratio
  - ban on financing budget deficit in the central bank
  - Public Finance Act (since 1998)
  - prudential and remedial procedures if public debt-to-GDP ratio exceeds 50, 55 and 60% - aimed at preventing the 60% constitutional limit to be exceeded
  - Minister of Finance obliged to prepare a three-year debt management strategy

- **The Public Finance Sector Debt Management Strategy**
  - formulated each year by the Minister of Finance, submitted to the Council of Ministers for its approval and forwarded to the Parliament together with the justification of a draft Budget Act
  - covers the strategy of State Treasury debt management and the strategy of influencing the debt of the public finance sector
  - addresses the need for longer time horizon in debt management
  - Content:
    - Assessment of implementing the previous Strategy’s objectives
    - Macroeconomic and budgetary assumptions
    - Objectives of the strategy and corresponding tasks for a 3-year horizon
    - Analysis of influencing the debt of the public finance sector
    - Expected effects of implementing the Strategy, including forecasts of debt volume and debt servicing costs, risk profile and potential threats
    - Strategy objective: minimisation of debt servicing costs over a longer time horizon subject to risk limitations
    - Two aspects of the cost minimization objective:
      - Optimal selection of markets, instruments and dates of issuance
      - Improvements in the efficiency of Treasury Securities (TS) market
  - Manageable and quantitative targets (benchmarks) for key risk parameters

- **Transparency of communication with the market**
  - Annual limit on new debt (budget act)
  - Financing plans of borrowing requirement of the budget
  - Annual plan included in the Budget Act
  - calendar of issuance for each year published in December of the previous year
  - quarterly plans of financing published before the beginning of each quarter
  - monthly plans of financing
  - detailed supply at each auction published 2 days before
  - Communication with market participants
  - monthly meetings with Primary Dealers
  - quarterly meetings with non-banking financial institutions
  - consultations with Primary Dealers before the announcement of the supply on the auctions
  - Publicly available information on www.mf.gov.pl

- **Co-ordination of debt management with monetary policy - Public Debt Management Committee, comprising members from the Ministry of Finance and National Bank of Poland**

- **Organisation**
  - Integration of foreign and domestic debt management in one unit necessary.
Clear separation of Front, Middle and Back Office functions
Shift towards more advanced risk management requires relevant infrastructure (IT systems, decision-support models, procedures)

**Expertise**  
Ministry of Finance  
Public Debt Department

**SLOVAKIA**

In the context of international experience and the best international practice, the Ministry of Finance of SR has chosen the concept of separating the strategic-conception management from operative debt and liquidity management. While the strategic-conception management remains in the competence of the Ministry of Finance of SR, the operative management was transferred to the Debt and Liquidity Management Agency (DLMA).

The following are the main tasks of DLMA:

- active management of state debt and liquidity,
- professional debt arrangement and liquidity management, within which it is optimise structure of the state debt according to Government Debt Management Strategy approved by SR Government,
- communication improvement with the market and with investors,
- flexibility arrangement of the operative debt management,
- to ensure transparency of state debt management and uses standard market instruments to manage state debt and liquidity,
- debt harmonization and liquidity management in order to get synergic effects and fine tuning of refinancing.

In cooperation with State Treasury DLMA centralizes and makes more effective cash flows of state and public finances. Concentration of all public finance cash flows to one system brings following advantages:

- to concentrate data of public cash flows in one electronic database system,
- to make public finance cash flows more transparent,
- to improve the efficiency in the usage of public finance,
- to ensure effective management of liquidity,
- to contribute to effective management of the state debt.

**Best practices:**

- Government Debt Management Strategy - framework for state debt management (limits for refinancing and refinancing risk, average maturity, duration etc).
- Issues and auction calendar – transparent purposes.
- Financial planning – payments and plan of payments of public clients.
- Refinancing system.

**Expertise:**  
Debt and Liquidity Management Agency

**HUNGARY**

Traditionally, the National Bank of Hungary (NBH) was the primary entity through which Hungary borrowed amounts in foreign currencies. However, with the creation of the Treasury in 1996, all tasks related to solvency of the central government, financing and registration of government debt guarantees (including loans granted and claims of the central government) are executed through the Treasury. Since 1997 the NBH may only incur foreign currency debt for its own purposes and all foreign currency borrowings and debt security issuances for the central budget must be made directly by the Republic, acting through its Ministry of Finance (Treasury), although the NBH could still act as an agent of the Republic for the purposes of securing foreign loans and securities issued abroad. Since January 1997, the NBH has acted in this agency role on the basis of an agency agreement, which was entered into by the NBH and the Republic as permitted by applicable provisions of the amended National Bank of Hungary Act. As of 1st January 1999, foreign currency debt issuances are arranged by the Government Debt Management Agency (ÁKK), which was initially established within
the Treasury and made responsible for debt and liquidity management tasks. The Minister of Finance established the ÁKK in order to concentrate debt management functions into one organisation.

The NBH remains the legal or named obligor on the outstanding foreign currency debt incurred before 1 January 1999. The majority of the interest rate and exchange rate risks associated with these debts and any related swaps, however, have been effectively transferred to the Republic pursuant to a series of transfer agreements, whereby the Republic has essentially agreed to pay the NBH sufficient funds to cover these obligations. Following this transfer of risk, the Republic entered into a number of swap agreements to match the currency profile of this debt portfolio to that of the currency basket (since January 2000; 100 per cent. Euro) to which the forint was pegged.

Hence, at present all the government’s borrowing needs are financed by ÁKK., which became a Private Company Limited by Shares in 2001. Accordingly, it is the ÁKK that manages, renews and records the forint and foreign exchange debt of the central government.

In foreign debt management, the ÁKK acts in the name of the Republic of Hungary in raising funds, manages the foreign exchange debt of the central government, ensures promptness and accuracy in respect of debt service payments and effects hedging transactions to reduce risks. In the domestic market, responsibilities of the ÁKK include the administration of auctions and subscriptions, the development of the institutional frameworks and the structure of government securities markets. Another important ÁKK function is to provide easily accessible, up-to-date information on the government’s securities markets and on the financing of the Republic’s borrowing needs in the spirit of transparency and openness. Also, pursuant to the amendment of the Public Financing Act from 1 July 2003, ÁKK manages the liquidity of the Single Treasury Account. In the context of liquidity management, from 2004, the ÁKK has introduced new secondary market operations (e.g. repurchase transactions on the domestic securities market).

The Republic’s policy to finance budget deficits is based partly on internal debt, and partly on utilising the international markets. The issuance strategy is determined by a benchmark for the composition of debt portfolio. The weight of internal (domestic currency) debt ranges between 68 per cent. and 75 per cent. in the benchmark portfolio; the weight of external (foreign currency) debt is 32 per cent. to 25 per cent. The average maturity of internal debt was 3.21 years at the end of 2002, and increased to 3.44 years by the end of 2003, 3.46 by the end of 2004, 3.57 years by the end of 2005, 3.64 years by the end of 2006, 4.01 years by the end of 2007 and 3.88 years by the end of 2008.

**Expertise:** Government Debt Management Agency Private Company Limited by Shares 1027 Budapest, Csalogány utca 9-11.

**ROMANIA**

In 2004 the new Law on public debt was passed, aiming to centralize public debt management (solely) to the Ministry of Finance.

Subsequent to the PHARE project “Improvement of the Treasury in Romania” and its recommendations and also the World Bank and the International Monetary Fund recommendations, the need to improve the legal framework related to the public debt management effectiveness was emphasized. In 2007, public debt management was revised, through the Government Emergency Ordinance no. 64/2007 approved by law in 2008. Mainly, it separated the process of managing the government debt, activity that lies exclusively in the Ministry of Public Finance responsibility, from the management of local public debt which is regulated by separate acts and falls within the attributions of the local public administration. Also, it entitles the MoPF:

- to define the objectives of public debt management and the strategic issues and to manage the governmental public debt;
- to obtain governmental borrowings in order to finance the public deficit independently of the evolution of amounts from the general current account of the State treasury. This provides flexibility to the MoPF to realise a uniform financing during the entire year, by having in view
the existent conditions on the internal and external financial markets, considering the minimisation of cost on long term under the condition of restraining the associated risks.

**Best practices**

Within the Emergency Ordinance no. 64/2007, the Ministry of Public Finance was entitled for the first time with the responsibility to develop a medium term strategy (annually reviewable) in this area, in consultation with the National Bank of Romania in order to coordinate the monetary policy with the strategy of public debt management.

Regarding the Strategy on the management of the governmental public debt, this constitutes an important instrument at the MoPF disposal. The MoPF will pursue the achievement of the objectives set in the strategy, regarding mainly to:

- the control of the increase in public debt;
- the decrease of costs concerning the public debt on medium and long term and the decrease of budgetary risk caused by granting of state guarantees and sub-borrowings;
- the control of risks concerning the government public debt portfolio;
- the development of the state bonds market.

**Expertise**

Ministry of Finance – Directorate General of Treasury and Public Debt

- **Customs reform**

In the transition to a market economy, open to the world, integrated into international trade and with this trade fully liberalised, the reform of the customs systems and administrations was one of the most important challenges. Moreover, for some of the transition countries in Central and Eastern Europe, and due to their recently regained independent statehood, these systems had to be built from the scratch. This was the case of the three Baltic States, but also of Slovenia.

If integration into WTO (or otherwise implementation of WTO agreements) was a major effort that required not only legislative adaptations and measures, but also work in the preparation of the customs administrations for an effective implementation of such agreements, accession to the EU and its customs union presented an additional challenge for all these countries and their customs administrations, in order to quickly catch up and develop all the systems and capacities needed for an effective enforcement and implementation of the EU acquis in this area, in conditions that were to be equivalent to those of the other member states.

To this end, countries of central and eastern Europe enjoyed, during their period of preparations for EU accession, massive technical and financial assistance from the EU and its member states; and were able to develop their customs systems and administrations, in all aspects, so as to be able to play their role in the EU’s customs union. These customs administrations in all these countries underwent a learning and change process, guided by the EU’s customs strategy and “blueprints”; thus accumulating an extremely valuable experience that can now be put at the disposal of other countries preparing for WTO accession or engaged in processes of building up or joining regional customs unions.

**LITHUANIA**

In 1991 Lithuanian Customs was faced with the need for radical institutional reforms. Evaluating the progress of Lithuanian Customs in institutional development during 1991-2009, the major input of EU financial assistance programmes (PHARE, Transition Facility) intended for development and strengthening the administrative capacities should be highlighted. EU financial assistance helped to eliminate the gaps on implementing Community legislation and to ensure its enforcement. Eurocustoms played a key role in mobilizing the expertise from EU Member states’ customs administrations, provided the systematic technical assistance in form of knowledge transfer. Eurocustoms worked together with Lithuanian Customs in improving customs procedures, improving fight with drugs methods, strengthening control and anti-fraud capacities and ensuring correct and efficient revenue collection by Lithuanian Customs, etc.
Based on practical experience it is advised to assess (in advance) the projects' sustainability aspects, the financial possibilities and risks following beyond the project (states' investment programmes, EU financial assistance programme, other funds), assess the technological and financial possibilities for purchasing and supervision of relevant equipment (in order to harmonise strategic goals of Customs with IT progress and IT products offered in a market), possibilities to ensure up-to-date trainings for qualified specialists etc. Moreover, the sustainability of the results achieved mainly depends on the stability of trained and re-trained staff, the partnership links with other stakeholders created and maintained, the availability of enough human and especially financial resources, a training sustainability ensured, sharing “good practice” experience with other stakeholders, the maintenance of the new equipment and software developed

**Best practices:**

1) **Risk Evaluation and Control System (RISK):** a computerized system capable of automatically perform a risk analysis of all types of customs traders and goods engaged in the operation of the whole range of Customs regimes by means of an analysis of their transaction data, developed and introduced through a PHARE-funded project on “Implementation of Trader Based Risk Assessment and Control”;
2) **IT-supported customs intelligence and statistical information analysis:** a tool that provides comprehensive and high quality information to decision makers as well as increases the number of revealed customs violations and initiated investigations based exclusively on intelligence and data analysis, also introduced through two projects funded by EC’s Transition Facility;
3) **Integrated Tariff management System (ITMS) and its sub-systems (TCVS, TQS, TSS, LT.SMS and ISPP):** introduced in the Lithuanian Customs administration with the help of two inter-related PHARE projects and ensuring compatibility, interoperability and interconnectivity with DG TAXUD’s tariff-related systems (TARIC);
4) **Upgrading of the methodological and technical capacities and instruments of the Customs Laboratory, particularly in the fields of oil products and agricultural products, particularly through technical cooperation with similar services in other EU countries, under “twinning light” arrangements.**

**Expertise:**

1) Customs Department of the Ministry of Finance (several Divisions and services); 2) Customs laboratory

**SLOVAKIA**

During the process of implementation of acquis communautaire the following was harmonized in the area of customs in the Slovak Republic:

- Community Customs Code – regulation No 2913/92 and its implementing provisions – implemented into new Customs act (with more than 450 articles) and decree – implementing provision to the Customs act,
- Common customs tariff and regulations relating to combined nomenclature – implemented into customs tariff published annually in the form of government regulation,
- Community system of relief from customs duty – regulation No 918/83 and its implementing provision – implemented into new Customs act,
- Protection of intellectual property rights by customs authorities – regulation No 3295/94 and its implementing provision – implemented into new act on protection of intellectual property rights,
- Accession to the number of international agreements and conventions in customs area – e.g. Convention on a common transit procedure, Convention on the simplification of formalities in trade in goods.

**Expertise:** Taxation and Customs Section /Customs Department / Ministry of Finance of the Slovak Republic

**SLOVENIA**

The Customs Administration of the Republic of Slovenia has gained experiences in implementation of acquis communautaire. As Slovenian border to Croatia became external border of the EU our preparations to that change have been very intensive and comprehensive and monitoring from the EU Commission was especially rigorous. During the process that lasted from the nineties until 2004 we had to cooperate with the Commission, adapt our national legislation and provide implementation of the legislation in practice. We also had to provide assistance to the companies (exporters/importers,
forwarding agents and others). Following all mentioned before we have also gained experiences with building appropriate required administrative capacity of our Customs Services.

Worth mentioning is the comprehensive strengthening of customs services and their qualifications within the international supply chain while ensuring smooth trade flow and safety of financial and other key interests of their countries.

**Best practices**
- modernisation of customs procedures and customs administration in accordance with the EU acquis and standards,
- restructuring of customs services and assuming of new tasks,
- IT support of customs and paperless customs environment,
- improving administrative capacity on the basis of EU best practices (EC Customs Blueprints),
- monitoring of development of EC acquis and standards and consequently adaptation of national legislation and practices has required timely, transparent and effective consultation and coordination system between all competent and/or involved national bodies, in order to enable appropriate implementation of the legislative measures; to this end, it is advisable to establish widely accessible electronic system for distribution and legislative processing of official documents (electronic interface for interservices’ consultations); to that extent establishment of (preferably electronic) system for advance public informing is also useful;
- effective and efficient performance of tasks at the borders through coordinated and timely concurrent development of border agencies and services in terms of services’ tasks and competences and especially in terms of harmonized IT infrastructures.

**Expertise:** Customs Administration of the Republic of Slovenia (Ministry of Finance)

**ROMANIA**
The main actions in this area were designed to contribute both to a full harmonization of customs regulations and to the operability and interconnection of the IT systems compatible with those of the European Union before the accession of Romania to EU. Romania has accepted in full the acquis in the field of customs, without requesting any transitional period or derogation, and it stated that the acquis will be able to be applied at the date of accession. In this context, the Romanian Customs Administration was fully aware of the role will play its customs control exercised on the external customs border of the European Union. Therefore, actions have been designed and implemented to contribute both to a full harmonization of customs regulations.

Major developments referred to: TARIC implementation; Common transit, Implementation of ethics and corruption, cooperation between customs and other law enforcement institutions, fight against illicit drug trafficking, combating customs fraud in nature, the fight against counterfeit and pirate goods, infrastructure and trade facilitation.

The Romanian Integrated Customs Tariff was introduced in 2005. The adhesion to the Common Transit Convention changed the transit system in Romania.

In order to combat the entry of goods liable to infringe any intellectual property right in the customs territory of Romania, the Law no. 344/2005 regarding some measures to guarantee the intellectual property rights within customs operations was approved.

During 2006, the Customs Code of Romania was approved by law and also the Regulation implementing the Customs Code of Romania. Customs Code provisions have been harmonized with the Community customs law, their implementation being made in a uniform manner. Through secondary legislation issued by the Romanian Customs Authority, some rules were set regarding the simplified procedures of customs clearance in order to broaden access the economic advantages offered by modern customs systems, to decrease the level of bureaucracy in the activity of custom and to move the main powers (such as authorization, approval) from the central or regional offices at the customs bureaus.
Customs Integrated Information System has ensured the implementation of customs legislation by the customs tariff, the procedures of customs and import, export, warehousing, by automating the processing of customs declarations in detail the mechanisms of selectivity and simplified procedures for customs clearance, tracking progress transits, the basic principles of risk analysis and intelligence compatible with the European Union, revenue collection and management due to the state budget, providing statistics and customs of foreign trade in accordance with the requirements and regulations of EUROSTAT.

**Best practices:**
- Implementation of TARIC;
- Harmonization of the Romanian customs legislation with the EU customs legislation (Customs Code, Customs regulation, Common transit convention);
- The introduction of Integrated Customs Information System.

**Expertise**
Ministry of Finance – Customs Administration

**MALTA**
The Customs Division received technical assistance through four contracts with the EuroCustoms consortium, the first three (covering Business Change Management Plan Phases I, II and III) under the Pre-Accession National Programmes (2000, 2001 and 2003) and the fourth under the Transition Facility. These contracts concentrated on the following areas:
- Trade facilitation and relations with businesses;
- Organisation and management;
- Border and inland controls;
- Investigation and Enforcement;
- Transit and movement of goods;
- Training;
- Human Resource Management;
- Infrastructure and Equipment;
- Customs Laboratories;
- Computerisation.

**Best practices**
Experts from EuroCustoms assisted with the setting up of various new units as required by the Customs acquis.

Initial activities under the BCMP (Business Change Management Plan) included the setting up of a Pre-Accession Unit (PAU) to cater for Customs and Taxation matters. The PAU was responsible for the implementation of the Business Change Management Plan for Customs and Tax and was headed by a member of senior management (Director level). The PAU was responsible for the management of the project, in particular the identification, specification and planning of tasks as well as the monitoring and evaluation of activities and reporting. The PAU reported to the Project Steering Committee (PSC).

It is important to note that all the experts provided by EuroCustoms were serving Customs Officials from Member State administrations. All were specialists in their area. The EuroCustoms consortium had been formed by the Customs administrations of the Fifteen specifically to provide consultancy services to Candidate Countries. The consortium has since been dissolved.

**Expertise**
Director General, Customs Division (MFEI), Custom House
III. HUMAN DEVELOPMENT

Economic growth serves to raise the standard of living and to improve human development, making it possible for the population to prosper in all spheres of life. However, human development does not necessarily keep pace with economic growth. In many developing and transition countries, there have been discrepancies between economic growth and human development.

Although in the two decades of the 1970s and 1980s the overall economic and social situation in the socialist block had been deteriorating constantly, in many of the countries of central and eastern Europe that undertook a transition from communism to liberal democracy and from centrally planned to market economy as of the late 1980s, some of the key aspects which are crucial for human development were at first, and for some years, negatively impacted by the changes being implemented, particularly in the economic sphere.

The key factor for this initial worsening of the situation was the drop in economic activity and output resulting from the loss of what had been the traditional export markets for the produce of these countries for more than four decades, combined with the difficulties of the existing industries and companies to adjust to the new conditions of competition with more developed producers of goods and services. This caused, for the first time in four decades, the appearance of unemployment and its rapid growth, depriving many individuals and families of their means of subsistence under the previous regime. For those able to quickly adapt to the new situation, or otherwise in a better position to benefit from it, the new economic environment provided good opportunities for improving their economic situation and enjoy access to goods and services previously unavailable. However, for large sectors of the population the adjustment to these new conditions was not easy. For instance, price liberalisation and the elimination of the former state subsidies for foodstuff and other products and services resulted in significant price hikes and inflation, while salaries of the employed and other sources of income (such as pensions) remained very low. In sum, especially in the first years, the economic transition produced winners, but also many losers.

Also, because of this drop in economic activity governments were facing huge difficulties to obtain the amount of revenue that was needed not just to quickly expand and improve the existing basic public services (education, health, etc.), as demanded by the population after so many years of poor service quality, but even to maintain those services in their previous level. Services such as public education and health or the pension system could not receive the necessary attention and investments until the economic situation started to recover; and this took several years (almost a decade before the GDP returned to figures similar to those before the start of the transition).

For these and other reasons, a number of important reforms were implemented in many of the areas relevant for human development: education, health, social security and social protection systems, etc. Also, practically all these countries had to confront serious problems of emerging poverty and social exclusion, and develop the necessary strategies and mechanisms to deal with these problems. In particular, the transition had a major negative impact in some groups: older people becoming unemployed, women, families affected by unemployment and in particular their children, national or ethnic minorities such as the Russian population in the Baltic states or the Roma communities in central and eastern European countries, the disabled and, in general, all those experiencing difficulties in adapting to the new circumstances and in finding their place in the new system.

On the positive side, the economic recovery that started in most of these countries in mid 1990s provided some of the financial resources that allowed these otherwise well-educated societies to develop the policies, instruments and mechanisms needed to start tackling many of those problems; and in this endeavour these countries were strongly supported by the more developed countries and societies of Western Europe, that became their partners in an enlarged European Union a few years later.

In sum, the experience of the countries that joined the EU in 2004 and 2007 in what concerns the impact of political and economic transitions in all aspects relevant for human development, still recent, can be most valuable for other developing or less-developed countries following similar processes.
15. EDUCATION

Before transition, the situation in the European countries of the socialist block concerning basic education was better than it is in many developing countries. A majority of the population had completed basic education, although the situation concerning secondary and higher education was quite different. On the other side, while general education was mostly aimed at the acquisition of theoretical knowledge and general culture, vocational education was narrowly conceived and organised, mostly preparing the pupils for the performance of specific tasks needed by the industries and enterprises operating in the socialist economy, and this type of education was mostly managed by the enterprises themselves.

Public education – the only one that existed under socialist rule – was theoretically universal, but the way in which integration difficulties and problems of particular groups was dealt with was not actually providing equal opportunities for all segments of the population. On the contrary, some of the systems in place (for instance, special schools for the disabled or other children with special difficulties) tended to perpetuate the inequalities.

In general, the education systems that were in place in the socialist countries were not suitable for providing the population – especially the younger segments of it – with the knowledge, abilities and skills required for ensuring their integration into a new type of labour market, in a competitive economy opened to the world. The systems were highly centralised and uniform, giving little or no room for the development and experimentation with new educational methods and approaches, or adjustments to local conditions; the financing was insufficient, and the curricula were not adequate for the conditions of a free society and a market economy.

Some countries (Baltic States) inherited an education system that was seen as an external or foreign imposition and therefore took most interest in establishing their own education systems as soon as possible; others were not confronted with this issue, but nevertheless realise from the outset the need to start reforming the existing system without delay. In general, it can be observed that most countries proceeded with two reform waves: one at the very beginning of their transition, so as to tackle the most urgent issues and problems (for instance, the introduction of the possibility of private education, alongside the public system; or the modification of the curricula so as to align them with the new democratic situation); and a second one, deeper and farther-reaching, after some years, and usually after a number of issues had been debated and some consensus had been reached in the educational community, the political representation, and the population at large, on the main directions of these long-term reforms and the characteristics of the educational systems to be established in the country (including the division of responsibilities between the various levels of government and public administration).

Historical systems and traditions played a very important role in the design and development of the new educational systems, as well as the models and examples from other more developed countries with similar historical background (particularly other European countries). International (OECD, EU) categories and standards were also considered and implemented.

A quasi-common feature of the educational reforms carried out in this group of countries during transition is a double process of decentralisation of the system: decentralisation to sub-national self-governments and administrations (municipalities, counties, regions) of the main public responsibilities concerning the establishment of schools and other public education centres, including the responsibility for capital investments, equipment, maintenance and other “founder” rights and responsibilities (such as the appointment of school-heads); and strengthening of the authority and responsibility of school-heads and directors for the day-by-day management of the school and its resources (including educational and administrative/support staff), as well as the autonomy of the individual schools for adopting their own curricula and teaching methods within the framework set by the national education authorities.

- General education reforms

In regards to primary education, the starting point in the countries that joined the EU in the 2004 and 2007 enlargements was reasonably good, when compared to many other developing countries. There
were nevertheless a significant number of drop-outs in the final years of compulsory education, particularly in some countries.

However, problems and issues related to the quality of education as well as regarding inequalities in access did actually exist in all countries. In the Baltic states, the issue of basic education of children belonging to the Russian minority and their preparation for societal integration and for enjoying equal opportunities in access to further education (secondary or higher) triggered the development of bilingual education systems and expertise, based in best practices tested in the most developed countries; in countries of Central and Eastern Europe a major equal access and integration issue affected the children of the Roma communities (girls in particular); and in all countries governments, educational community and civil society worked together in trying to change the model of segregated or “special” schools which was the common one for disabled children or children with special difficulties to one mostly based on actual integration of the majority of these children into the ordinary schools.

Besides that, in all these countries policies and instruments have been developed and put in place to provide financial support to low-income families to cater for a number of expenses related to education (school meals, equipment and learning aids, extra-school programmes and activities) so that equal access and opportunities are not hampered by such expenses.

LATVIA

Basic education in Latvia lasts for 9 years, from age 6-7 to age 15-16, leading to the award of a basic school certificate. Education is compulsory until the completion of this 9-year cycle or until age 18 is reached. During the transition, there was a significant level of dropout, particularly in the later stages, and it was estimated that only 80% of pupils completed the 9-year cycle and graduated.

The Concept paper for Education development 2002-2005, adopted in October 2002, set strategic directions related, among others, to improving the quality of education (through development of standards, introduction of national examinations at various stages of basic education and improvements in the area of teachers' training) and increasing accessibility (through the development of pre-school education to ensure an integrated system for the preparation of 5- and 6-year-old children for formal schooling, as well as enhanced remedial programmes in order to prevent social exclusion). Specific attention was given to the development of general education programmes for pupils of national minorities.

However, in Latvia, during the transition, the main issue having an impact on equal access to education was related to the language.

Although Latvian is the sole official language in Latvia, and the only one used in higher education, Latvian legislation on education adopted in 1991 guaranteed the right of minorities to receive education in their own language (in primary and secondary levels) and therefore allowed the establishment of schools with tuition in minority languages.

On 10 August 1995, the Parliament (Saeima) adopted amendments to the Education Law of the Republic of Latvia, stipulating that in minority general educational institutions, in which the language of education is not Latvian, the education shall take place in the state language at least in two humanities or science subjects for Grades one to nine, and at least in three subjects for Grades ten to twelve. This provision entered into effect as of the academic year 1996/97. The law guarantees the programme contents required both for passing down cultural heritage of a minority and for achieving integration goals.

Following up from this legal reform, the Ministry of Education and Science approved a bilingual education programme with four models or options. These options provide opportunities for children to learn both the Latvian language and culture, and their own native language and culture. All models foresee bilingual teaching. Schools were able to discuss – with the participation of both teachers and families - and assess these models and were entitled to select the model most suitable for their school and to launch teaching in the first grades according to the new arrangements, starting from 1
September 1999. The programmes developed by the Ministry of Education and Science have the character of guidelines. Schools retain the right under the Law on Education to develop their own programmes, and having obtained a MES licence for them, to work in accordance with these programmes.

Out of the four sub-programmes of the Minority education programmes offered by the MES, the 3rd sub-programme, envisaging a gradual transition to learning in Latvian and increasing, by one subject each year, the number of subjects taught in Latvian, won the greatest appreciation in academic year 1999/2000. This sub-programme was chosen by more than 50% out of 244 minority schools. The sub-programme provides an opportunity to teach mathematics, physics, and chemistry in the students’ native language for a longer period than other subjects.

**Best practice:** In support to the Government’s policy on bilingual education, the National Agency for Latvian Language (former National Agency for Latvian Language Learning) has developed expertise, methodologies and resources that are not specific for Latvian language, but equally valid for any type of bilingual education in general. This expertise has already been used in Latvia’s international development cooperation (Project on Support for Developing Bilingual Education System in Georgia, financed by the Latvian Ministry of Foreign Affairs)

**Expertise:** National Agency for Latvian Language (Ms. Dace Dalbina & Ms. Erika Picukane)

**ESTONIA**

Legislation guarantees every child a right to education in accordance with his/her abilities. Every child up to the age of 7 is entitled to pre-primary education in child day-care institutions or in preparatory classes at schools. School attendance is compulsory from the age of 7 until finishing the basic education or attaining 17 years of age. There are increasingly better opportunities for all children, including those with special needs, to be prepared for school and acquire education according to their abilities. The number of disabled pupils in mainstream education has been increasing in both general and vocational education. A separate schooling system for Russian-speaking children raises the issue of quality of teaching of the Estonian language, which is a critical factor for access to higher levels of education and, in general, social integration. To address this issue, bilingual study programmes are increasingly being put into practice.

Each school has a right and responsibility to develop the national curriculum to take into consideration the specific features of the school and the region as well as the students’ expectations. The education needs of the disabled have been increasingly catered for in mainstream education. For students with moderate and severe learning disabilities, an adjusted national curriculum is put into practice.

The education strategy up to 2010 sets out strategic goals such as ensuring quality pre-school education for every child, improving access to education through more flexible and diverse learning opportunities, achieving a high quality of general and vocational education in all regions, improving the quality of teaching the Estonian language in non-Estonian language schools, making the education system more responsive to labour market requirements and providing for lifelong learning.

**LITHUANIA**

The education system inherited from the Soviet period was very centralised. Secondary education was concentrated on encyclopaedic knowledge rather than in the development of individual initiative.

Reform began immediately after the restoration of independence in 1990. Among the main objectives of reform were: to direct education more towards the development of students’ personalities; decentralisation of management of education facilities and services to regions and education institutions; and the up-grading of teachers’ qualifications. An overall national strategy was formulated in the Lithuanian Education Concept drafted in 1992. Experiments conducted until 1998 and participation in various projects helped gather experience in conducting the reform. A second stage of reform started in 1999, aimed at disseminating the accumulated innovative ideas throughout the whole education system. The first step in this new stage of reform was the extension of basic education from nine years to ten years as from the school year 1999-2000. A restructuring of the
network of basic and secondary schools was started, and curricula were standardised to ensure consistency of provision across schools. A quality assurance system has been developed. It is based on both self-assessment and external assessment of schools. A basic monitoring system covering the whole education system is under development.

Basic schooling in Lithuania starts at age 6/7, and lasts for 10 years. At the turn of the century, there was a significant level of failure at the basic stage of education. Approximately 80% of children actually passed the final basic school examinations and graduated; the remaining 20% either failed to complete the full basic cycle or, although having completed the cycle, failed to meet the graduation standards. While there was provision for those who fail to graduate to continue in "second-chance" schools or in basic vocational education, in 2002 less than half of them were doing so. This high level of drop-outs during and at the end of basic education was considered still in early 2002 one of the most pressing problems facing Lithuania’s educational system.

In organising their activities educational institutions in Lithuania take into account the possibilities of socially supported children. Such children are entitled to free school meals and have priority in obtaining textbooks and participating in tax-exempt extracurricular activities. Special attention is paid to their social environment. Nevertheless, most impoverished families can hardly afford to buy even part of the necessary learning aids for their children.

In Lithuania an increasing number of children with disabilities are being taught by means of full mainstreaming (85 percent of pupils with special training needs in the 2000/2001 academic year). However, secondary schools were not ready to provide appropriate special teaching services. They lacked qualified specialists, equipment, or special substitute and teaching aids.

In late 2003, the further development of various forms of pre-school education and schools (so as to make education available to all and to eliminate obstacles for children who have suffered social exclusion); the adaptation of the learning environment and technical equipment of educational establishments (including modern information technologies) so as to meet the needs of disabled children and children from socially supported families; increased attention to children/young people with learning difficulties; and the socialisation of children who did not attend school (including providing incentives to teachers to pay closer attention to parents and social-risk families) were among the key challenges that remained to be tackled in regards to educational disadvantages.

POLAND

The period of political transformation that started in 1989 brought about new legislation which became the basis of changes in education. The new legislation adopted in 1991 (Education System Act) permitted the development of non-state (private) schools and paved the way for increased enrolment at the upper secondary level and higher education (non-compulsory education).

The basic principles and structure of Poland’s school education system were laid down in the Education System Act of 1991. The Law of 8 January 1999 on the Implementation of the Education System Reform and the Law of 26 January 1982 (Teachers’ Charter) are the other two main pieces of primary legislation in this field (all of them have been subject of several amendments over time).

According to these Laws, the system should provide, among other things, a fulfilment of the (Constitutional) right of each citizen to learn and the right of children and young people to be educated and cared for; support provided by schools to back up the educational role of the family; the possibility for various entities to establish and run schools; the adjustment of the contents, methods and organisation of education to pupil’s psycho-physical abilities; and the possibility for disabled and maladjusted children and young people to learn at all types of schools.

The leading institution in the field of school education (primary and secondary) is the Ministry of National Education. The Ministry is responsible for the development and formulation of policy and overall coordination and supervision of the system. Teachers’s Unions have a considerable role in shaping educational policy.
However, administration of education and the running of schools, pre-school institutions and other educational establishments is decentralised: under the pedagogical coordination and supervision of an education superintendent (kurator) operating as chief educational body at regional level (Voivodship), the responsibility for the administration and administrative supervision of kindergartens, primary schools and lower-secondary schools (gymnasia) has been allocated to the municipalities; and to the districts (powiats) that of upper-secondary schools (general and vocational), as well as artistic and special schools and other educational centres and institutions. Management of every individual school or educational centre is the responsibility of the school Head, appointed by the relevant public administration or school running body (and this includes the recruitment/appointment and dismissal of teaching and administrative staff of th school).

Measurement of educational achievements of pupils and of schools’ performance are presently carried out by a Central Examination Commission and 8 Regional Examination Commissions. External tests at the end of primary school and at the end of the gymnasium were organised and implemented for the first time in 2002. In 2005 a new external Matura examination was introduced at the end of upper-secondary general and specialised schools.

External support for schools and teachers is mainly provided by a National In-service Teachers’ Training Centre (plus regional centres and educational advisors); and there are more then 500 centres for psychological and pedagogical support, which tasks include support to children, youth, parent and teachers in regards to learning difficulties and behaviour problems connected with drugs, alcohol and therapy in case of development problems and preention of addictions. These centres also provide counsellling and guidance concerning further studies and professional choices.

Thanks to these reforms, the level of education level in Poland is improving. According to the 2002 census, 67% of persons have higher than primary education. Between 1988 and 2002, the proportion of people with incomplete primary education and without any school education decreased threefold. In the school year 2000/2001 participation of 18-year-olds in education was 80.7% (slightly above the average EU-15 level).

However, the level of education differs by gender and place of residence; and Children from rural areas have poorer access to schools and extracurricular activities. This is related mainly to the lower educational level of their parents, higher poverty and longer distance to educational services, more frequently located in the cities. The Ministry of Education and Sports, together with the Ministry of Agriculture and Rural development (MARD), has developed several programmes aimed at improving access to education in rural areas. In order to even out the start of school for children, a specific programme (School Layette) was implemented. Under it, children from the poorest families are supplied with the necessary school equipment. This programme is aimed mainly at schools in rural areas.

For disabled children and children with special educational needs, the education system comprises special schools and integration classes in general access schools. Special schools function on three levels: primary schools, lower and higher secondary schools. Education can be provided in two ways: normal school day or individual courses. In general access schools, there are integration classes that level out differences, provide therapy and are available for everybody. Moreover, such classes are created in special school-educational centres or in the healthcare centres. In the last few years, especially because of the worldwide programme Education for All, integrated classes for children with special educational needs in the environment of public education have been more popular. One of the main tasks of educational, social and health policy is to enable children with special educational needs, including disabled children, to function in the community of healthy children. There are fewer and fewer special schools but more and more integration classes. However, there are significant needs for integration classes in Poland. In 2002, some 40% of disabled children attended special primary schools, 50% went to generally accessible schools and 9% of all disabled children attended integration classes.

One third of the Roma population has not completed primary school. About 70% of Roma children are provided with regular education, but their attendance rate is too low. Some girls aged 13-15 are
already married and discontinue their education very early. This factor, together with the shortage of pre-schools, creates significant problems. Separate schools for Roma are a significant obstacle to the integration of this minority into Polish society. To improve the quality of education among Roma youth, several Roma classes at schools have been formed recently, mainly in the Małopolskie voivodship. So far, because of difficult communication between Roma youth and other pupils, establishing of Roma classes seemed to be the only possible method. The Government Programme for the Roma community was created and the educational undertakings were recognised as priority in order to make it easier for Roma youth to integrate with others of their age. The newly created institution of Roma assistants is an intermediary between school and pupils' families. They help Roma pupils to have relations with school and teachers and at the same time stimulate and monitor educational progress. In addition, the so-called support teachers have been trained and employed in several schools of the Podkarpacki region. They are specially prepared to work with the Roma and acquainted with the Roma culture. The support teachers help normal teachers as well as Roma pupils.

**CZECH REPUBLIC**

The rights of citizens and the obligations of the state with regard to education were laid down in Art. 33 of the Charter of Fundamental Rights and Freedoms adopted by the Federal Assembly of the Czech and Slovak Republics on 9 January 1991; and later incorporated into the legal system of the Czech Republic through the Constitution adopted on 16 December 1992.

Before the 1990/1991 school year compulsory school attendance lasted 10 years (8 years at basic school and at least 2 years at an upper secondary school). In that year, the number of years at the basic school was increased to 9 and compulsory school attendance was shortened to 9 years (6-15). Basic (compulsory) education is divided in two stages, and the second stage (6th to 9th grade) can be done in basic schools, multi-year gymnázia or conservatories. Establishment and maintenance of basic public schools is a responsibility of the municipalities.

Upper secondary education follows basic education and covers the ages 15-19. Though not compulsory, in 2007 96.5% of the population in this age group were enrolled in upper secondary education. Upper secondary education is provided in three types of schools, established and maintained by the regions: Gymnázia (general education); Technical Secondary Schools (founded in the 19th Century, in the same way as in Austria and Hungary, to provide a technical education geared to direct integration into the labour market) and Vocational Secondary Schools (historically associated to apprenticeship, which status after WW II rose to a rank equal to other upper secondary schools and which were run by companies until 1990, when they came under the control of the Ministry of Education).

An amendment to the previous School Act introduced in 1990 allowed the establishment of private and denominational schools and the Higher Education Act of 1998 enabled the establishment of private higher education institutions (Universities). Private schools and school facilities can be established by individuals or corporate entities and no specific legal form is prescribed. Private schools receive a state contribution for their running costs from the Ministry of Education (at present, through the regional authorities), in conditions and amount that are set annually by the Ministry of Education, based on a specific Law adopted in 1999. Capital expenditures are covered by school fees or other private sources. Private and denominational schools have a bigger presence in upper secondary level (25% of the total number of schools at this level, with 15% of pupils) and tertiary professional education (33% of schools with 35% of students). Public funding make up the larger part of their overall resources and these schools are subject to the same mechanisms of evaluation as the public schools (carried out by the Czech School Inspectorate).

A general education reform was started in the first years of the present decade, including the decentralisation of the educational system (with the transfer of responsibilities from the Ministry of Education to the 14 regional self-governments established as of 2000 and to the municipalities; but also through the handing over of major responsibilities to the heads of the schools themselves); and the re-organisation of the system of educational degrees and diplomas so as to provide for a great flexibility for the various types of upper secondary schools to offer several types of them. Reforms
also included an ambitious curricular reform, whereby a two-tier system of curriculum development is being introduced.

**Best practice: Curricular reform**

This is an important process, the result of which should be such education programmes that would fit well the needs of the labour market and would ensure employability of graduates. Its implementation encountered initial scepticism of participating schools, teachers, parents and social partners. The future creation of SEPs will show how much this scepticism was overcome.

The basic principle of the curricular reform is implementation of a two-level creation of curricula and education programmes where schools will create their own education programmes based on Framework Education Programmes. Framework Education Programmes (FEPs) now focus on education results, i.e. on competences that graduates in the given field will obtain for their further career and personal life. They will motivate students to more pro-activity and independency, to responsible decision-making and problem-solving and to searching for, and adequate assessment of, information. Framework Education Programmes and pilot School Education Programmes (SEPs) were also created and are being created in cooperation with social partners and thus more than ever reflect the needs and demands of employers. It is assumed that their participation will bring practical outcome in the form of better quality education programmes (e.g. by creating better conditions for vocational, mainly practical teaching), thus improving the employability of graduates, mainly in the regional scale.

The target group are secondary students (a similar reform is going on at the primary education level) in the entire Czech Republic.

Currently there are about 60 Framework Education Programmes for secondary vocational schools (the fields of vocation and study) and another 80 FEPs are ready for approval as part of the next phase. First pilot SEPs were prepared at about 30 pilot schools.

The curricular reform is carried out at the national level. It includes both secondary education (secondary vocational education and general secondary schools – gymnázia) and primary education. It is a part of the comprehensive system of measures and priorities of the education policy of the CR, the goal of which is to improve the employability of graduates and adults participating in continuing education since the dynamic changes on the labour market require skilled and flexible workforce that is able to respond to such changes. The key actors are public administration authorities and local governments, schools, social partners, employment offices and other.

**SLOVAKIA**

The right to education is enshrined in the Constitution of the Slovak Republic, according to which access to education is open to all nationals of the Slovak Republic. Since 1998 basic education in Slovakia lasts from age 6 to 16, and encompasses both primary education and the first year of secondary education. Less than 3% of pupils fail to complete basic school before the end of their compulsory schooling.

The education system in the SR guarantees equal access to education for girls and boys in all types and levels of school. Another important aspect of equal access to education is that, according to the Constitution, it is free of charge until completion of vocational training at secondary schools. School textbooks are also provided free of charge in these schools. The social conditions of the family are taken into account when fixing fees for pre-school childcare, school meals, accommodation or scholarships for students in secondary or higher education. These costs are met from the State budget.

Students who are diagnosed as having specific learning needs are enrolled in special schools or included in the system of education for students with special needs. Such schools include not only children with disabilities but also those from socially disadvantaged backgrounds. At present, children with specific learning needs are to an increasing extent being integrated into mainstream schools.
However, the analysis jointly carried out by the Government and the European Commission for the purposes of the Joint Inclusion Memorandum prepared in 2003, showed that the educational situation of the Roma minority was very unfavourable. According to official data, up to 76.7% of the Roma adults had only basic education and 3.7% may never have had any schooling at all. (According to a UNDP report in the Slovak Republic, the drop-out rate for Roma children in the first year of school rose from 46% in 1976 to 63% by 1999). Roma children were over-represented in schools for physically or mentally disabled children (in the academic year 2001/2002, Roma children comprised almost 10% of the overall number of pupils). This appeared to stem from their insufficient command of the Slovak language and/or other educational handicaps that result from their environment rather than from innate limitations.

Considering education and training among its major and continuing priorities, the Government of the SR developed a long-term “Concept for the Development of Education and Schooling for the Next 15-20 Years” on the basis of which a National Programme for Education and Training was elaborated.

The background work in preparation for the National Programme for Education and Training also involved partial concepts aimed at solving the issues of equal opportunities for at-risk groups of socially disadvantaged children and young people. For example, the Concept of Education and Learning for Children and Students with Disabilities was approved in 2000, and the Concept of Education and Learning for Roma Children and Students in 2001.

In the National Programme for Education and Learning, measures have been adopted to ensure that these children are at least to an extent given the same start as other children. This involves for example: introduction of whole-day education; the drawing-up of alternative curricula and school plans; individual learning programmes taking into account the specifics of Roma children and with emphasis on raising and maintaining the motivation to learn; drafting of a system of incentives for parents of Roma children for cooperating with the school; implementation of support learning programmes for entrance examinations for secondary schools and colleges. Currently, the position of ‘assistant teacher’ is being introduced, as well as the possibility of preparatory schooling for children from socially disadvantaged environments in the form of ‘zero grades’ at primary school.

HUNGARY

The basic principles of operation, organisation, management and financing of the Hungarian education and training systems are regulated by four Acts adopted by the Hungarian Parliament:

- Act LXXVI of 1993 on Vocational Education and Training;
- Act CXXXIX of 2005 on Higher Education; and
- Act CI of 2001 on Adult Education.

Originally adopted in 1993 and onwards for the most part, following the dynamic but peaceful changeover of 1989-1990, all of the above acts were amended several times according to current economic and/or political considerations and constraints. Within the general context of the principles stipulated by the relevant international conventions, and the Constitution of the Republic of Hungary, these amendments always mirror the actual political and ideological agenda advocated by successive governments ruling the country. Moreover, the accession of Hungary to the European Union in 2004 also required the harmonisation of existing national legislation with the acquis communautaire also in the field of education.

All of the above acts provide for the full respect of the personal freedoms of students, prohibit and sanction any form of discrimination based on race, national and ethnic identity, beliefs, religion or social origin in access to, and participation in, education, and strictly enforce the principle of equal treatment.

The Public Education Act provides for all children living in the territory of Hungary a free eight-year general education and free upper secondary level general or vocational education. Under the Act, compulsory and free education starts at the age of 5 (ISCED 0), corresponding to the last year of pre-primary education, and finishes at the age of 18 (ISCED 3). At the end of upper secondary studies
students must pass secondary school leaving examinations in order to be admitted to higher education. The Act also regulates the rights and obligations of students, that of the institutions’ pedagogical and administrative staff, as well as the rights of parents to form parents’ associations in schools and to have a say in matters regarding the education of their children.

Though unequal access to quality education traditionally marks Hungarian education, the combined impact of growing regional and social inequalities characterising socio-economic developments of the past two decades has clearly intensified this controversial feature of the system. That is why explicit policy efforts and a number of practical measures of a legal, administrative as well as financial character aimed at improving access to quality education of children with multiple social disadvantages and reducing latent and deliberate segregation practices in schools, mostly affecting children of Roma origin, have so far produced modest or partial results only, and in this field no major breakthrough has been achieved. In international comparison, Hungary continues to be one of the countries in Europe where school-based education is marked by a high index of separation among children according to their socio-economic background, and where the performance of the students and their progress within the education and training system is strongly marked by their social and family background. Moreover, as evidenced by the conclusions of a number of related surveys, instead of offering students with social disadvantages a chance to catch up through the delivery of quality education, schools largely reproduce social inequalities.

A standard feature among institutions operating in economically backward regions or municipalities is the poor physical condition of school buildings and the insufficient supply state-of-the-art educational equipment. This is not only a permanent obstacle to the delivery of high-quality education but also prevents the enforcement of the principle of equal treatment, and in fact is a major source of segregation and inequity.

SLOVENIA

The Slovene transition in the educational sector was marked by the strive to increase quality and accessibility of public schooling as well as to enable freedom of choice by introducing legal framework for private schooling.

The fundamental principles for change were laid down in the White paper on Education in the Republic of Slovenia, which was published in 1996 and mobilised the experts and general public into rethinking the principles and aims of the education system in Slovenia throughout the process of its production, through a vivid public debate on the topic.

The biggest project of the transition period was devoted to extending compulsory education and moving its start to an earlier age (6 instead of 7, with a 9 year basic school instead of the previous 8-year).

The White Paper advocated gradual introduction of changes. The following requirements had to be met before changes were implemented:

- material requirements.
- personnel requirements
- financial requirements

In the school year 1999/2000 therefore the first classes were enrolled into the new 9-year school. The transition to the new model was final in 2008/09 when there were no more schools executing the old 8-year programme.

Other changes were also introduced to basic schooling. The most important may be simmered to:

- Earlier obligatory foreign language learning (now starts at 9 years, previously at 11). Later came also the idea of introducing the second foreign language into the third cycle of the basic school (lower secondary education). The obligatory learning of the second foreign language will only be introduced into the schools in the school year 2010/2011.
- Flexible differentiation in the classroom allowing teachers to adopt content and pace to the abilities of pupils (from fourth grade on) by forming groups within the classroom.
• Opening up the curriculum by introducing optional subjects to the third cycle, so that the pupils can choose according to their interest.
• Innovative approaches for tackling learning difficulties, such as training teachers for early recognition, adoption of teaching methods according to pupils needs and building the teacher-pupil dialogue on the ethics of involvement, which strengthens the pupils’ abilities and motivation to overcome difficulties.

**Equal access**
With the aim to improve access and implement the principle of equal opportunities the already stable minority schooling models for the traditional Hungarian and Italian minorities were supplemented by measures for improving access for Roma pupils, since the educational attainment of Roma in Slovenia is critically low. The philosophy of inclusive education also brought change for the Slovene school. Children with special needs were integrated into the mainstream education, where it was deemed to be in the best interest of the child and he/she could follow the regular programme and achieve at least minimum standards by means of adopted tempo and methods of teaching.

**Quality and measurement of learning outcomes**
In order to facilitate the monitoring of the quality of learning processes and outcomes several instruments were developed – the most important being the national external testing of pupils at the end of the second cycle (voluntary) and at the end of the third cycle (compulsory) of basic school. The test results have an informative value for the teachers, parents and pupils and do not serve any other means. Arising from this also a tool for calculating the added value of schools was developed which allows for measuring the quality of institutions but is not publicised.

**Private education**
With the aim to enable freedom of choice legal framework for private preschool institutions and schools was set into place. Thus the state made it possible for parents to choose pre-schools and schools not founded by public authorities, but provided the guarantee that they meet the minimum standards which are legally defined.

**Pre-school**
Despite the long and firm tradition the transition period also brought in-depth changes into pre-school institutions, which supply early care and education to the children from one year to the school-going age in a unitary setting. The main development for preschool institutions was and introduction educational-curricular approach for all children, even those of the earliest age.

**Best practices:**
**Starting at an earlier age**
By starting at the age of 6 instead of 7, the obligatory preparation for school was in a way incorporated into the school programme. The new 9-year basic school was structured into 3 cycles. The first year of the new compulsory basic school took into account the needs of children entering schooling at an earlier age by giving them time to develop, supplying 1,5 teachers per class and other support staff and introducing descriptive assessment of pupils as opposed to numeric assessment previously used throughout the basic school.

**Integration of Roma pupils**
The classrooms in Slovene schools were entirely desegregated. The school system lowered the normative number of pupils in class when Roma children are enrolled and added additional specialist help to support Roma in their learning. A pilot project run by the Roma community now provides also for Roma assistants in schools, who serve as a link between the Roma community and school, motivate pupils for school attendance and help overcome initial linguistic difficulties, since many Roma children do not master Slovene at the age of six when they enter compulsory schooling.

In order to deepen the multicultural aspects of education also the subject “Roma culture” was developed and introduced as an optional subject to the last cycle of basic school, themes regarding Roma are also gradually introduced into the mainstream curricula of different subjects.
Reform of vocational education and training / life-long learning systems

Under the socialist regimes, vocational education was separated from the general education system and was mostly provided by schools or training centres managed by Ministries, other public institutions and state-owned companies. This type of education was followed by a significant number of students, after completing basic education, and was usually based in narrowly defined professional skills and competences, fitting the specific needs of the companies (mainly industrial companies).

Although in the new economy emerging from transition labour force needs were substantially different, the reform of the vocational education systems was not one of the top priorities of transition governments during the first years of transition.

It was only when the mismatch between the needs of the new labour market and the professional qualifications and profiles of those graduating from the socialist vocational and technical schools became apparent that reformers started to prioritise changes in the vocational education systems.

As a rule, vocational and technical schools providing “initial vocational education” became fully integrated into the new general education systems that were put in place in the beginning of the transition; and “bridges” were built at various levels between general and vocational education. Early acquisition of the knowledge, skills and competences allowing for integration into the labour market continued to be a common feature of the system, but at the same time those “bridges” promoted the continuation of education into higher education. Third-level (high, but non-university) vocational education programmes and centres were established.

At the same time, and usually managed by the public institutions dealing with employment (labour exchange offices), a multiplicity of professional training and retraining programmes and courses were made available, mostly addressed to the unemployed or other types of job-seekers (for instance, young persons in search of a first employment). This “continuing vocational education” was often implemented through training centres and institutions established by both public and private organisations.

In late 1990s and in the years before accession to the EU, with the assistance of the PHARE Programme, further reforms were undertaken to improve the quality of vocational education systems and develop national qualifications frameworks.

LATVIA

Vocational Education and Training (VET)

Vocational schools provide three types of programme – "basic vocational","vocational" and "secondary vocational". Students are admitted to basic vocational programmes from the age of 15 and without any limitations concerning previous education. The duration of basic vocational programmes is typically 3 years. Students who enter without basic education must be provided with remedial classes, and, after passing exams, a "certificate of basic vocational education" confirms that the student has acquired a basic education and has been granted a level 1 vocational qualification (based on theoretical and practical training to perform simple tasks in a particular sphere of practical activity). Admission to vocational programmes is also from age of 15 and without any limitations concerning previous education. The duration of vocational programmes after basic education is 1 – 3 years. Again, students who enter without basic education must be provided with remedial classes, and, on completion, a "certificate of vocational education" confirms that the student has acquired a vocational education and has been granted a level 2 vocational qualification (theoretical and practical skills required for independent work as a skilled worker). This document is awarded to students who have completed a full course of vocational education and have passed a qualifying exam.

Vocational education is not equivalent to general secondary education, and graduates are not eligible to continue directly on to higher education. Admission to secondary vocational programmes requires prior completion of either basic education or a basic vocational programme. The duration of programmes is 4 years after basic general or basic vocational education and 2 years where the student has completed either a vocational programme or general secondary education. On
Completion, a "diploma of vocational secondary education" is granted, indicating a level 3 vocational qualification (an advanced level of theoretical knowledge and skills in the profession sufficient not only to execute tasks, but also to plan and organise work). Secondary vocational programmes include a significant element of general education, and the diploma allows students to continue their education at higher education establishments.

Completion rates in vocational education were in 2002 slightly lower than in general secondary education. The Ministry of Education (MoES) estimated that approximately 85% of those who enter all types of vocational programmes actually complete their programme and graduate. Dropout is more frequent in "vocational" and "basic vocational" programmes and less so in "secondary vocational". Among those who graduate, about one in six enters higher education, while the remaining graduates enter the labour market directly from vocational education.

The final element of the initial training system is apprenticeship, which is relatively underdeveloped in Latvia. Based on the 1993 Law on Craftsmanship the state has given Latvia Chamber of Crafts (LCC) the right to evaluate the level of vocational qualification of craftsmen in 159 vocations and to confer a document attesting to the corresponding level of professional knowledge. Persons completing an apprenticeship can obtain official recognition by taking a journeyman’s qualifying exam organised and implemented by the relevant professional association within the LCC. Just over 500 journeyman’s qualifications were conferred by LCC in 1999, suggesting that the apprenticeship route is followed by less than 2% of all new entrants to the labour market.

The Law on Vocational Education (1999), supported by subsequent regulations of the Cabinet of Ministers and of the MoES, provides the broad legislative framework within which the most problematic issues concerning VET are being tackled. Important preparatory work for the practical implementation of measures to improve the VET system was carried out under the Phare VET 2000 programme. The programme had four sub-components. First, Phare co-financed a major OECD education sector review with the aim of incorporating the OECD recommendations on vocational education and training into MoES policy. The second component related to the management of the VET system focusing on a) organisation and staff development within the MoES and b) systems for funding and financial management within VET institutions. The third component dealt with development of a qualification infrastructure related to the needs of the labour market, with a concentration on the ICT and construction sectors. Finally, the fourth sub-component involved the setting up of four "college study programmes", also in fields related to the sectors of ICT and construction.

According to the final evaluation report on the Phare programme, some significant successes were achieved, particularly under sub-components 3 and 4. Sector surveys were completed for both ICT and construction, and these were used to develop occupational profiles and standards for two occupations –computer programming and construction management. The proposed college study programmes were developed, the relevant VET institutions were provided with the necessary equipment and teaching and learning materials, and the programmes commenced in September 2000. The OECD review was completed, although it remains unpublished. However, sub-component 2 appears to have had least impact. The main recommendation from the evaluation report was that "the Latvia government and relevant ministries should pay urgent attention to implementing the outputs of Phare VET 2000."

**Continuing Education and Training (adult education)**

State and local government as well as private providers and non-government organisations offer continuing vocational education programmes. The main providers of continuing education are:

- Private education institutions;
- Line ministries and organisations subordinated to or co-operating with them, for example, MoES Teacher Training Support Centre, the Ministry of Agriculture Latvia Agricultural Consultation and Education Support Centre, the Ministry of Welfare Medical Professional Education Centre etc.
- Continuing education departments and university distance education centres;
- Enterprise training centres;
The Ministry of Welfare, through the State Employment Service, is responsible for organising training and re-training for unemployed using both private and public training capacities.

Most courses are of relatively short duration. Approximately half of all programmes on offer are in subjects related to business and enterprise; other important fields of study include computer science, healthcare and agriculture. As in other countries, persons who are already well qualified show a greater tendency to participate in continuing education.

However, at the beginning of the century there had been no overall unified national strategy for continuing education (adult education) or lifelong learning. There was also a lack of clarity on the respective responsibilities of the state, local governments, employers and employees regarding the funding of continuing education and training. The credibility of the continuing training system (CVT) as a whole had been undermined by the absence of a unified system of quality control and accreditation for continuing vocational education. Amendments to the law “On Professional Education” and to the “Regulation of the accreditation of education programmes and establishments” were aimed at fostering the development of such a system while also improving the connection between the initial VET and the CVT systems.

The Concept Paper for Education Development 2002-2005 set a number of objectives in the development of society through ensured opportunities for lifelong learning. Following up from the adoption of the Concept, a number of legislative measures, including amendments introduced in 2001 to the Law on Education and Law on Vocational Education were designed to further these objectives. In addition, the Ministry of Education organised a consultation process on lifelong learning issues in Latvia, based on an initial Life Long Learning Memorandum prepared by the European Commission. On the basis of the results of this consultation the MoES intended to produce a strategy paper, which would bring together the legislative framework and current practice in Latvia and would identify the steps necessary to harmonise these with best EC practice.

ESTONIA

The vocational education reform (launched in 1996) was aimed at making the vocational training programmes better match with the demands of the labour market. The programmes were improved and vocational standards were developed in cooperation with employers. The Reform Action Plan 2001-2004 focused on improving the qualification of teachers in vocational institutions, upgrading the study environment, increasing the proportion of in-company work practice and involving the social partners in vocational education management.

Main elements and stages of this reform were:
1. Updating the legislation framework. Two main periods could be identified:
   a. 1998-2000;
2. Introducing voluntary quality management principles and models in VET institutions. Two periods could be identified:
   b. 2003—...– based on EFQM Quality Award model (adapted to VET); majority of VET institutions involved; development of voluntary self-evaluation culture among VET institutions; regular VET Institutions Quality Award (EKKA) competitions.
3. Planning and implementing VET reform. It’s possible to identify two periods as well:
   a. 1990-s; innovation and rapid changes in some VET institutions (new specialities, cooperation with foreign VET institutions and learning from them, curriculum and staff development); new legislation framework; establishment of national qualification system (apart from education system);
b. 2000-s (and continuing); innovation and rapid changes in VET system with involvement of social partners into every aspect of VET (both on VET system and VET institution levels):

i. significantly amended legislation framework, broaden study options / new target groups / new study forms (apprenticeship);
ii. set up of curricula system – school curricula based on vocational education standard and national curricula, which based on professional standards;
iii. development of quality assurance instruments (internal and external evaluation, standards on VET structure and content etc.; setting up the set of indicators, collecting statistics and monitoring);
iv. ESF supported development programmes in VET system and ERDF supported investment programmes into VET institutions' infrastructure;
v. new national qualification framework and integration of educational qualifications into that.

At present, there is no State-managed system for the professional training of people in employment. Training opportunities depend on individual arrangements with employers and favour those better off in the labour market.

Continuous education (adult education)

Persons who have passed the minimum school-leaving age, but not yet acquired basic education for various reasons, may continue studies in the form of evening courses or distance learning and at the same time obtain pre-vocational education. Adults have the opportunity to obtain a general secondary education through part-time studies, including in vocational institutions. For adult education a National Lifelong Learning Strategy has been prepared. The most important goal is to improve the access to further education and re-training for both employed and unemployed people, including those in the most vulnerable situations. The strategy aims at removing the main barriers to training courses - low motivation and high costs. In order to motivate adults to take part in training, the strategy envisages development and implementation of a study system that takes into account previous work- and study experience.

Best practices
1. Development of voluntary self-evaluation culture in VET institutions (EKKA model based on EFQM Quality Award).
2. Development of national qualification system and transforming it according to EQF (European Qualifications Framework).

Expertise
- Ministry of Education and Research, Vocational and Adult Education Department,
- Foundation for Life Long Learning Development Innove,
- Estonian Qualification Authority (Kutsekoda),
- National Examinations Centre, Vocational Education Department

LITHUANIA

Vocational education

The restoration of independence led to essential changes in economy, and great contradictions between labour market needs and education emerged.

The Law on Vocational Education and Training (1997, new edition 2007, amendments 2009) set out the structure and management of the VET system, design, management and award of qualifications, organisation and management of VET as well as VET funding. The Law on Higher Education approved in 2000 was of particular importance since it legitimated non-university higher education studies and set up the legal basis for the establishment of “colleges” (higher education establishments with prevailing non-university studies).

In 1998, a group of experts, coordinated under the Phare programme, prepared a White Paper, which may be considered as the conceptual plan of vocational education and training in Lithuania. Key principles established for VET included flexibility, accessibility and social partnership.
Lithuania inherited a very large network of technical and vocational schools, with many small schools. Therefore a rationalisation of the school network was started. The main features of the reform were the establishment of colleges, providing non-university higher education, the optimisation of the vocational schools’ network and the establishment of multifunctional regional vocational training centres through mergers of regional vocational schools. In 1995-2009 the number of vocational schools decreased from 106 to 80. Formation of colleges network was completed in 2004. At the moment there are 27 colleges. Since 2000, technological gymnasiums have been established at vocational schools. They provide 3-year upper secondary education and pre-vocational education. Graduates are awarded a matura certificate. Further they can choose either to stay in VET institution and continue training according to VET programmes or to enter higher education (University).

VET management decentralisation was started in 2003 through the change of status of vocational schools to self-governing institutions. This change enables a variety of stakeholders (enterprises, regional and municipal government representatives, etc.) to participate in the management and funding of VET providers and in consequence, to diversify financial resources.

A system of social partnership is in place at national and county levels (VET Councils, Industrial expert groups) to provide advice on VET related issues and to ensure that VET standards and contents correspond to the needs of the labour market. Evaluation of qualifications attained through VET education is also delegated to social partners.

Since 1990, curriculum development is the responsibility of VET providers. In 1994, the Ministry of Education and Science initiated systematisation of all training programmes by economic branches, as a result, the Register of Study and Training Programmes was approved in 1996. A system of standards for VET has been developed and implemented since 1998, resulting in a number of 169 standards adopted to the date. Standards set a uniform framework for VET programmes and educational attainment's assessment, which covers the following areas: general description of occupation; occupational purpose; areas of activity; competences and their range; training objectives; assessment of competences; key competences; and final assessment of qualification. VET programmes must also comply with a certain number of general requirements. A newly drafted programme is a subject to approval by the competent employer organisation (e.g., Chamber of Commerce, Industry and Crafts). Methodological Centre for VET arranges the expertise of this programme. If the programme is regarded as meeting general requirements and resources to provide this programme are assessed as sufficient, it is legitimised by Ministry of Education and Science and entered into the Register of Study and Training Programmes.

A national level project for the development of the national qualifications system was finalised in 2008. As a result, a draft model of the national qualifications framework was prepared. It foresees 8 qualifications levels similar to those defined in the European Qualifications Framework.

Reorganisation of state VET schools into self-governing institutions allows increasing variety of stakeholders and diversification of funding. Since 2004 the “student's basket” approach was introduced into VET funding.

Conception for Vocational Teacher/Lecturer Education and Training in Lithuania and Professional Standard for Vocational Teacher/Lecturer were prepared in 2002. In 2007 Regulations for Vocational Teachers Qualification Improvement were adopted. Continuing training of vocational teachers covers both, the development of pedagogical competences and the development of subject or technological competences taking into account emerging labour market requirements and changing technologies.

Labour market vocational training
The Law on Support for the Unemployed, which was in force since 1990 (until its replacement in 2005), defined the principles for the professional training for the unemployed. Labour market vocational training is organized by the Ministry of Social Security and Labour and Lithuanian Labour Market Training Authority.
Lithuanian Labour Market Training Authority is the largest state organization, consistently and purposefully developing adult vocational training, guidance and counseling as an active labour market policy measures aimed at increasing employment of unemployed and persons belonging to risk groups, and develop workforce skills to compete in the labour market. Lithuanian labour market training and counseling system consists of the Lithuanian Labour Market Training Authority, seven local labour market training and counseling offices, which are subordinate to the Authority in major Lithuanian cities. Currently there are eleven labour market training centres with their branches and minor offices at other towns. The administrative structure of the Lithuanian labour market Training Authority and the territorial location of its branches ensure the effective nationwide services.

**VET system consolidation**
A programme for the consolidation of the basic vocational education and labour market vocational training is started to be implemented. This programme is aimed at the consolidation of the basic and labour market vocational training, optimization of the network of the vocational training institutions, well-balanced use of the finances related to the vocational training infrastructure and determination of the delegations for the particular institutions in the field of the vocational training.

**Lifelong learning**
With a view to involving more people in the labour market and to invest more and more efficiently in the development of human resources and life-long learning, in 2004 the Ministry of Social Security and Labour in joined efforts with the Ministry of Education and Science drafted the Life-long learning strategy and the Action Plan for its implementation, as well as the Implementation Plan of the Vocational Guidance Strategy. The Life-long learning strategy was revised and renewed in 2008.

This started the development of a vocational guidance network accessible for all. In order to increase the accessibility of the vocational guidance services for the employed and unemployed the vocational guidance system is going to be improved. It is planned to establish a network of the Vocational guidance centres in order to ensure the quality of the vocational guidance services and their provision for all concerned. In 2007-2008 seven territorial labour market and counselling offices were accredited as Vocational Guidance Centres.

**Best practices:** 1) Decentralisation of VET management; 2) VET programmes development; 3) The Open Information, Counselling and Guidance System (AYKOS)

**Expertise:** 1) Ministry of Education and Science; 2) Methodological centre for VET; 3) Vytautas Magnus University (Centre for Vocational Education and Research)

**POLAND**

**Vocational Education and Training (VET)**
A number of reforms have taken place in the area of vocational education. Among them:
The integration of vocational education into the general education system, in contrast with the pre-transition situation in which vocational education was separated from this system and provided by centres and schools managed by different Ministries or public institutions, as well as by state-owned companies. This involved the creation of a system of VET with three levels: 1) 2-year (basic) vocational schools (directly after primary school), training workers for narrowly specialised professions (this was the dominant part of VET); 2) 4-5 years secondary vocational schools; 3) 2-year post-secondary vocational schools.

With the reform of the general education system started with the 1999 Law and to be implemented over the period 2000-2007, this structure was changed towards a 2-level system: 1) 2-year vocational schools (after the end of compulsory education- *gymnasium*), created as of September 2002; 2) 1-2 year post-secondary vocational schools (after secondary education – *lyceum*).

At present, the options are: 1) Technical secondary schools (*technikum*) offering 4 years of full-time technical and vocational upper secondary education for students aged 16 to 20 (which also offer the Matura examination necessary for admission to higher education); 2) Basic Vocational Schools (*zasadnica skola zawodowa*) offering 2-3 year full time upper secondary vocational education for
students aged 16 to 18, the leavers having access to the trade or occupation or to further secondary education (general or vocational) ending with the **Matura** and thus opening the opportunity to pursue higher education; 3) For students graduating from the previous one, and since 2004-2005, supplementary secondary technical school (**technikum uzupelniacze**) offering 3 years of full or part-time vocational upper secondary education for students aged 18-21 also in preparation for the **Matura** examination; 4) For students graduating from general secondary education (**lyceum**), post-secondary vocational school (**skola policealna**) offering a vocational qualification diploma after 2.5 years and passing an exam. In sum, a system of “bridges” between general education and vocational education, in all stages below higher education.

Reforms in VET curricula: development of a system of national vocational qualification standards (NVQS) in cooperation with employers, as well as a system of examination standards and external examinations system.

**Continuing education (adult education)**

Educational services offered by schools for adults (including university-level schools offering evening, weekend or distance learning courses) have steadily expanded since the early 1990s. In the school year 2001/2002, nearly 1.45 million adults were enrolled in primary, junior high, secondary and higher education institutions (in evening, weekend or distance learning courses) as well as in postgraduate and doctoral studies. In 2002, participation in education or training among persons aged 25-64 was 4.3% (in EU-15 8.5%) and was significantly higher among females (4.7%) than males (3.9%). (JIM 2003).

According to the Education System Act of 1991, education, training and in-service training for adults can be provided on daily, evening, extra-mural, distance-learning, out-of-school basis or in any other system combining any of the above forms. These tasks are carried out by public and non-public adult schools, centres for continuing education, practical training centres and other institutions of out-of-school education run by, among others, associations and foundations or “popular universities”. Amendments to the Education System Act introduced in 2003 separated the continuing education centres (CKU) and practical education centres (CKP) from schools and allowed them to integrate actions undertaken by various institutions and to create regional or national networks of continuing education institutions. All public schools for adults are organised and run by the territorial self-governments (**Gmina and Powiat**) and the system works under the coordinating role of the Ministry of Education (Department of Vocational and Continuing Education). Non-public schools for adults can be established and run by individual persons or by bodies such as associations, social and religious organisations, etc. The National centre for Supporting Vocational and Continuing Education (KOWEZiU) cooperates with the CKU and CKP in the area of training and in-service training of teachers working in schools for adults and in continuing education.

With the entry into force of the Act on Promotion of Employment and Institutions of the Labour Market of 20 April 2004, public and non-public bodies offering education in out-of-school form and registered as training institutions with the regional authorities are considered eligible to offer training to the unemployed. These activities are coordinated by the Public Employment Services, and can be funded by the central budget or the Labour Fund.

**CZECH REPUBLIC**

In the terminology used in the Czech Republic, a distinction is made between “Initial Vocational Education and Training” (IVET) and “Continuing Vocational Education and Training” (CVET).

**Initial Vocational Education and Training (IVET)**

IVET is part of the general education system, administered, at national level, by the Ministry of Education, Youth and Sports; and at sub-national level, by the higher territorial units (regional self-governments) established in 2000. All schools providing IVET (except higher education institutions) are funded by the Ministry of Education, via regional authorities, which allocate the resources to individual schools. Regional self-governing bodies are directly responsible for establishing and closing down VET schools and school facilities (though established schools must be approved by the Ministry and ranged into the school register for being eligible for funding from public resources). Regional
bodies administer the schools and cover their capital and operational costs. The school director, appointed by them, and the school council (representing the school funding body, pedagogical staff and parents/pupils) hold significant powers.

Before 1989, a majority of secondary education students (60%) were following courses aimed at acquiring a vocational qualification aimed at direct integration into the labour market (not at pursuing further studies at higher education level). These were provided at technical schools and vocational schools, at the level of lower and upper secondary education (and, since 1995, also at the level of tertiary education). However, by 1997 this proportion had already been reversed, and the proportion of secondary education students enroled in courses and programmes involving the matura had increased to 60%. In any event, the proportion of vocational education in the entire area of secondary education continued to be very high and in 2006/2007 some 79% of the secondary school graduates were achieving a vocational qualification at this level.

The very important reforms designed and implemented around the turn of the Century (starting with the White Paper “National programme for the Development of Education” elaborated in 1999 and the first Long-term Plan of Education and Development of the Education System prepared by the Ministry of Education in 2002 and materialised in the new School Act in force since January 2005), have consolidated a model in which while preserving the tradition of acquisition of a professional qualification sufficient to join the labour market even at the level of secondary education, the traditionally narrow curricula have widen up so as to provide also a more general education and provide better opportunities for the students to continue into higher education. In this respect, “curricular reform” (described above) has played a major role.

Tertiary professional schools were introduced in the 1992/1993 school year on an experimental basis and since 1995 they have been part of the educational system. These schools have mostly been attached to secondary technical schools and they still form a single legal entity with them (only 1/5 of them are independent entities). Tertiary professional education usually takes 3 years and graduates are awarded the degree of “qualified specialist (DiS)”. 

Continuing Vocational Education and Training (CVET)
In the Czech context, CVET includes: 1) Adult education provided by secondary schools and tertiary professional schools (under the responsibility of the Ministry of Education and regional education authorities) and by higher education institutions (distance and lifelong learning, including the “Third Age University”); 2) “Retraining” of employees and job seekers, organised or co-financed by the labour offices in the context of the employment policy and depending on the needs and requirements of regional labour markets or potential employers; 3) “Statutory training” for specific regulated professions or sectors, for which relevant sector-specific Ministries retain a responsibility (health staff, public administration staff, pedagogical staff, maritime and railway transport, electrical engineering, etc.); and 4) Provision of other educational services on a commercial basis (such as foreign languages’ training).

Although the Human Resources Development Strategy for the Czech Republic, adopted by the Government in 2003, already set out the main directions and recommendations for the development of continuing education and these were reiterated in later strategic documents, such as the National Reform Programme 2005-2008 (which set out the main national objectives concerned with the Lisbon strategy implementation), and the 2005 Long-term Plan for Education and the Development of the Educational System in the Czech Republic, a report produced by the National Institute for Technical and Vocational Education in 2009 acknowledges that “the progress in practice is very slow). 

Despite the passing of a Law on Validation and Recognition of the Outcomes of Continuing Education (which came into force in 2007), there is not yet a coherent system for the planning of CVET at national or sectoral level, nor is there a system for identification of training needs. However, attention to these needs has increased since accession to the EU, and two projects financed by the ESF and aiming at the development of systematic forecasts of future profession and qualification needs in different sectors of the economy have been launched. In turn, based on the work of the regional
councils for HRD, some regions are providing forecasts of employment in their areas and labour offices pinpoint the existing skill shortages in the relevant regional labour markets.

A National Qualifications Framework (as a publicly accessible register of entire and partial qualifications and their standards for qualification and evaluation) and a system enabling the desired inter-connection between IVET and CVET (including the rules for authorisation of entities and individuals who will evaluate the professional competence of applicants) is being developed, in cooperation with the most important social partners (Confederation of Industry, Chamber of Commerce and Bohemian dna Moravian Confederation of Trade Unions).

SLOVAKIA

Vocational Education and Training (VET)

As in the Czech Republic, in Slovakia, secondary education was provided in three kinds of schools: grammar schools (general education), secondary specialised schools and secondary vocational (apprentice) schools. The grammar schools offered four- to five-year courses of general education, concluded by taking the school leaving examination (GCSE/maturita), and preparing students predominantly for tertiary (higher) education. Secondary specialised schools provided four-year courses of study (with GCSE/maturita) aimed at preparing future specialists. Secondary vocational schools (2–3 year study leading to a "certificate of qualification" or COQ, and four-year study with GCSE) were focused on practical job skill training mostly for manual occupations. Ten years after the start of transition, the vast majority of secondary students attended specialised schools (37%) or vocational schools (44%), with only 17% attending grammar schools.

In their joint assessment of employment situation and policies, carried out in 2001, the Government and the EC considered that the pace of the reform in secondary professional education and preparation had been slow during the 1990s, lagging behind the process of structural changes in the economy. At the turn of the Century, more than one-third of technical and vocational schools were still of an industrial type, with courses taught being focused on skill training for declining branches of industry. Former links between secondary vocational apprentice schools and individual enterprises have been weakened by structural changes in the economy, with only 2.7% of students now in preparation for a job in a particular enterprise. Secondary professional and vocational curricula showed a low level of flexibility, failing to respond to the changing qualification requirements of the labour market. The involvement of social partners in defining the content and the structure of courses was low. The absence of a modular system of education and training restricted the later mobility of students, both horizontal and vertical.

The National Employment Plan, which was approved by the Government in November 2000, included measures focused on strengthening co-operation between the school system and employers sphere in preparing teaching syllabuses and plans of practical preparation in secondary schools; collaboration of regional labour offices in rationalising the secondary schools network, and in deciding on the contents of curricula and number of school graduates, through advice on employers' requirements and on developments in the labour market; and on guiding pupils in selecting their careers by including in the curriculum a subject of “career selection and development of entrepreneurship”.

The National programme for Upbringing and Education in the SR presented a strategic vision of a more complex reform of the educational system. Among the main planned measures were: further restructuring and rationalisation of the secondary school network whereby secondary technical and secondary vocational/apprentice schools would be combined, to create a new type of secondary vocational school that will offer different levels of general and vocational training on a modular basis, and also provide post-secondary and associate degree awarding courses; increasing social partners participation in the curriculum design of secondary vocational training; development of a core curriculum for secondary technical education (covering around 60 % of lessons, which will be supplemented with curriculum elements tailored to local conditions); installing the GSCE as the dominant form of completing secondary education, with 2- and 3-year apprentice courses being offered only in response to demand from enterprises and trade licence holders.; establishment of centres for practical training to allow upgraded practical preparation of pupils; streamlining of the
system of study courses and branches of learning, with creation of broad profile branches offering broadly conceived qualification training.

**Continuing education and retraining**

Legislation on continuing education and training provides that anybody showing interest in further education be allowed to supplement, extend, and deepen his or her knowledge, or to be re-skilled. Continuing education and re-training is offered by elementary schools, secondary schools, colleges, training facilities within enterprises, and by a number of non-governmental and private training facilities.

Continuing education and training is entered by employees or the unemployed. Funding comes from fees paid by participants, employers’ funds, designated subsidy from the state budget, the National Labour Office budget, where it relates to reskilling of job seekers, municipal budgets, and funds from foundations and other organisations.

The Labour Code stipulates a general obligation for the employer to see to the deepening and upgrading of employees’ qualifications, with particular reference to unqualified employees and those being assigned allocated to a new workplace or a new kind of work. In most circumstances, the employer may be eligible to receive a subsidy from the District Labour Office of up to 50% of the total training cost. An employee taking part in retraining is entitled to time off with pay if the training is at the employer’s initiative.

The District Labour Office is responsible for securing retraining for the unemployed. The cost of retraining of job seekers is fully borne by the District Labour Office. The majority of retraining courses focused on information technology, accounting, administrative skills, blue-collar jobs, and education in the fields of management and enterprise.

Quality in continuing education and retraining is ensured through accreditation of establishments and activities (including re-skilling courses). Responsibility for the accreditation lies with the Ministry of Education of the Slovak Republic.

In 2001 (when the Joint Assessment of Employment policies was carried out by the Government and the EC), it was recognised that the existing state of further (continuing) education and retraining was unsatisfactory. Participation was relatively low, and there was no overall lifelong learning strategy in place. The government was conscious of the need for a better legal framework for adult participation in education at all levels (initial, secondary and tertiary) and to define the involvement of the social partners in financing further training.

Planned measures to improve the situation included: further training incentives for both employers and employees; introduction and dissemination of a modular system of further training, which could respond in a flexible way to changes occurring in the demand for labour; increasing the proportion of the unemployed placed in programmes of active labour market policies (including re-skilling) to 20% and more of the total number of unemployed; redesign of retraining (re-skilling) programmes for the unemployed to improve their relevance to the needs of the labour market and of specific target groups such as school leavers, other juveniles and the long-term unemployed; creating an information system which would give information on existing training options and also advice on selecting a training path; prepare a programme of a long-term (6 – 12 months) retraining for the registerer unemployed in which 50 thousand persons would be placed.

**HUNGARY**

**Vocational Education and Training**

The basic principles of operation, organisation, management and financing of the Hungarian vocational education and training systems are regulated by Act LXXVI of 1993 on Vocational Education and Training.

The Act regulates matters regarding upper secondary school based as well as higher vocational education and training, with special regard to areas falling outside the provisions of the Public
Education and Higher Education Act. The Act addresses issues related to the recognition of professional qualifications, establishes the procedures regarding regulated professions, especially those requiring examinations and listed in the National Register of Qualifications. It also provides for the status of trainees, the contractual responsibilities of the employers assuming their practical training. Furthermore the Act contains provisions on the modalities of participation of the employers’ representative professional bodies (so-called industrial or trade chambers) in curricular development and professional examination procedures. School based vocational training being an integral part of the public education system is mostly funded by the State. Besides State subsidies vocational training schools and higher education institutions where higher level vocational training courses are organised also have access under certain conditions to additional funds from the Labour Market Fund made up by the companies’ mandatory contribution.

As of mid 1990s, with co-operation from EU countries, and through the TEMPUS and PHARE programmes, continuous efforts have been made to adapt the structure and content of higher education and vocational training to the needs generated by the transformation process. Tangible changes took place in the nation-wide administration of education and VET (Vocational education and training), with a move towards deregulation and overall decentralisation of the system. In addition, an EU-compatible National Register of Qualifications was established and is being constantly adjusted to the needs generated by the current requirements of the economy and the labour market.

In particular, the important contributory role of initial and continuing VET in the successful implementation of Hungary’s HRD strategy has been recognised, including this sector’s immediate and highly significant contribution to the continuous improvement of the labour force. VET is also recognised as a ’bridge’ between school and the world of work (The fact that, since 1998, the administration of the VET sector has been merged with that of general education under the aegis of the Ministry of Education will facilitate the strengthening of this role).

Continuing vocational education and training
In the early 1990’s, adult education had fallen somewhat into the background, and it was only by the mid 90’s that the prominent role and significance of adult education and training was recognised in fighting unemployment and adapting the workforce to labour market demand and new technological developments.

This policy shift has been manifest in the establishment by the State of a new legal (Act Cl of 2001 on Adult Education), institutional and financial framework for different forms and levels of formal and informal continuing training focusing on the re-insertion of newly unemployed people in the labour market (including people living with disabilities). Moreover, of the nation-wide network of training facilities operated by the State (primarily the PES), a free market for training services emerged, with the establishment of a large number of training provider small-type private enterprises. This resulted in the merging of a large spectrum of highly differentiated as well as flexible offers of continuing training opportunities, with around 100000 unemployed participating in different forms of continuing training schemes. The 2001 Act on Adult Education provides for a mandatory accreditation of all adult education and training programmes or training provider institutions by a representative body, the National Adult Education Accreditation Board.

Since adult education is strongly supply driven, the financing of adult education and training is based on shared responsibilities of all main stakeholders (the State, the employer and the individual).

SLOVENIA
In the late 1990s, the Slovenian labour market was still characterised by significant imbalances between labour supply and demand. Employer demands and, consequently, qualifications required of the employed were changing rapidly, which required immediate changes in the contents of training programmes and types of provision. The existing, rather school-based, vocational education and training system was not in a position to respond to such challenges in a flexible and timely fashion. New qualification requirements were not sufficiently catered for by the initial education and training system, while an adequate and flexible continuing training system for upgrading skills or retraining both the employed, including redundant workers, and the unemployed was only just starting to
Labour market dynamics in terms of greater occupational mobility were partly hindered also by the existing methods and practice of regulation of occupations. Detailed provisions for performing over 360 rather narrowly defined occupations/specialisations (in terms of type and level of education, special qualifications and examinations, preliminary work experience, etc.) were having a negative impact on labour mobility. The speed of technological change required broader vocational profiles and programmes containing knowledge and skills, also including core skills, that would ensure higher mobility among the workforce and transferability of occupational qualifications.

The 1996 overhaul of legislation on the educational system (which included new Acts on Pre-school institutions, Elementary School, Vocational and Technical Education, Gimnazije and Adult Education) provided for new VET structures. The reform emphasis was on practical training in VET programmes (dual system, with 40% theoretical knowledge and 60% practical training in the apprenticeship system), participation of business in the decision-making process, greater responsibilities for employers in VET programmes as well as provision of financial support by the social partners and the introduction of various possibilities for acquiring occupational qualifications.

However, when in 1999 the EC and the Government undertook their Joint Assessment of Employment policies in Slovenia, it was found that, while a good policy and institutional framework had been introduced at central level – primarily targeted at the initial education and training of young people – much remained to be done in a second phase of VET reform yet to be launched. Further needed reforms included: comprehensive training for teachers and trainers; upgrading school equipment; diversifying and flexibilising training provision for both young people and adults; accrediting skills and designing specific programmes for groups of disadvantaged people, including school dropouts; involving the social partners in VET at different levels, from decision making to co-financing and participating in VET provision; a major overhaul of the qualification system; modernisation of VET curricula; etc.

A National Programme for Education of Adults was elaborated by the Ministry of Education, Science and Sport in 2003. Its first global goal laid down the responsibility of the State to make it possible, through fairly developed non-formal general education for adults, to gain the knowledge needed to improve the quality of life, increase the level of information and raise the cultural level of the majority of population. The second global goal specified the responsibility of the State to develop suitable circumstances for raising the educational level by various forms and opportunities of education and training at all vertical levels. The priority should go to the less-educated so that the proportion of adults with no education or an inappropriate one will be reduced considerably. The third global goal was intended to raise the educational level and competence of both the employed and the unemployed.

ROMANIA

Vocational Education and Training

The new political, social and economic situation in Romania after the 1990s led to new requirements of the Romanian education system.

A National Center for Technical and Vocational Education Development (CNDIPT) was established in order to continue the reforms in vocational education and training field (VET) which began with the assistance of the European Union through Phare VET RO 9405. CNDIPT also fulfills the function of intermediate body for the Sector Operational Program - Human Resources Development 2007-2013, for fields of intervention 2.1 (transition from school to work) and 2.3 (access and participation in continuing vocational training) and has the following main tasks:

- proposes the principles of the educational policy and the development strategies through the school units of initial training schools and technical vocational education and the linking principles between training and specialized in pre-university and university
- ensures the scientific coordination of the innovation and development projects in TVET
- ensures the scientific coordination and development of the methodologies for design, implementation and revision of curriculum for vocational and technical education
• helps the coordination and the development of scientific methodologies in order to prepare the teachers within TVET
• contributes to the correlation of the principles and methodologies of the initial and ongoing training of teachers in TVET
• design and develop programs to fit the quality of equipment and other material resources for vocational education and technical training to international standards
• ensure the development and functioning of social partnership in TVET at national, regional and local
• ensure the function of intermediate body for the Sectorial Operational Program - Human Resources Development, Priority 2, the major areas of intervention 2.1 (transition from school to work) and 2.3 (access and participation in continuing vocational training)

The necessity of modernization, combined with the strategic directions of development at the European level, led to a new approach in order to reform the vocational education and training filed. The educational policies promoted by the Ministry of Education Research and Innovation in vocational education and training have the following objectives:
• reform the system - covering all aspects and issues, with the priority on quality, equity and efficiency;
• further reforms - building on the results achieved so far and maintaining the stability necessary to achieve its goals until 2010;
• reforms undertaken - empowering strategic partners by their participation in the development of programs in the framework of education and training system

Modernizing vocational education and training in Romania has the following objectives:
*The European dimension*: the growing importance of European dimension in initial and ongoing training in order to improve close cooperation to facilitate and promote mobility and development of inter-institutional cooperation, partnership and other initiatives trans-national, all aimed at improving the image of European education and training in the international context so that Europe is recognized worldwide as a reference for all learners.

**Transparency, information and advice:**
• increasing transparency in the initial and continuing training through the implementation of Europass and linking with the National Qualifications Framework European Qualifications Framework.
• increasing importance of policies, systems and practices related to information, guidance and counseling at all levels of education, training and employment of labor, particularly on issues of access to education and training

**Recognition of skills and qualifications:**
• investigating the ways in which transparency, comparability, transferability and recognition of skills and / or qualifications between different countries at different levels can be promoted by establishing reference levels defined by the European Qualifications Framework, certification principles and common measures including the transfer and the accumulation of credits for initial and continuing training.
• Increasing the support for the development of skills and qualifications at sectorial level by strengthening cooperation and coordination, especially involving the social partners.
• Developing a common set of principles on validation of non-formal and informal in order to ensure greater compatibility between approaches in different countries at different levels.

**Quality assurance**: promote cooperation in quality assurance with emphasis on exchange of models and methods as well as common criteria and principles for quality in initial and continuing training.

Further information can be found on the following web-site:  [http://www.tvet.ro/](http://www.tvet.ro/)

**Continuing vocational training**
Romania has made progress in restructuring the system of continuous training. Currently, Romania is implementing the short and medium term Strategy for continuing vocational training, 2005 - 2010.
Implementation of this strategy is carried out in a planned manner, through the Action Plan 2005 - 2010.

The strategy aims to build a structured system of continuous vocational training, flexible and transparent, with adequate funding and a strong involvement of social partners to ensure a raised employment, adaptability and mobility of labour force and to meet the needs of companies regarding qualified manpower, taking into account the economic restructuring and alignment to the European market.

The Ministry of Labour, Family and Social Protection together with the Ministry of Education, Research and Innovation, the National Agency for Employment and the National Council for Vocational Training for Adults are the institutions that have completed the legislative framework for professional training of adults.

For the development of the strategy, an important role was played by the social partners through the National Council for Vocational Training of Adults (CNFPA), which is a tripartite body and was established in 1999. The National Council for Vocational Training of Adults has set up sectoral committees, which are social dialog institutions having public utility, intervening in skills and VET (vocational education and training) development and promotion.

The strategy sets out 2 strategic objectives:
1. A growing participation to continuous work-related education and training and facilitating the access for all persons regarding long life learning;
2. Growing quality and effectiveness of vocational training system through a result oriented management.

Among the action lines of the strategy, the ones which relate directly to the labour force skills are:
- Developing of a flexible and transparent vocational training system, based on skills, integrated into the National Qualifications Framework;
- Ensure the necessary conditions for the evaluation / validation and recognition of prior learning and experience, including skills acquired in non-formal and informal context;

In April 2004 the Romanian Government undertook a commitment to the European Commission to implement a series of actions required to develop a National Qualifications Framework (CNC) that will lead to consistency of the two training systems, namely initial and continuous.

The actions carried out in this process were:
- Naming CNFPA as National Qualifications Authority (ANC)
- The setting up of National Agency for Higher Education Qualifications and of a Partnership with the Economic and Social Environment
- Signing of a tripartite agreement regarding the national qualifications framework.

Developing the National Qualifications Framework aims to ensure consistency between continuing training and initial training, introducing a common terminology, common occupational / professional standards, the same principles of certification (based on skills) and a system of transferable credits to allow recognition of learning, regardless of the system or context in which it occurred. Occupational standard, respectively the vocational training standard represents the document which specifies the necessary professional skills of practicing an occupation, respectively specific to a certain skill.

**Best practices:**

**THE EXERCISE FIRM – The first step in business development**

The exercise firm is a modern training concept, an interactive learning method to stimulate entrepreneurial spirit.

It is a test and a form of practicing the contents acquired through basic training, a modern concept on content integration and interdisciplinary approaches.
The concept of exercise firm was introduced in the Romanian vocational and technical education system through a project initiated within the Stability Pact for South-Eastern Europe, carried out together with the Austrian Ministry of Education and Culture – the ECO NET project.

Since the beginning of the school year 2006-2007, the “exercise firm” is included in the national curriculum- technological route, services profile, level 3 of qualification.

Now, the National Centre for Development in Initial VET is associate member of the EUROPEN (European Practice Firm Network).

Objectives
• introducing students to the specific activities of a firm by means of virtual firms;
• documentation with a view to simulate real business operations and processes;
• developing entrepreneurship by allowing students to practice business activities.

Under such circumstances, the student becomes an “employee” of the firm;
• improving business communication in different modern languages;
• identifying of specific Romanian business activities;
• identifying differences from economies in other countries;
• knowledge of specific documentation and practices in national and international trade;
• knowledge of similar experiences in other schools that implemented the concept of “exercise firm”;
• promoting student and teacher cooperation at national and international levels;
• stimulating student’s creativity and its recognition at national and international level;
• increasing students’ responsibility;
• establishing a virtual business environment as close as possible to the real one;

Website: http://www.tvet.ro

“TOGETHER FOR EDUCATION AND TRAINING” private-public partnership
“Together for education and training” is a partnership between a company SC “Daewoo Mangalia Heavy Industries “ S.A. and some school units from the Constanta county, which provide initial training in the field of ship buildings.

Under the partnership agreement, the Company committed itself to:
• providing the specific equipments and materials for the practical training of students;
• granting scholarships for students;
• providing working and protection equipment, transportation and meal for the students who make the practical training in the company;
• participation together schools at the assessment of the students in order to provide to the graduates the competence certificates

Benefits
• professional insertion of the graduates- over 90%
• school modernizing
• better satisfaction of beneficiaries (students, employers, parents)
• better confidence of schools regarding the quality of own training supply

Expertise
National Center for Technical and Vocational Education Development
National Council for Vocational Training of Adults (MLFSP)

MALTA
Malta started a radical reform in professional and vocational education and training in 2001 when it established the Malta College of Arts, Science and Technology (MCAST). In the past eight years MCAST has contributed its substantial share in the building of a dynamic and competitive knowledge-based economy capable of sustainable economic growth with more and better jobs and greater social cohesion. This commitment is clearly indicated in its mission statement: “To provide universally accessible vocational and professional education and training with an international dimension,
responsive to the needs of the individual and the economy”. MCAST was already complying with the Lisbon agenda and adopting the Copenhagen process even before Malta joined the European Union in 2004.

MCAST brought together a number of existing vocational education and training institutions that had an excellent track record of achievement while setting up new institutes within it in order to cover a wider range of fields to respond to existing, growing and emerging disciplines in demand by industry. In September 2001, MCAST’s student population consisted of 1,539 full-time students and it offered 46 courses in 6 Institutes, namely the Institutes for Art and Design, Building and Construction Engineering, Business and Commerce, Electrical and Electronics Engineering, Information and Communication Technology and Maritime Studies. In 2003, MCAST offered 60 courses in nine Institutes in Malta, since three more Institutes joined MCAST, namely the Institutes for Community Services, Agribusiness, and Mechanical Engineering, and 13 courses in two new centres in Gozo. During academic Year 2008/09 MCAST was offering 120 full-time courses and nearly 300 part-time courses while accommodating nearly 5,000 full-time students and about 3,500 part-time students. About 25% of the courses are offered as apprenticeships. Full-time courses are free of charge and students receive maintenance grants. In 2009 practically all full-time courses have been referenced to the European / National Qualifications Framework which should guarantee international recognition, validity and transparency.

A very important feature of MCAST is the wide range of courses it offers at different levels. Students join a MCAST course according to the qualifications they already possess – the higher their qualifications, the higher the course they can follow. Hence, MCAST offers different entry and exit points with a vocational education and training qualification at the end of each course. Students can leave at the end of a course or progress from one level to a higher level, up to first degree level. MCAST is proving to be a valid and attractive alternative route to further and tertiary education. The College has raised the status of vocational education and training while it has referenced most of its courses to the Malta Qualifications Framework that is in sync with the eight levels of the European Qualifications.

The number of students attending part-time and evening courses ranges from 2,500 to 4,000 annually. Every year hundreds of adult students, mainly female, attend also courses that are funded through the European Social Fund and these courses are therefore free of charge. The largest increase in the number of students continuing with their studies beyond compulsory education age during the last six years was in the VET area, particularly at MCAST. At the same time MCAST increased the number of opportunities for lifelong learning, particularly in the upgrading, upskilling and reskilling of workers in order to participate in face the challenge of the ongoing changing technology.

MCAST has steadily built a reputation as a centre of excellence while raising the status, accessibility and attractiveness of professional and vocational education and training (VET). It is providing students with holistic education and training programmes while satisfying the demands of existing industry, commerce and the services with the knowledge, skills and competencies that they currently need, and providing as far as possible for the requirements of incoming local and foreign direct investment. This has been possible as a result of MCAST’s in-built flexibility to respond as fast as possible to requests made to it through the on-going communication it keeps with the major stakeholders, including Malta Enterprise, the state agency for the promotion of foreign direct investment, ministries concerned with the promotion of economic activity, as well as the Employment and Training Corporation, which is the state agency that monitors employment and itself provides shorter training courses that are mainly hands on.

MCAST has facilitated investment in major areas of new economic activity. For example, as a result of the introduction of new education and training programmes, Malta has succeeded in attracting a huge investment in the maintenance and servicing of aircraft. Also, MCAST is making a major contribution in the education and training of young people in the fast growing pharmaceutical industry and financial services. At the same time MCAST has been promoting a range of courses in information and communication technology and the media. However, MCAST does not ignore the changing skills needs of existing enterprises and it often enters into dialogue with them so that courses currently on offer are actually adequately preparing the students for their future career.
Hence, MCAST holds meetings with different industrial sectors and has established permanent communication with the Malta Chamber of Commerce, Enterprise and Industry.

**Best practices**

The MCAST Board of Governors not only includes experienced educationists in VET but also a number of leading industrialists who ensure that MCAST’s policies, strategies, objectives and programmes are consonant with the changing industrial, commercial and servicing highly competitive world outside. MCAST’s lecturers also come both from the academia as well as from industry and together they enrich the delivery of the programmes on offer. MCAST is strengthening its internal quality assurance mechanism while it already has valid external quality assurance through its special relationships with leading foreign examining bodies. In fact, MCAST provides students with a number of programmes leading to professional qualifications awarded by internationally recognised professional bodies. On the other hand, lecturers are given the opportunity and financial support to enhance, upgrade, update and raise their qualifications in order to ensure the delivery of quality VET. MCAST students’ successful participation in Euro Skills is indicative of obtainable standards.

However, MCAST believes that the future is even more challenging and it has to gear all its potential towards the provision of VET that the economy will require during the next decade and beyond. Hence, in 2006, MCAST carried out a thorough strategic assessment of its performance with the assistance of expert economists and the contribution of stakeholders as well as the experienced MCAST senior managers and interested parties. The assessment considered MCAST’s past track record, Government’s objectives, economic development and changing employment patterns, investment opportunities as well as the potential of the country. The assessment provided clear indications for a way forward, projecting student numbers in the various fields of activity that MCAST currently already provides or needs to further develop in the immediate and near future. A strategic plan was consequently devised which was followed by an operational plan with specific and measurable objectives to implement it.

At the same time, following a public call for tenders, a Master Plan for the physical growth and restructuring of the MCAST main campus was presented to Government. The main objective was to bring together the Institutes currently on satellite sites within the main campus in order to improve the appropriate synergies, to further pool and share resources, facilities and services, and to provide all students with the inter-disciplinary experiences as a further enrichment of the vocational education and training course they follow. Moreover, the Master Plan means to strengthen MCAST’s current position as a local centre of excellence and to turn it into a regional centre of excellence by 2015 with a potential to attract more foreign students while still catering fully for local demands and aspirations. Hence, convinced of MCAST important contribution in the country’s growth, Government has decided to invest €115,000,000 made up of both Government and, potentially, European Regional Development Funds as regards to equipment and other physical resources over a number of years.

MCAST must continue to be a valid and indispensable alternative route for education and training for our young people, a guarantee for their own future and the economic development of the country. Hundreds of students are making MCAST their first choice, whatever their qualifications, because MCAST is being considered as a very valid alternative route to tertiary education at a university. It is important that students get the right advice and guidance in order to make the best course choice according to their educational attainment, their aspirations and their potential so that they succeed in their studies. Malta’s economic and social future relies on the development of its human capital.

**Expertise**

Ministry of Education, Employment and the Family

Mr Paul A. Attard - Policy Advisor MEEF

- **Use of ICT systems and solutions in the educational sector**

During their transition, countries of central and eastern Europe and the Baltic region had to catch up with other more developed countries in what concerns the use of Information and Communication Technologies (ICT) for education purposes.
Some of these countries gave a high level of priority to this issue, as well as to other aspects of the introduction of ICT in government and public administration and services, as an strategic bid for fast economic and social development. But all countries developed and implemented programmes for endowing the school system with the necessary technical resources (computers and hardware), introduce ICT in the school curricula and train the educational community so that ICT became part of the normal life of every school and educational centre. This was followed by projects aimed at the development of education portals and databases, as well as by efforts in the development of IT-supported educational tools and contents.
ESTONIA

Estonia has relatively high levels of ICT. 100% of schools are connected to the Internet.

Estonia defined four pillars to use and develop ICT in education:
1. **Technical environment.** Is connected with most important subject – access. Computers and high-speed internet to school. It is precondition of all other developments. Estonia dealt with it in 1997 with Tiger Leap programme. Now we have average pupils/computers ratio in schools 9.8 and teachers/computers for teachers ratio: 2.8.
2. **How-to-use knowledge.** Teacher ICT schooling system and increase of the amount of people who manage to use internet-based services.
3. **Development of E-content.** Learning software created by universities and databases developed by teachers who are using ICT in learning/teaching and who want to share their experience and materials.
4. **IT systems and databases.** Mainly connected with ICT for administration, aimed at increasing of the efficiency of using resources.

**Best practices**

a. Adult education courses made by “Look@World” Foundation – free mass IT education (8 hours – computer and internet), financed by telecoms and banks.
b. Estonian e-University – a consortium of universities and vocational schools for the development of e-learning and efficiency of using resources.
c. Estonian Educational IT System – web-based system, which covers all data about students (all levels), pedagogical staff, institutions, educational certificates, exams.

**Expertise:** 1) Ministry of Education and research; 2) “Look@World” Foundation; 3) Estonian IT Foundation (assists in preparation of the highly qualified IT specialists and supports information and communication technology-related development in Estonia. For these purposes the Foundation established and manages the Estonian IT College and administers the National Support Program for ICT in Higher Education “Tiger University.”); 4) “Tiger Leap” Foundation (funded by the government and local authorities with a brief to promote ICT within the educational system in Estonia and provide advice to government and schools).

POLAND

Since 1998, the ministry of education has been undertaking extensive activities to enable students and teachers to develop their skills in using a broad choice of information/communication technologies.

In 1998 – 2005, equipping of schools with computer systems was financed by the central budget, as part of the projects **Internet room in every commune**, **Internet room in every secondary school**, and **Internet room in every school**, in addition to resources from other sources, including local governments, revenues earned by school, or the means of Parental Committees.

Simultaneously with deliveries of computer systems and software, trainings were performed for teachers of schools included in projects, not only for IT teachers and guardians of school computer rooms, but for teachers of other subjects as well. The purpose was to prepare teachers to use information/communication technologies both in the process of teaching IT and various other subjects, and in other forms of courses apart from the class timetable, for students interested in information technology.

In 2004, the ministry of education launched projects designed to boost the use of information/communication technology in the didactic process. The projects covered the following fields: equipping schools with computer systems and educational software, trainings and professional improvement courses for teachers, and developing an educational web portal. The projects were implemented with financial assistance from the European Union, under the Sectoral Operational Programme Human Resources Development 2004 – 2006.
Educational web portal.

The initiative implemented by the Ministry of National Education under the project “Educational Web Portal”, was the expansion of the educational web portal Scholaris. Consequently, a portal was created that contains educational materials of most subjects of all stages of learning, methodological materials for teachers, and services addressed to portal’s users. Scholaris offers not only didactic aids useful in teachers’ professional work, it also constitutes an updated complete source of information relative to broad education, teacher activity, education offices and non-governmental organisations.

As regards educational materials, the portal features 530 multimedia lessons (for student and teacher) and many other multimedia resources, i.e. 700 multimedia presentations, 461 simulations of phenomena and processes, 2860 interactive exercises, 3748 video films and animations, 10300 photos and illustrations, 2723 tables and diagrams, and 158 maps.

The portal also offers six interactive courses of improvement for teachers, in addition to 429 tests and examinations, 1362 students work cards and 6578 lesson scenarios. Also, various materials addressed to teachers have been published.

Among the services offered to the portal’s users, the most important were those offering active participation, such as forum and chatroom. At completing project implementation the portal featured 44 discussion forums, and in course of the project also on-line discussions were carried out, joined by representatives of education authorities, scientists and intellectuals. The portal also offered a hosting service, thanks to which every school, educational institution and association could publish its own website on the Scholaris server. In addition to the above, the Scholaris portal also made available the service e-Szkoła (e-School), operating on basis of the e-learning platform LEO (Learning Environment Online).

Training of teachers in the field of ICT

Trainings for teachers in use of computer and applying information technology and the Internet in the teaching process, were among the elements of projects to provide schools and units with computer equipment, co-financed from European funds under SOP-HRD 2004-2006. As regards the projects “Computer Rooms for Schools”, “Internet Multimedia Information Centres in School and Pedagogic Libraries” and “Computer Systems for Lifelong Learning Centres and Practical Training Centres”, the body managing the school/unit that had reported its participation in the projects, was obliged to finance and execute training courses, while teachers to participate in trainings were selected by director of schools and units. Those trainings were addressed not only to IT teachers, but mainly to directors of schools, and teachers of subjects other than IT. Under the project “Specialist Computer Equipment with Software for Psychological/Pedagogic Counselling Units”, the managing body was obliged to finance trainings for employees of counselling units.

Under the project “Purchase of Modern Specialist Hardware Facilitating Education of Students with Special Educational Needs”, the suppliers of specialist computer hardware and software were obliged to perform trainings for teachers and specialists-therapists from all schools and centres participating in the project.

Under the project “Computer Rooms for Schools” in 2004-2008, trainings in the use of computer with access to the Internet, were attended by more than 72 thousand teachers of primary and secondary schools, and over 43 thousand teachers of upper secondary schools and colleges. Trainings covered three target groups of employees of schools and units:

- Directors of schools and units in scope of implementing information technology and its use to improve management and create school’s image.
- Teachers of various subjects, in scope of information technologies and multimedia learning in school practice.
- Teachers of information technology (IT subjects) – room guardians in scope of preparing teachers to the function of administrator of school internet room, and for upper secondary schools and colleges and formation units - for teachers of advanced methods of creating websites applying elements of design in client-server architecture.
Under the project “Internet Multimedia Information Centres in School and Pedagogic Libraries”, teachers and librarians participated in trainings for guardians of the school multimedia and information centre.

The Ministry of National Education under the SOP-HRD 2004 – 2006 has been implementing projects related to improvement of teachers’ qualifications in use of modern information/communication technology. Under the project “Post-Graduate ICT, foreign languages and second subject Studies for Teachers”, post-graduate studies have been organised, completed in two editions by 19982 teachers. The preparation, organisation and performance of post-graduate studies was entrusted to 17 universities. Access to studies was granted to teachers from all voivodships (provinces), and at recruitment to studies in the first edition, teachers from rural areas and small towns were privileged. The Ministry of National Education has also implemented the project “Preparation of teachers as professional consultants as part of post-graduate studies”, of which one of the elements was improvement of teachers’ practical skills in use of modern information/communication technology. These studies were completed by 3737 teachers. The project was implemented by universities selected in a tender procedure. Another project designed precisely to improve teachers’ qualifications in scope of applying information/communication technologies in the process of teaching, was the project “Improvement ICT Courses for Teachers”. The courses were carried out in two phases throughout the country, under the guideline to stage courses as close to the teacher’s place of work, as possible. Courses were completed by 16906 teachers.

Polish experience in the field of ICT in education shows that efforts to disseminate the use of information/communication technologies in the teaching process should focus on methodical support for teachers, to overcome the barriers in applying new technologies in the teaching process, as well as creation of educational e-resources broadly available to teachers and students alike, educational portals included.

CZECH REPUBLIC

The fast and mass expansion of ICT causes that people who are not used to working with ICT (in particular the older generation and low-skilled workforce) have a worse position on the labour market. With ICT penetrating in all areas of life, their chances to participate in the regular civic life are worsening and they are threatened by social exclusion. This is why the Ministry of Informatics launched the National Programme of Computer Literacy.

The Program was aimed at providing an opportunity for the general public to learn basic computer and Internet skills, and help them overcome fear of new technologies. Its core consists in “hands-on” two-hour courses during which participants gradually learn to use a computer, get connected to the Internet, search for data and work with the electronic mail.

Primary target group was the general public, with special emphasis placed on older people who did not come across IT during their formal education and had very limited opportunities to work with it during their professional lives. Low price of courses (CZK 100, i.e. about EUR 3.5) also eliminated financial barriers for people from lower income categories and there were also special projects for disadvantaged groups.

The project was ended in 2006. The Ministry of Informatics assessed the project as highly successful. The partnership of computer literacy support country-wide training centres with schools and public libraries proved as very effective. Schools welcomed the chance to test life-long learning courses and make informal contact with their pupils’ parents/grandparents, and public libraries can attract new people through hosting computer training courses.

The indicator of success is in particular the number of people who completed the course and the percentage of participants from the groups at the highest risk of social exclusion due to difficult access to ICT. A total of 101 856 people participated in the programme. Most of them completed two courses. In terms of age structure, 45.23 % of participants were over 51 and 24.38% came from the 51 – 60 age group.
SLOVAKIA
There were several initiatives in order to bring ICT into education. Some of them were from private sector: Memorandum of Understanding with Microsoft, Cisco Net Academic Program, Deutsche Telecom. Other from the third sector: Open Society Fund (formely Soros Foundation). But also from sector: Project Infovek

Now Slovakia has own special ICT policy document Strategy of implementing ICT into Primary and Secondary Schools for 4-year period 2008-2011.

Best practices
ICT is included in the curriculum of the primary and secondary schools. It offers content from computer literacy for every student to content of computer science to very talented students as elective subject in academic studies.

Experiments were led to prepare new curriculum for Primary and Lower Secondary schools in 20 pilot schools in the years 2000-2006. The new curricula were included into the documents of the new State Educational Program. It is implemented in the transition period of state reform from the year 2008.

Majority of teachers has received 36 hours course of basic skills for teachers. Approximately 40% of teachers are using computers regularly (data from school statistics, UIPS). Teachers in general have positive attitude to ICT uses in education in Slovakia (EU statistics, LearnID Empirica 2006).

Slovakia has outstanding results in International Olympiad in Informatics. With more than 20 gold medals this success has placed Slovakia amongst the top countries in the world, together with China, USA, Russian Federation.

Expertise: Ministry of Education of the Slovak Republic (Ms. Viera Blahová)

HUNGARY
An important asset of the Hungarian education and training systems is the general expansion of digital literacy at all levels of education. In the course of the last decade not only have all institutions of public and higher education been equipped with computers and connected to the Internet, but thanks to extensive in-service training of teachers and to appropriate curricula development, their use by teaching staff and students became widespread.

SLOVENIA
The period of transition overlapped greatly with the technological revolution which could not be ignored by the education system. ICT is now an integral part of the teaching process in Slovenia. Through school projects funded by the European community programme for Lifelong Learning – Comenius, Leonardo da Vinci and eTwinning - pupils keep in touch with their peers all over Europe and obtain computer literacy. The state supplies hardware and software to schools and teacher trainings in the field of use of ICT in the classroom. Through the programme “e-šolstvo” the state funds development of electronic teaching materials for different levels of schooling. The digital competences have also been inscribed into the renewed curricula of almost all subjects at different levels of schooling.

ROMANIA
IT-Based Educational System (SEI) is a complex program initiated by the Ministry of Education, Research and Innovation in 2001, aiming to offer ITC support for the Romanian education system.

The program supports the educational reform objectives according to the eEurope 2005 action plan initiated by the European Union and conforms to the European eLearning initiative.

SEI is implemented by a public-private partnership. The main companies involved in SEI implementation are SIVECO Romania, HP Romania and IBM Romania. SEI is aiming to provide all schools in Romania with complete IT solutions for use in the teaching/learning process. Also, the SEI
program promotes IT&C in education through specific projects designed for administrative and educational purposes.

SEI is designed as an integrated nation-wide solution, composed of an integrated network of local and regional solutions. Each IT laboratory provided to schools is itself an integrated solution, ready to be used by teachers and pupils. The IT laboratories (local solutions) are integrated into a logical network comprising all the schools in a region. All Romanian regions are integrated into a national network connected to and coordinated by the SEI management unit.

The SEI Program aims to offer access to IT (computers and Internet) for all teachers and pupils in primary schools, secondary schools and high schools in Romania.

One of the main benefits envisaged from the Program is ensuring that all graduates will be “IT literate”. The program also aims to encourage innovative teaching and learning and to stimulate creativity among teachers and students, offering a general framework for development of collaborative projects, allowing the people enrolled in the educational system to participate in the development of the information society. SEI triggers modifications to the school curricula, integrating new learning methods based on IT&C.

The SEI Program offers new tools for use in schools, thus increasing the quality of the education process. It offers a substitute for expensive or dangerous instruments and experiments by means of virtual counterparts. Within SEI Program, the local, regional and country administration is provided with managerial and administrative support.

The main components of the solution are:
- Hardware (IT laboratories);
- Learning &Content Management Solution (the AEL software system);
- Educational software and electronic educational content;
- Teacher training;
- Internet connectivity

The standardized high-school IT classroom is composed of 1 server, 25 workstations, printer, scanner, equipment for the networking and Internet connectivity. Manufactures configure the computers with basic operating software: operating system, email server and email clients, software firewall, office software and anti-virus software.

**Best practices**

1. **AEL-Advanced eLearning**
   The backbone of the program was the Learning and Content Management System AEL- Advanced eLearning which was implemented in all 1510 Romanian high schools. AEL eLearning platform is an integrated teaching/learning program and content management system, based on modern educational principles and technologies. The AEL eLearning platform offers support for teaching and learning, for tests and evaluations, for managing the educational content, for monitoring the educational system and setting up the curricula (http://www.edu.ro and SEI http://portal.edu.ro portals)

2. **Use of ITC solutions in the field of VET**
   “ITC in the field of VET” is a project co-financed by the ESF within the POS DRU 2007-2013. The main objective of the project is the human capital development and the increase of competitiveness, through better link of education and lifelong learning with the labor market needs and the opportunities provided for future participation on the modern and flexible labor market for some qualifications, especially from the ITC field.

   The project has also two specific objectives, on the one hand, the improvement of the quality in education and training in order to offer competences in accordance with the labor market needs and, on the other hand, a better attractiveness of VET.

**Expertise:** Ministry of Education, Research and Innovation (http://www.edu.ro)
MALTA
In 1992 the University of Malta and the Education Division developed a National ICT strategy. This was used as a roadmap for the integration of ICT in the curriculum.

In 1994 computers were introduced into secondary schools. Each secondary school had 12 PCs installed in a computer lab with an average of two labs in each school. Teachers were trained in the previous summer and in-service training continued throughout the following years. ICT was phased in gradually year by year and integrated with three subjects Maths, English and Social Studies. All ICT teachers were encouraged to undergo professional development and ICT diploma courses were designed to upgrade the teachers’ ICT academic qualifications. At the same time a small unit of teachers was set up to support and create content for ICT in secondary schools.

In 1995 computers were introduced into primary schools with 4 computers in each class. Primary Teachers were also trained and given a laptop. The Department of Technology in Education was set up and support was extended to the primary sector.

In the year 2001 computer studies was introduced as an option in secondary schools and a year later ICT as a discrete subject changed to the ECDL course.

To cater for these changes more computers were introduced and more labs set up. In 2008 laptops were deployed to all teachers (primary and secondary) and all computers in schools were upgraded.

In 2007 the government published Smart Island and Smart Learning, (the National ICT strategy and National e-Learning Strategy). Interactive white boards were introduced in a number of schools and training continued for all teaching grades.

Best practices
A number of schools took up the proposal initiated by the Department of Technology in Education to design whole school ICT policies and encouraged to embed ICT in the curriculum. By 2009 all schools had put ICT on their SDP agenda. In 2007 three Maltese Teachers were short listed for the Best use of ICT by the European Schoolnet. The best use of ICT for 2007 was awarded to Malta.

With the set up of the Curriculum Management and eLearning Department (CMeLd), schools were encouraged to use innovative technologies and continue to embed ICT in their curriculum. In 2009, to celebrate the European year of creativity and innovation, a number of teachers were awarded the Best Use of ICT trophy. During a three day event, ten colleges showed their best ICT practices and students experienced innovative digital technology first hand.

The Smart Island
The government’s vision is to make the Island one of the top 10 information societies in the world, where the application and communication technology will be ubiquitous. The new national ICT strategy, The Smart Island is a vision for a country where information and communication technology is not a mere information and communications tool but a primary vehicle for putting right social inequality, disadvantages and disabilities, while improving the quality of life

The Smart Island has been constructed on five strategic parameters:

- Three determinants- a) i2010 Action Plan of the EU Commission.
  b) the national research, development, technology and innovation strategy.
  c) the National Industrial Policy
- SmartCity Malta
- 360-degree approach, which serves as the guiding strategy for the development of other programmes.
- It is based on leading international practice.
- It is built on the experience of multiple stakeholders

Within the context of these five parameters, The Smart Island strategy is constructed with the vision as the hub and seven strategic streams as spokes:
1. Robust ICT Environment and next generation infrastructure
2. A connected society – bridging the last and the new miles
3. Develop human potential into a smart workforce
4. e for everything – enhancing our citizens’ quality of life through ICTs
5. Re-inventing Government – transformation and open Government
6. Taking Care of (e) Business
7. Developing a world-leading ICT industry

Smart learning: Malta’s National e-learning Strategy

The Smart Island serves as the guiding strategy for the development of the vertical programmes which are subsidiary to it. One of these is the National e-learning Strategy (Smart learning).

There are seven principles that underpin the Smart Learning strategy:

• all pupils will have access to personalised, flexible learning content and opportunities
• through access to technology, children and young adults will develop and use independent-learning skills that will support them in employment and throughout life-long learning
• educators and administrators will have the skills and support for the use of technology in teaching, and to support their own career development;
• the use of technology in teaching will support and encourage sharing, collaboration and creativity, and drive innovation
• parents will be able to play a greater part in their children’s learning
• public-private partnerships will support the development and delivery of Smart Learning
• the National e-Learning Strategy will accelerate the development of Malta’s knowledge economy

The National e-Learning Strategy takes three key strategic directions - in skills, infrastructure and content - each one with a series of strategic aims and actions.

Teachers are being helped and supported to create and upload learning material for classroom use on either their school’s website or the skola portal. Each year teachers are being exposed to high-quality professional development dealing specifically with e-learning. While classrooms are being equipped with a number of different digital technologies.

In May 2009 and May 2010 the Curriculum Management and e-Learning department within the Directorate for Quality and Standards in Education held a seven day e-learning event and celebrated good practice. During the event students and teachers experienced emerging technologies and had hands on innovative practices. During this event, named EMBED 2010: Best Use of ICT, good practices carried out during the year were encouraged and rewarded.

Expertise
Raymond J. Camilleri
Director
Directorate for Quality and Standards in Education
Curriculum Management and eLearning Department

Room 318, Great Siege Road, Floriana VLT 2000
16. HEALTH

- Health sector reform (in general)
During the years of transition from socialist rule to market economy and integration into the EU, very important reforms were implemented in all countries of Central and Eastern Europe and the Baltic region in the area of public health and health care systems. Important reforms were also introduced in other countries joining the EU in the 2004 enlargement, such as Malta.

In the majority of these countries, the health system that was in place before the transition was based in the so-called Semashko model, which was the model originally developed in the Soviet Union. In this model, public health programmes and individualised health care were both provided by a single and centralised structure of health administrations and services (hospitals, policlinics, etc.) fully funded by the state through its general resources. Access to health care services was theoretically universal, but in practice there were groups of the population (the nomenklatura, the armed and security forces, etc.) which were clearly privileged, having access to specific and better quality resources that were not available for the rest of the population. Private practice of medicine or other medical professions did not exist; and neither did privately owned health care service providers or financial mechanisms (such as health insurance companies). Production and distribution of medicines and medical aids was entirely in the hands of the state.

As in other aspects of the reforms process, each country followed its own path in what concerns the health care sector and, quite often, some of the reforms were subject of a trial and error approach (first introduced, and then withdrawn) or subject to more or less permanent adjustments and corrections.

However, there were a number of issues that had to be tackled in all countries, in one or another way: First, the opening up of the health care sector to private operators, either at the level of private exercise of medical professions (private practices), the establishment of privately owned clinics and hospitals, the liberalisation of the retail distribution of pharmaceutical products (pharmacies) and the privatisation of health care establishments and pharmaceutical industries.

Second, the reforms concerning the financing of health care services, which gave rise to the introduction of the principle of purchaser-provider separation and the emergence of the Health Care Funds, in its double modality of compulsory and voluntary. The new compulsory health care insurance was mostly funded by wage-based contributions, although usually with additional transfers from the state budget, to cater for the contributions of particular groups of the population out of the active labour market, such as the unemployed or the pensioners. As for the health care funds, some countries opted for the solution of establishing only one fund, while others accepted the coexistence of one publicly or quasi-publicly managed fund with others privately managed.

A third common characteristic was the creation and development of the network and system of primary health care (PHC), as the entry point to the health care system, previously dominated by specialised health care facilities and services. This was accompanied by a major privatisation of the out-patient specialised health care network (policlinics) and a substantial reduction of the in-patient (hospital) capacity, which in the Semashko system was totally overdimensioned, when compared with health care systems in the West.

The question of the “basket” of health care services to be covered by the new health insurance system, the coverage of the costs of pharmaceutical products and medical aids (and the corresponding size of the co-payments to be covered by the patients themselves), as well as more controversial issues such as the introduction of user fees for medical services covered by the compulsory health insurance, were all subject of consideration and a range of different solutions have been implemented in different countries.

The experience of these group of countries with health care reforms also offers a range of practices and solutions in what concerns decentralisation of public responsibilities for the management of public health care services (or even for its funding), whereby in some cases early decisions had to be
reversed after some time; on the issue of the modalities for the management of health care facilities and institutions (especially hospitals) and on mechanisms for the most appropriate funding of different types of services (pay for services rendered, capitation systems, etc.).

All these countries did also acquire and develop experiences and practices in what concerns capital investments and the investments needed for upgrading medical and health care equipment, in the design and implementation of policies related to cost reduction (particularly in human resources and medicines); ad in the strengthening of the education and training of the health care professions (from doctors to nurses, midwives and other professions).

Finally, these countries can also offer a valuable experience with the re-organisation of the public health services and programmes (vaccinations, fight against epidemics notably HIV/AIDS, etc) as well as with alignment and participation in EU policies and programmes related to health issues.

LATVIA

Latvia’s health care system underwent major changes since the country achieved independency in 1991. Reform policy since then included amongst others: adoption of a Public Health Strategy in 2001 (which aimed at developing an integrated approach of prevention and treatment at all levels of the health care system), reform of health care financing (e.g. payment for hospital services, introduction of a primary health care payment system based on capitation and fund holding, pooling and channelling of almost all funds for health care through the centralized State Compulsory Health Insurance Agency (SCHIA), regulations of the pricing system for pharmaceuticals and introduction of a centralized health management information system.

ESTONIA

The first wave of reforms after achieving independence laid a strong base for a functional health system by creating a fully sustainable health financing system. It laid strong base for later reforms. Reforms that took place in the beginning of 1990s also established decentralization in the health system. Planning of primary care was delegated to municipalities. However, many municipalities were unable to ensure an efficient performance and at the end on 1990s re-centralization of health care started to take place in some areas.

Main events ad milestones in the health care reform during the transition years are as follows:

1. 1991: Development and enactment of the first Health insurance Act. This first Health insurance Act (adopted before Estonia’s official independence) was considered an important step towards a stronger and sustainable health care service. Health care providers saw it as a possibility to ensure sustainable funding for medical care in the new economic environment. It developed from centralized that was dominant in the system under Soviet Union to decentralized allowing health funds to become stronger through earmarked taxes and stimulated efficiency and responsiveness in the system. Reasons for establishing this kind of health system were: 1) To ensure a sound revenue base for the health care system, 2) To connect and bring closer together the health insurance and labour market. By doing this it would offer individuals stimuli to participate in the formal labour market. The reform also faced some negative effects. One of the main concerns stood in the low level of training of the health insurance system personnel. There was a lack of experiences in the field and non existent local training courses.

2. 1992: Reforming provider’s network. Purchaser-provider split. Providers operating in various legal forms are no longer under strict state supervision. They were now licensed by the Ministry of Health.

3. Decreasing hospital network capacity to enable more efficient use of resources and to ensure better quality.

   In accordance with the Health Services Organization Act in 2002 all hospitals were required to act under private law as joint-stock companies or foundations that provided clear regulations to the hospital managers under which they were now forced to act.

4. 1993: Primary Health Care reform (PHC). Introduction of family medicine as a separate medical speciality. The Basic framework was laid down in Health Service Organization Act. In
1997 the Ministry of Social Affairs introduced new regulation and financing scheme for primary care. The goal was to provide the whole population with family physicians by the year 2003.

5. 1998: Ambulance service was made universal, ensuring access to everyone; and was now funded by the state budget. The service quality continuously improved.

6. Mid 1990s: Changes in Health insurance eligibility criteria. It defined the groups eligible for health insurance in more detail and more precisely. The motivation was to encourage and give stimulus for individuals to participate in the labour market. Today there is still a large proportion of the population who are not covered with insurance in the health care excluding emergency care (4%).

7. 1995: Co-payments for primary care and specialist visits were enforced. The payment was low but came across very negative opinions from the general public since people were accustomed to free medical services. The motivation behind this reform was to increase the revenue of health care.

**Best Practice:** Today the Estonian health care system is mainly publicly funded through solidarity based mandatory health insurance contribution in the form of earmarked social payroll tax, which mounts to almost two thirds of the total health care expenditure. The core purchaser of health care service for insured people is the Estonian Health Insurance Fund. The health insurance system is mandatory, covering about 95% of the population. The Ministry of Social Affairs is responsible for financing emergency care for uninsured people.

**Expertise:** Institutional: 1) Estonian Health Insurance Fund; 2) Ministry of Social Affairs, Deputy Secretary General on Health; Academic: 1) University of Tartu, Department of Public Health; 2) PRAXIS Centre for Policy Studies.

**LITHUANIA**

Although public debate on the reform of the Soviet health care system (Semashko) had already started in 1988, reforms did not start until the restoration of independence 1990-1991. The situation at that time was characterised by problems of access to medical services (despite a very high number of physicians), inequities in service provision (with special services for nomenklatura and workers of certain sectors and industries) and few incentives for quality services.

In the 1990’s decade, there were four phases in the development of the health care system.

The first phase (1990-1992) was characterized by decentralisation of public health care. Ownership of primary and secondary health care facilities and institutions was “devolved” to Municipalities and the role and responsibility of municipalities in administering and financing outpatient care and most small and medium-sized hospitals was increased. During this period, the general public was suspicious of even the use of the term “planning”, as it seemed to be a relic of the Soviet system. The prevalent ideology was that physicians, institutions and municipalities should decide on the range and quality of health care services. There were therefore only some limited attempts of national health planning. Based on the WHO “health for all” strategy, a National Health Concept was adopted by the Seimas (parliament) in 1991, stating the core objectives of health care policy for the medium and long term: 1) Active health policy (involving the move towards primary care and prevention) and 2) Health care financing reform (towards a mix of general taxation and health insurance contributions). However, although this concept provided the overall strategic policy framework for reforms undertaken in further years, it lacked a concrete implementation plan.

A statutory health insurance scheme was first implemented in Lithuania in 1991. Between 1991 and 1995 it was limited in scope, covering pharmaceuticals and spa care which were partly reimbursed through a general social insurance scheme, administered by the State Social Insurance Agency (SODRA, established in 1991). A State Sickness Fund (SSF) was established in 1992, under the Ministry of Health, to finance the running costs of health care institutions on the basis of contracts with prospective payments.

The second phase took place in the period 1993–1994 and was marked by public debates on the
issues of private versus public administration of health care institutions and free patient choice of physician versus a gatekeeping role for general practitioners. The outcome was a general agreement on an incremental process of reform. At this time, the publicly run health system was increasingly underfunded, the population’s health status was deteriorating and there was an uncontrolled privatization of the pharmaceutical sector, through which more expensive pharmaceutical products from the West were quickly replacing cheaper products from CIS, with a dramatic increase in both public expenditure and private/family cost in medicines.

In the third phase, from 1994 to 1995, a number of political decisions were taken. These consisted, on one side, in implementing a statutory (public) health insurance scheme (aiming at universal coverage of the entire population, with a purchaser-provider split), and to deconcentrate other public health services by shifting administration from the Ministry of Health to the ten counties. On the other side, it was also decided to strengthen the primary health care sector by reducing physician specialization (in areas other than general practice) in outpatient care. The necessity of long-term planning and the difficulties in managing change began to be understood by the authorities, which resulted in much more attention being paid to training managerial staff, and monitoring of providers. A general Law on Health System was adopted in 1994 and a Health Care Reform Management Board was set up as an advisory body to the Ministry of Health for the conduct of the health reform process.

However, it was as of the years 1996-997 that the most important legislation (primary and secondary) was adopted an that the institutional capacity at national level was significantly developed (for instance, through the creation of a number of regulatory agencies under the Ministry of Health dealing with licensing, accreditation, registration and control procedures). In May 1996, the Seimas (Parliament) passed the Health Insurance Law which provided for the establishment of a statutory (public) health insurance scheme, as of 1 January 1997. The scheme is financed through a mix of tax-based resources and payroll contributions paid by employers and employees; and covers the cost of health care services through contracts with service providers or reimbursement of the costs of pharmaceutical and other products. Payroll contributions earmarked for health care are nevertheless collected by the general social security administration (SODRA), which also manages sick-leave and maternity benefits included in the overall social security scheme. Although ownership of the primary and secondary public health care institutions remained mostly in the hands of municipalities (with only a few exceptions), a Law on Health care Institutions introduced the model of non-profit organisation as the standard type for such institutions.

One of the most important reforms was the introduction and development of a new system of primary health care (PHC).

Primary health care, as a separately organized sector of health services was a new concept in Lithuania. The term first entered the health policy arena with the National Health Care Concept in 1991. Technical assistance from WHO, UNDP, PHARE and the World Bank contributed to developing a definition of the term and its underlying principles, which were accepted by the Ministry of Health in 1995. In 1996, the general practitioner’s role, including a gate-keeping function, was defined and pilot projects were initiated in four municipalities. In 1996–1997 operational service standards were set for general practitioners, and the functions of general nurses (specifically midwives, community nurses and mental health nurses) were defined. Programmes of training and retraining of general practitioners and related personnel were started in 1996. Today, the entire network of primary health care institutions is administered by the municipalities. In addition, primary health care is provided in the physicians’ private practices. One more innovation within the primary health care sector involved implementation of the concept of community mental health services (mental health centres in municipalities).

Concerning resource allocation, until the implementation of the Health Insurance Law in 1997 allocation was largely determined by historical criteria. Central funds were allocated to municipalities on the basis of population and historical expenditure. The municipalities in turn allocated resources to facilities mainly in relation to historical spending. However, since 1997 the policy has changed radically. Primary health care is financed on a per capita basis with some bonuses paid to PHC institutions serving the rural population. Current expenditures of specialized outpatient as well as
inpatient care are 100% financed according to the services provided. There were no limits to services reimbursed by health insurance in 1997 and 1998. As of 1999, certain limits in the volume of services that can be reimbursed by the territorial sickness funds began to be introduced.

**Best practices / Areas of expertise:** 1) Introduction of health insurance system; 2) Policy on medicine compensation (based on health economy knowledge); 3) Strengthening primary health care (PHC); 4) Fostering public health; 5) Introducing the figure of general practitioner

**POLAND**

Throughout the 1990s, the Polish health care system remained predominantly funded by the state. As of the early 1990s, Poland proceeded with gradual public sector devolution, including reorganizing the previously hierarchical health care system.

The administration of most health services was transferred in 1991 from the national Ministry of Health and Social Welfare to the provinces (voivodships) and to a lesser extent to the municipalities (gmina). The second step, from 1993 onwards, was to devolve ownership of most public sector health facilities to the provinces and to the local governments. The gminas previously had little involvement in health care services. Later on, the old level of the powiats (counties) was re-established in 1998 and took over responsibility for county hospitals. Health services were provided by public health care institutions with the status of budgetary entities.

Since the adoption of the Law on Universal Health Insurance, dated 6 February 1997 and in force since 1 January 1999, the health care system underwent major structural changes, notably the establishment of 16 regional sickness funds and of a separate fund for uniformed public employees such as army and railways workers. As a consequence of rising user discontentment with the reform, these regional funds were merged together again into a single National Health Fund (NHF) in 2003. Public health care institutions changed their status to independent health care institutions obliged to cover their expenditures with their revenues from health services delivery. In 2005, the stewardship, management and financing functions in the Polish health care system were divided between three different types of institutions: 1. Ministry of Health 2. National Health Fund 3. Territorial self-government administration.

Today Poland has a mixed system for public and private health care financing. Social health insurance contributions represent the major public source of health care financing (the rest being state and territorial self-governments’ budgets). Health insurance contributions are mandatory at a rate, in 2005, of 8.5% of its base, which corresponds for most people to taxable income. The National Health Fund (NHF) with its regional branches administers the social health insurance scheme. The NHF has the responsibility for planning and purchasing public financed health services. Health insurance contributions for certain groups of individuals not covered by the standard scheme and specific public health activities (such as the national health programmes which mainly focus on health prevention and promotion objectives) are funded directly by the state through general taxation. Complementary sources of financing include both formal and informal out-of-pocket payments, and to a lesser extent pre-payment schemes. Private health expenditure accounted for 27.5% of total health care expenditure in 2002. Around 60% of all out-of-pocket spending was on drugs and medical devices.

Primary health care and family medicine have been strengthened since 1991 (until then, the concept of family physician or general practitioner did not exist) with an increased focus on training health professionals in family medicine. There is a strict separation between outpatient specialized care and inpatient care. The outpatient specialized sector is mostly based in private medical practices, except in large cities, where outpatient specialized care has developed on the basis of the former specialized health care centres, operating now as independent health care facilities. Hospitals provide health care services in four basic departments: internal medicine, surgery, obstetrics and gynaecology, and paediatrics. The departments are used to classify hospitals according to referral levels. Hospitals that only have the four basic departments are known as first referral level hospitals and they are mainly established by county self-governments (powiats). Second referral level hospitals, mostly established by regional self-governments (voivodships) provide services in other specializations, e.g. cardiology, dermatology, oncology, urology or neurology, and are called voivodship specialized hospitals. The
third referral level hospitals, mostly university or ministerial hospitals, provide highly specialized medical care by top medical specialists. In 2003 there were 732 public hospitals and 72 non-governmental and private hospitals. Trends in the delivery of care include a decrease in the number of hospital beds from 6.6 per 1000 population in 1990 to 4.7 per 1000 population in 2002, and a decrease in the average number of hospital stays; this was accompanied by a significant increase in the number of hospitalizations from 120 per 1000 population in 1990 to 164 per 1000 population in 2001. The number of outpatient contacts in 2001 was 5.5 per person per year, which is relatively low compared to the EU average of 6.6. There is scarce state provision of long-term community care services in Poland, and the sector as a whole remains underdeveloped.

Current health policy reforms are primarily aimed at: tackling the demographic challenges of population ageing; reducing hospital debts; restructuring the health sector; introducing alternative sources of revenue for health care financing; and improving the control of rising health expenditures. A comprehensive health information technology programme on a national scale is planned to better inform health policies with routine health services statistics.

Since 1989, the role of the Ministry of Health has progressively evolved from health care funder and provider, to policy-maker and regulator. The Ministry is responsible, in general, for national health policy, for major capital investments, and for medical science and education. It has administrative responsibility only for those health care institutions that it directly finances. In particular, these include the national postgraduate education centre and national centres for child health, maternal health and cardiology. The Ministry is also responsible for implementing national public health programmes, for training health care personnel, for partly funding medical equipment, for setting and monitoring health care standards, for the regulation of medical professions, for running the State medical Emergency Service, and for a number of supervisory functions (safety of medicinal products and medical devices, biocides and cosmetics, hygiene and sanitation, etc.).

The National Health Fund started its operations in 2003 as a successor to the previous 16 sickness funds. The major task of the NHF is to finance health services provided to insured persons. To this end, the NHF contracts with service providers for the supply of health services. The NHF is prohibited from engaging in profit-making activities, it cannot operate or own health care institutions, it may have no ownership rights over the legal entities operating health care institutions or pharmacies, and it cannot be a shareholder in companies which manage health care institutions or trade drugs.

At each level of the self-government administration, health authorities are responsible for three domains: general strategy and planning based on the identified health needs in a given region, health promotion, and the management of public health care institutions.

Establishment and management of health care units may take any form defined in the Law on Health Care Units. On the basis of this law, a health care unit is an independent facility in terms of its organization, personnel, assets and finances. It is established and managed to provide health services and promote health.

CZECH REPUBLIC

The Velvet Revolution in 1989 led to a process of reforms that had far-reaching effects on health care in Czechoslovakia and, later, the Czech Republic. The principle of free choice of health care provider was introduced, and the huge Regional and District Institutes of National Health that had been established during the communist era (Semashko system) were dismantled. During the early 1990s the Czech Medical Chamber, the Czech Dental Chamber and the Czech Chamber of Pharmacists, as well as other professional medical associations, were re-established or newly founded. A new system of home care was also adopted. At the same time, primary care, non-hospital ambulatory specialist care, the pharmaceutical industry, pharmacies and spa facilities were almost completely privatized.

In the early 1990s several key laws relating to the new health system were approved, including the General Health Insurance Act (1991), the Act on the General Health Insurance Fund (1991), and the Act on Departmental, Professional, Corporate, and Other Health Insurance Funds (1992). These shifted the health system towards an SHI model, with a number of quasi-public, self-governing health
insurance funds acting as payers and purchasers of care, financed through mandatory, wage-based contributions. The first such entity to be established was the General Health Insurance Fund (VZP), which has remained the largest health insurance fund in the Czech Republic since it began operating in early 1992. It also has the biggest influence due to its market share and its function as a safety net for members of health insurance funds that close or go bankrupt. In late 1992, the first of many other health insurance funds was founded. Up to 27 funds were operating at one period in the mid-1990s, but their number had decreased to 10 by 2009.

In the five years following these initial reforms, the health insurance funds contracted an increasing number of state and private health care facilities on a fee-for-service basis. These arrangements, however, led to unsustainable increases in costs. In 1997, fee-for-service payments were replaced by capitation fees as the chief means of payment in primary care, and by fixed, prospective budgets for hospitals. The fee-for-service scheme was also modified for ambulatory specialists by introducing pharmaceutical budgets and limits on the volume of services that can be reimbursed at the full rate.

An important development in public administration took place in 2003, when the ownership of approximately half of the hospitals in the Czech Republic was transferred from the State to 14 newly formed, self-governing regions. In the wake of this process of decentralization, some regions decided to change the legal form under which most of these hospitals operated, transforming them from entities directly subordinate to the regional authorities to joint stock companies.

**Financing**

Following a rapid increase in the early 1990s, total health expenditure in the Czech Republic as a share of GDP has remained relatively low (6.7% in 2007) compared to western Europe. The vast majority of health expenditure is through the SHI system, which is financed through compulsory, wage-based SHI contributions and through state contributions on behalf of certain groups of economically inactive people. Health expenditure from public sources as a share of total health expenditure is among the highest in the WHO European Region. Population coverage is virtually universal, and the range and depth of benefits available to insured individuals are unusually broad.

Private sources of expenditure are used to cover (a) the costs of over-the-counter pharmaceuticals and some dental procedures; (b) co-payments on medical aids and prescription pharmaceuticals whose actual price exceeds the reference price in a particular pharmaceutical group; and (c) user fees for doctor visits, prescription pharmaceuticals, hospital stays, and the use of ambulatory services outside of standard office hours (introduced in 2008).

Monthly, wage-based SHI contributions from employers, employees and self-employed individuals are the main source of health care financing in the Czech Republic. The contributions are collected by the individual health insurance funds and subsequently re-allocated among them based on a risk adjustment scheme. The SHI contributions made by the State for certain groups of economically inactive people are also included in the re-allocation process. Capital investments in facilities managed by the State and the regions are financed primarily through state and regional budgets, and thus through general taxation.

**Best practice:** Reform of the risk adjustment scheme.

A good risk adjustment scheme is a necessary condition for any health insurance system with multiple insurers. However, the same may be applied for any system in which regional distribution of financial resources for the health sector takes place. In a multi-insurer setting, a scheme should take care of the diversity of risk distribution among the various health insurance funds. The Czech Republic has a wide range of experience with implementing such risk-adjustment schemes. Over time, it becomes obvious the older scheme should be replaced by a new one that would better reflect the differences in risk-structure of the insured population. The last such change took place in the years 2005 and 2006.

**SLOVAKIA**

The early health care reforms in the Slovak Republic were initiated by the radical political, social and economic changes following the “velvet revolution” Czechoslovakia in 1989. There was a strong political decision to replace the socialist health system (Semashko) with a mandatory statutory health
insurance system including an organizational split of purchasers and providers, acting in a specifically regulated market. However, after 1989, there were slow but significant differences in the development of the health systems in the Czech and Slovak Republics.

The Constitution of the Slovak Republic ensures universal coverage and access to free of charge health care services based on mandatory health insurance, built on the principles of solidarity and plurality. This constitutional guarantee of “free health care” has created a very strong sense of entitlement and a strong resistance to health insurance and/or health care provision schemes that differentiate or explicitly ration access to health services.

Slovakia, like many other formerly communist states of central and eastern Europe, has struggled to devise and implement a coherent strategy for transforming its health sector into an effective provider of health services given the resources available. There has been a mixed experience in the last decade, health outcomes improved during several health reform efforts in the 1990s but serious problems have emerged in the financing and provision of health services.

During the 1990s the integrated health care system was stepwise replaced by a social health insurance system with multiple funds. Most providers of primary health care and many specialists providing secondary care went into private practice. Health care delivery became fragmented, based on separated health care providers operating mostly alone. Also, the links between primary health care providers and secondary health care weakened. Until 2001 all but three hospitals continued to be owned and operated by the Ministry of Health and their employees remained civil servants. There were few strong administrative incentives to manage these facilities effectively and efficiently. Devolution of some health service responsibilities to the newly established self-governing regions in 2001 was no panacea. The current organization of the health care system therefore builds upon a mixture of decentralized and centralized structures.

Despite the numerous changes in society and the economy in the 1990s, the health service delivery system remained virtually untouched. Until 2001 the Ministry of Health owned all but three hospitals and many outpatient specialist facilities. Since then, ownership and the managerial competencies of most hospitals and outpatient clinics for secondary care has been devolved to self-governing municipalities and higher territorial units at regional level. Other polyclinics and hospitals, often the better maintained, were sold to private providers or transformed into not-for-profit entities with public benefit status.

In 1995 the introduction of a new system of health care financing based on health insurance led to the establishment of a number of completely new organizations – health insurance companies. They are responsible for collecting health insurance contributions and for reimbursing health care services according to Act No. 98/1995 on the Treatment Code that specifies the basic benefit package. They all administer the mandatory health insurance scheme and are not allowed to carry out other activities. The health insurance companies receive their revenues from various sources, the most important being insurance contributions that include contributions paid by income-earners and by the Government on behalf of the exempt population. The number of health insurance companies reached thirteen in 1996 but declined to five in 2004.

The operations of the General Health Insurance Company, the largest company, and the Common Health Insurance Company are guaranteed by the state and they are required to submit their annual budgets to parliament for approval. The latter was created in 1998 by the merger of the Military Health Insurance Company, Railway Health Insurance Company and the Health Insurance Company of the Ministry of the Interior. Private founders established the three other health insurance companies.

The Ministry of Health remains the main body committed to plan, regulate and manage health care provision although no specific national health plans were produced following the rejection of socialist centralized planning. The direction of the development of the health sector usually was laid out in the political documents called the Policy Statement of the Government of the Slovak Republic. The last was approved in November 2002. This document defines the goals and priorities of the government, including health care, for four years. During the 1990s the appropriate ministries elaborated the policy
statements into more detailed and time-scheduled action plans. Following the transfer of some
Ministry of Health and local state administration functions to the municipalities and higher territorial
units in 2002, part of the budgeting and planning functions became the responsibility of these
selfgoverning local authorities.

HUNGARY
Reforms before 1998
1989-1990
Health care reform was one element in the restructuring of the state after the economic, political and
social transformation. Health care financing became separated from the central budget and was
placed under the Social Insurance Fund. Financing changed from general taxation to health
contributions. Ownership of health institutions were transferred mainly to the municipalities.Private
companies were let into the health sector as well.

These reforms formed the basis of a social health insurance system in a democratic context, but left
unresolved questions regarding stewardship of the sector, basket of benefits or eligibility. Also,
municipal ownership hindered country-wide capacity master-planning for a long time.

1992-1993
A new system of general practitioners (GP) was introduced in place of the previously existing system.
GPs were financed on a capitation basis. The social insurance fund was separated into a health
Insurance and a Pension Fund. An independent Health Insurance institution was formed with 30-30
members of employees and employers. A locally adapted DRG system was introduced in the hospital
sector. A supplementary insurance scheme was introduced on a voluntary basis, where non-profit
mutual funds could be established.

The GP system, the DRG financing and the voluntary mutual funds all proved to be long-lasting and
adequately operating. They all are fine tuned from time to time, most of the time incorporating past
experiences. However, the Health Insurance institution had little or no real power over decisions on
the benefit package, budget planning or the contribution rate.

1996
Hospital bed reduction by 10%. The in-patient sector in Hungary was overgrown, so bed reduction
narrowed the gap in bed ratios between Hungary and the old EU members. However, capacity
reduction did not bring about all the expected results.

1998-1999
The Health Insurance institution was abolished. The self-government did not work well for reasons
outlined above, and its abolishment was a kind of solution to the problem.

Reforms after 1998
1999
A managed care pilot project was initiated with 160.000 patients at the very beginning. The system
was managed by in-patient institutions which got capitation payment from the central Health
Insurance Fund (HIF). The number of patients gradually grew to 2.5 million when it was abolished in
2008. From this year on, existing GP practices can be sold, so it became an asset for the owner.

Managed care providers with real strategic investors seemed to ameliorate health care provision in
their region and came up with innovative approaches. Several systemic problems came to surface
with the more or less clear incentive system. On the negative side, no standardized quality checks
were performed to properly analyze the results of the pilot.

2004
Introduction of the Performance Volume Limit with degressive payments after the performance-based
(German points in outpatient and Hungarian DRG in in-patient care) threshold.
The risk-sharing of budget breach with pharmaceutical producers somewhat balances the private and public benefit from the extra sales due to lower, subsidized prices.; and the pre-defined budget contribution is a transparent and calculable way that largely substitutes posterior deficit-financing. Although initially there were problems with the preparation of the contracts, later it was fine-tuned.

2007-2008
Co-payments in primary, outpatient and inpatient care were introduced and then abolished as a result of a referendum. Price competition among pharmaceutical producers was introduced. Hospital restructuring by reducing acute care beds by 26% and increasing chronic beds by 35%. The Health insurance Supervisory Authority was formed, initially to supervise the new health insurance companies then its role changed to patient rights and care quality watch. An Act was passed the Parliament aiming at introducing a joint public-private ownership in mandatory health insurance. The act was withdrawn due to professional, political and public resistance. Compulsory online authentication of the entitlement for the services of health insurance

Acute care bed reduction was necessary according to bed-to-population ration in Western Europe. Price competition brought price reduction in several treatment groups. The Supervisory Authority regularly supervises health care providers on the basis of patient claims and their own initiative. The authentication of eligibility brought the clarification of many unclear statuses thus made a great step towards transparency and might even provided some extra income to the HIF.

No monitoring tool was introduced to check the consequences of the co-payment on access. Both the reduction of acute care beds and the increase in chronic care beds were not scientifically funded, the used methodology was not made public.

2009
The organizational structure and competencies of the Health Insurance Fund Administration has changed. The NHIFA is divided into 7 regional institutions that have to contract health services in their own region by purchasing services selectively from providers. In place of the Performance Volume Limit the government introduced a new financing scheme for out and inpatient services. 70% of the latest year’s performance is financed on 100%, while the rest gets floating payments based on the performance of the whole sector.

Expertise: Ministry of Health / Department of International and EU Affairs

SLOVENIA
Financing of health care, health insurance
For decades Slovenia has been engaged in a systematic process of health care system modernisation in order to establish stable financing and organisation of health care. Reintroduction of compulsory health insurance and introduction of voluntary health insurance have been among the most important reform strategies to improve sustainability of the whole system.

During past years the Health Insurance Institute of Slovenia (“Zavod za zdravstveno zavarovanje Slovenije” - hereafter ZZZS) has devoted a lot of efforts and knowledge to establish stable and efficient system, to rationalise and contain costs on macro level of health care and simultaneously to provide higher quality services accessible to all insured persons. For these purposes educated stuff, good organisation and sophisticated information system has been built.

ZZZS team of experts possesses long-term experience in health sector reform planning and implementation - especially in professional fields connected with health care funding, financing, cost sharing and cost containment policies, health information system, and other connected professional fields. In the past decade ZZZS experts have been engaged in building and implementing several projects and comprehensive strategies to promote more rational and effective performance of the system. ZZZS experts have broad relevant experience in international surroundings especially in countries of central and southeastern Europe, carrying out projects on behalf of various national and international agencies.
Today ZZZS conducts its business as a public institute, bound by Law to provide compulsory health insurance for all citizens and/or inhabitants of Slovenia (approx. 2 millions). Till 1999 ZZZS was also implementing voluntary health insurance with around 1.2 millions of insureds. After amendments of the Law HIIS founded independent mutual voluntary health insurance organisation called "Vzajemna". In the field of compulsory health insurance, ZZZS principal task is to provide effective allocation of public funds, in order to ensure solid health protection of the population based on the system of (compulsory) health insurance rights. The benefits basket, comprise the rights to health care services and rights to several financial benefits.

In the year 2008 in Slovenia around 3 billion of Euros was allocated to health expenditures representing 8,10 % of the gross domestic product (cca 1.715 PPP-euro per capita). Public funds represented 5,80 % of GDP, the rest (2,30 % GDP) were private resources are mostly gathered by voluntary health insurance. Compulsory health insurance or ZZZS expenditures in the year 2008 were at the level of 1,99 billion of Euros representing 5,32 % GDP. 88,11 % of these expenditure were devoted to health care services (including drugs and medical aids), 9,63 % to cash benefits and 2,26 % were ZZZS administrative expenses.

**Best Practices**

In the processes of the integration with European union Slovenia has experienced results which have been considered as one of the best practise in sustainable financing of the health care system among new European union countries. Namely in the field of health care financing ZZZS has established specific interdisciplinary professional project teams for the development, implementation and control of key fields of (compulsory) health insurance: mobilising and allocation of resources, partnership negotiation processes, contracting, auditing etc. To support these developmental activities several projects were successfully launched and performed among which probably most internationally recognisable was Slovene Health Insurance (smart) Card project. Lot of its efforts was devoted to permanent education of its personnel which needs targeted high level professional training.

**Expertise:** Health Insurance Institute of Slovenia  
Contact: Boris Kramberger (boris.kramberger@zzzs.si)  
Fields of expertise:
- health sector reform planning and implementation,  
- strategic planning, change management and public informing,  
- health care funding, cost sharing and cost containment policies,  
- health care financing, accounting strategies and strategic purchasing of health care programmes,  
- integrated information system,  
- e-health insurance.

**ROMANIA**

The Romanian Ministry of Health has developed a medium term sector strategy aiming to increase the quality of life by improving population health through: decentralization and accountability of administrative decision-making, support competition in providing medical services, general efficiency and transparency in managing and spending taxpayers money. The strategy includes improving the system of health insurance and encouraging private investment, both at the level of funding and provision of medical services.

**Practical experiences:**
- development of a new strategy on drug policy. The main measures aim to establish and update prices at a single rate, correlated with the volumes purchased from suppliers. It will encourage generic prescribing by prescribing the general name international (DCI), in accordance with WHO recommendations;  
- social compensation for medicine for pensioners;  
- development of a new health policy in rural areas, increase of incentives for medical personnel in rural areas currently not covered by medical assistance;  
- at macro-structural level, reorganization of the health system through decentralization and organizational decision-making;
• guidelines and therapeutic protocols in collaboration with professionals in the country and abroad, for the most common diseases in accordance with international methodology

MALTA

The public health care system provides a comprehensive basket of health services to all persons residing in Malta who are covered by the Maltese social security legislation. Although Malta’s preparation to join the EU did not entail any changes to the system, it undoubtedly gave fresh impetus to the process of the system’s modernization.

The most fundamental reform initiated by Malta’s health authorities since the island’s accession to the EU in 2004 has been the restructuring of the management of the healthcare system. This has consisted in the articulation of the general directorial responsibility for the management of the system, previously concentrated under a single Directorate General, in four main divisions, namely:

• Directorate General for Public Health Regulation, responsible for all matters relating to the regulation of all licensed health care providers in Malta and the observance of health standards in all non-health services that have a direct or indirect bearing on public health.
• Directorate General for Health Care Services, responsible for the governance of all public health care services.
• Directorate General for Strategy and Sustainability, responsible for giving overall direction to the healthcare system while ensuring that its continued development remains sustainable.
• Directorate General for Resources and Support, responsible for the management and development of the system’s financial and human resources.

The advantages of this reformed organizational structure are twofold. On the one hand, it has helped consolidate each function by virtue of a wider distribution of roles and responsibilities. On the other hand, the separation of responsibilities that has occurred as a result of this restructuring, in particular the separation of the regulatory function from the service provision function, has led to a more independent, hence stronger, functioning of each division within this new organizational setup.

Best practices

• Partnership with the private sector
In recent years, a number of synergies with the private healthcare sector have been established. These have led to improved accessibility, quality and sustainability of public healthcare services.

• Pharmacy-of-your-choice scheme
This scheme, whereby patients can obtain a range of government-provided free medicines from private pharmacies located within their community, has enhanced patients’ access to medicines, has provided a better framework for communication between the patient and the dispensing pharmacist, and has freed up precious human and financial resources within the public healthcare system.

• Public-Private Partnerships - Residential Homes for the Elderly
A number of public-private partnerships (PPPs) have been established in recent years in the field of institutional long-term care for dependent elderly people. These have led to increased accessibility to a service for which demand is rapidly growing in the light of Malta’s ageing population, better quality of ancillary services, such as catering services, that are managed and provided by the private sector, and improved overall sustainability of the long-term care system.

• Mental Health Care in the Community
In recent years, there has been a process of deinstitutionalization of mental health service provision through the setting up of a number of community services for mental health patients. These services include primary and secondary mental health teams which provide customized mental healthcare to patients in the community; outreach teams that work with patients in their homes to enable them to enjoy a good quality of life in the community; a day centre in the community that provides day support and rehabilitation to mental patients.
• **Electronic Health**
A nationwide Picture Archiving & Communication System (PACS) was implemented with the purpose of making medical imaging data more easily accessible to healthcare practitioners, thus facilitating enhanced continuity of care within and between healthcare practitioners and entities. This electronic system was installed in Malta’s main general acute hospital, Mater Dei, and integrated with all the hospital’s digital imaging modalities. It was also extended to Malta’s oncology, geriatrics and psychiatry hospitals as well as to all health centres in the community.

• **Disease Prevention**
Legislation imposing a total smoking ban in public places including workplaces and leisure places has been enacted and enforced. This will go a long way towards stemming the worrying rise in the Maltese population of tobacco dependency and the incidence of a variety of diseases, such as cancer and heart disease, for which smoking is known to be a major risk factor.

**Expertise:** Policy Development, EU & International Affairs (Health) - Ministry for Social Policy.

• **Reproductive and sexual health / family planning.**

**LATVIA**

**Best practices/Resources**

*Latvia’s Association for Family Planning and Reproductive Health “Papardes Zieds”*

“Papardes Zieds” was founded on November 26, 1994 and became a full member of International Planned Parenthood Federation in 2000. The Association is the leading NGO working in the field of sexual and reproductive health and rights in Latvia.

Every year the Association implements 12 to 15 national and international projects on a variety of SRHR issues. The main target groups of the projects are: young people, teachers, social workers, parents, healthcare providers, local and national decision makers. Projects dealing with sexual and reproductive health of street children, people with mental disabilities, prisoners and other marginalized groups have been implemented in previous years.

The main focus of the Association has always been on issues relating to sexual and reproductive health of young people in Latvia. In 2005 the Association created the first Youth Friendly Health and Education centre in Riga which provides psychological consultations, peer education classes and online counseling.

Since 1995 a strong Youth Group is a part of Association. Youth Group members as volunteers are involved in many projects that provide information on family planning, and sexual and reproductive health and rights.

A good example is one of the biggest projects implemented by “Papardes zieds”. “Health, right and choice for everyone” is a development education project financed by European Commission. It is implemented in six countries – Estonia, Hungary, Latvia, Georgia, Moldova and the Ukraine. The project, in short “Light & Love”, was launched in February, 2008. Project activities are designed to empower, inform and train young people facilitating their international networking and shared learning. Wide and regular project activities include setting up an active youth networks, involving youth in early creative work contests, empowering young people by trainings, exchange and field work, advocacy among decision makers and capacity building of the partner organizations. Youth are involved in all project stages, from planning to evaluation. The Association’s professional resources allow us to share our knowledge and experience with other partner countries in promoting activities for young people and activating their networking capacity.

---

4 Although this aspect of health policy is very important for development cooperation, the fact that it was not explicitly mentioned in the questionnaire has possibly prevented other countries from providing information about their own experience and practices that could have been of interest.
Large goals have been set forward. The project aims to reach up to 20,000 young people with peer education and outreach work, 20% of population in each EU partner countries to improve the knowledge and support to the development and SRHR issues and target 100 officials and decision makers in each EU countries to advance the SRHR and development issues. The overall results of the project will be evaluated at the end of 2010; however most of the aims have already been reached in Latvia.

- Fight against poverty diseases (HIV/AIDS, tuberculosis and malaria)

LATVIA

The first person infected with HIV in Latvia was registered in 1987. The incidence of HIV started to increase rapidly in 1998, reaching a peak in 2002. The first HIV/AIDS advocacy group was created in 1993 and a National AIDS Centre was founded in 1994. Three consecutive national programmes (1994-1998, 1999-2003 and 2003-2007) were adopted by the Government; and since 1996 a UN sponsored HIV/AIDS Theme Group has been active in this field. The Group was set up at a time when Latvia’s HIV/AIDS infection rate was growing rapidly. To inform the public about HIV/AIDS and its devastating consequences, as well as the opportunities to avoid it, the UN HIV/AIDS Theme Group started a series of projects in Latvia. The Theme Group successfully united representatives from NGOs, state institutions, UN system organizations and People Living with HIV/AIDS (PLWHA) support groups. The professionally led group successfully implemented large-scale projects and helped the AIDS Prevention Centre develop and improve, as well as become the nucleus in the battle with HIV/AIDS and in raising public awareness. Thus, the Latvian experience shows that, if the battle against this disease is to be successful, everybody in society must get involved – doctors, teachers, young people, the infected and their friends and relatives, as well as other members of society. NGOs, municipalities, government institutions and international organizations, including UNDP and other UN agencies, have rendered assistance in the fight to limit the spread of HIV/AIDS. A broad and coordinated effort of the various stakeholders has been the reason that the epidemic has not flared after the means of transmission changed.

Best practices: Network of outreach counselling centres for intravenous drug users.

A programme developed by the AIDS Prevention Centre, the Council of Baltic sea States and UNDP, together with municipalities, involving the creation of easily accessible HIV Prevention Centres in the districts where HIV infection levels are the highest. The implementation of this programme contributed to limiting the rapid spread of HIV/AIDS in Latvia.

Resources: Public Health Agency

ESTONIA

HIV/AIDS: While in 1999 there were only 9 new HIV+ cases, the number of new cases exploded in 2001, reaching 1,474 mainly due to the spread of HIV among injecting drug abusers. In 2002 the number of new cases declined to 899, as a result of increased awareness and a needle-exchange programme. Strategy for Prevention of HIV and AIDS (2007)

Fighting HIV/AIDS is the most serious health problem and the major public health and health system challenge in Estonia, as proclaimed by the Ministry of Social Affairs at the beginning of the epidemic in 2001. The HIV/AIDS epidemic began among injecting drug users in the northeastern part of the country, and by the end of 2007 the total number of people diagnosed as HIV-positive was 6364, equal to 0.47% of the population (Health Care Board 2008). However, the actual number of HIV-infected individuals may be even higher. The Joint United Nations Programme on HIV/AIDS (UNAIDS) has estimated the HIV incidence to be as high as 10,000 (UNAIDS 2008). To date, a total of 191 individuals have been diagnosed with AIDS.

---

Additional information on this issue could have been provided if this aspect of health policies would have been made more explicit in the questionnaire.
Furthermore, tuberculosis (TB) incidence needs renewed attention. In 2007 the incidence rate of TB was increasing again, up to 30 per 100,000 population, after experiencing the lowest incidence in 2006 (25 cases per 100,000) after years of steady decline from a peak in 2000 (43 cases per 100,000). In 2007, among the 400 TB patients in Estonia, 48 were also HIV-positive. A complicating factor is the high rate of multidrug-resistant TB.

LITHUANIA
Communicable disease control has a relatively long tradition in Lithuania and is relatively well organized under a specific department within the State Public Health Service (Ministry of Health). A Law on Communicable diseases was adopted in 1996. A national programme in the field of communicable disease prevention and control has been in place since late 1990’s.

ROMANIA
HIV/AIDS in Romania:
A particular feature of the HIV/AIDS epidemic in Romania has been the prevailing and massive incidence rate of HIV infection among children under 13 years of age, which represented more than half of all pediatric cases of HIV/AIDS in Europe in the 90s. The use of unscreened blood and blood products and the repeated use of HIV contaminated needles and syringes in residential facilities, orphanages and health care facilities during 1987-1990 led to thousands of newborn and young children acquiring HIV. Even though in the early 90s Romania was stigmatized in the international media because of the many children infected with the HIV/AIDS virus, due to targeted programs and participatory strategies, Romania remained in the low prevalence, non-concentrated type of epidemic.

A national response to this crisis began in the early 1990s. In 2002, the Romanian Parliament passed a law, prescribing basic actions to prevent further HIV infection and to protect people living with HIV/AIDS. The second National HIV/AIDS Strategy for 2004-2007 defines three major interventions:

1. Prevent HIV transmission and stabilize incidence at the level of 2002;
2. Improve access to treatment, care and support of people infected and affected with HIV/AIDS and vulnerable groups, with respect of confidentiality;
3. Monitor and control HIV/AIDS infection and evolution of associated risk factors, where STI testing and diagnostics are integrated.

Best practices:
Restructuring of the Romanian Network of HIV/AIDS Regional Centers in order to improve prevention related activities and better access to health care for the HIV/AIDS infected people.

Romania is now well advanced in terms of surveillance and control of the epidemic as well as care-management of patients. NGOs support this effort including through provision of counselling and testing services and promotion of healthy behaviours in vulnerable populations (Romania became the first country in Europe to benefit from price reductions of antiretroviral (ARV) drugs and Since medical advances and access to treatment developed faster than the institutional capacity to strategize, program and plan in this domain, Romania has taken the lead in developing an HIV/AIDS European Academy, a training and advocacy platform (actual as well as virtual) to help policy-making and capacity-building in this domain.
EMPLOYMENT, LABOR AND SOCIAL PROTECTION (SOCIAL REFORMS)

The transition to market economy had an important effect in the employment situation in all countries of Central and Eastern Europe. In the first years of transition, and due to the ensuing drop in economic activity and output, there were important job losses, and unemployment – a phenomenon officially unknown in the socialist economy - began to rise quickly. In addition to start considering the employment creation aspects of economic policies, unemployment protection systems had to be put in place, in a context of tight fiscal constraints.

Economic recovery starting in mid 1990s did not bring about a process of job creation and unemployment reduction proportional to the pace of economic growth. Productivity gains – often related to the supression of the overmanning characteristic of the socialist companies and industries - were significant, but insufficient or inadequate qualifications of the labour force for the new jobs, lack of work-force mobility and changes in the composition of employment made it difficult for many workers – especially the older ones – to find employment in the new economy. Long-term unemployment became widespread; and the economy was not able to absorb all the new entrants to the labour market (the younger people).

In this difficult context, as of mid 1990s the Ministries responsible for employment and labour and the employment services (labour exchange offices), which had been established in the beginning of the transition mainly to provide assistance to the unemployed, started to develop and implement active employment policies, covering training and retraining of labour force, incentives to companies and workers for job creation and occupation, and in many cases public employment programmes.

Transition to market economy also brought about a significant change in the composition of employment: employment in agriculture and industry decreased, while employment in the services sector increased; public sector employment became substantially reduced, while employment in the private sector expanded rapidly.

In sum, the transition involved a comprehensive process of adjustment of the employment patterns and composition, which was only completed by the time of accession to the EU. In this new context, a certain level of unemployment – previously unknown – had become a normal feature of the system; and both governments, business and social partners had to develop their capacities and institutional structures so that the new economy became able to create jobs at a pace that could absorb the increases in the labour force.

Finally, during the years of transition, and due to the difficult employment situation and the relatively generous pension systems inherited from the previous regime, many aged workers left the labour market (particularly women) and there were also important flows of out-migration in many countries (Poland, Romania, etc.).

- Employment policies and services

LATVIA

In the 1990’s, Latvia’s progress towards a market based economy was accompanied by an important decline in employment, a shift in the sectoral composition of employment and the emergence of open unemployment (phenomena which have been common to most transition economies).

Economic transformation in Latvia led to a dramatic decrease in economic activity over the 1991-1996 period, mirrored in a cumulative decline in employment of 27% over the same period. Thereafter, in parallel with renewed GDP growth, there was a slight recovery in employment but this recovery was subsequently not sustained through the economic downturn during 1999. By 2000, average employment had fallen down by 4% from the level reached during 1997. The overall employment rate in Latvia stood at 58.8% in May 2001.

Transition to market economy profoundly altered the sectoral composition of Latvia’s employment. By May 2001 14% of Latvia’s employment remained within agriculture, employment in industry stood at 26%, while the service sector accounted for 60% of total employment.
The private sector's share in total employment had grown rapidly, rising from 41% in 1992 to almost 71% in 2000. The changing public-private split was driven mainly by the privatisation process. Other than in traditional public services (central and local administration, education and healthcare), the state's role as an employer is now limited to the utilities (electricity, gas and water) and transport and communications sectors.

Average educational levels in the labour force are relatively high. However, the majority of second-level qualifications held in Latvia are vocational; in many cases these vocational qualifications, gained in the past, are over-specialised and not adapted to current and future patterns of skills demands in the economy.

The first official registration of unemployment came in 1992, after one year into transition. More internationally comparable unemployment data based on the Labour Force Survey are available for the period since 1995. Unemployment in Latvia peaked in the mid-90s but fell steadily as of mid-1998. Even at the lowest level reached at the end of the nineties, unemployment remained high by international standards. A significant proportion of the unemployed was out of work for long periods, and unemployment varied significantly by region. In 2001, the unemployment rate for Latvians was 10.2% and for non-Latvians 17.3%. Lack of Latvian language skills was an important factor which hindered the formation of a multi-ethnic workforce and definitely limited job opportunities for part of the population. As in other countries, youth unemployment was higher than unemployment among older workers. Finally, unemployment varied greatly by level of education.

The core institutions dealing with employment policy matters at national level are the Ministry of Welfare, the Ministry of Economy and the Ministry of education and Science. The Ministry of Economy holds responsibility for promotion of entrepreneurship and the creation of a business-friendly environment, including development of business infrastructure. The Ministry of Education and Science is responsible for all levels and types of education and training. The Ministry of Welfare has responsibility for active labour market measures for unemployed persons as well as passive employment measures. The main strategic policy document on employment is the National Employment Plan (NEP). In April 1999, the government approved a concept paper “On Promotion of Employment in the Country”, prepared by the Ministry of Welfare. Based on this concept, the formulation of an annual employment plan is coordinated by the Ministry of Economics. A key body in employment planning is the working group for elaboration of the National Employment Plan, which consists of representatives of nearly all ministries, Latvia Free Trade Unions Confederation, Latvia Employers Confederation and local governments. The working group is responsible for drafting the NEP and co-ordination of its implementation. Overall monitoring and assessment under the leadership of the Ministry of Economy is carried out twice a year and the results are presented to the Cabinet of Ministers. The first published NEP was for the year 2000. The structure of the NEP is based on the four-pillar structure of the European Employment Guidelines.

The main implementing institution for labour market policies and programmes for the unemployed is the State Employment Service (SES), established in 1991. In 1999 the SES was reorganised as a state non-profit joint-stock company under the supervision of the Ministry of Welfare; and later on (December 2002), according to the Law on Public Agencies, the State Employment Service was reorganised into the state agency “State Employment Agency” (SEA). Other than its headquarters in Riga, the SEA is organised in district (28) and local (34) offices. Four Job Information Centres were established in different regions. These provide an extended range of services compared with those provided in a typical district or local office. These include providing information based on a self-service system, together with access to databases on vacancies. In addition, Professional Career Guidance Centres offer counselling to visitors on occupational choice, professional suitability and on psychological issues related to job seeking, as well as information about educational establishments or the scope of various professions.

In May 2002 the Parliament adopted a law on “Assistance to Unemployed Persons and Job-Seekers” replacing the law on “Employment” of 1991. As laid down in the new law, SES is responsible for active labour market programmes including vocational training, retraining and upgrading of qualifications,
temporary public works, activities on promotion of competitiveness and activities for disadvantaged
groups. SES was involved in several international projects aimed at improving its readiness to take
part in the European Employment Strategy after accession to the EU.

As regards the active labour market programmes, priority was given to people from disadvantaged
groups including the long-term unemployed and the disabled. There were three main active labour
market programmes to deal with integration of the unemployed into the labour market: 1) Vocational
training, retraining and upgrading of qualifications for the unemployed; 2) Temporary Public Works
(TPW), organised with the aim of helping unemployed people who want to work, but who, for various
reasons, cannot find a suitable permanent job; and 3) Job-seekers’ clubs (JSC), started in May 1996,
as an active measure for social–psychological rehabilitation, which aims to stimulate the initiative of
unemployed people, raise their ability to re-orient and adapt psychologically to a new market situation,

improve their readiness to meet the needs of the labour market, and promote contact and dialogue
between employers and job seekers. To address the problem of labour market accessibility for non-
Latvian speakers, language training for the unemployed has been introduced in SES. Language
training is provided within the framework of Job Seekers Clubs and it has also been integrated within
vocational training courses for the unemployed.

According to the newly adopted law “On Assistance to Unemployed Persons and Job-Seekers”, as of
2003 the active labour market programme “Job-seekers’ clubs” was substituted by the programme
“Activities on promotion of competitiveness” and entirely new active labour market programme for
disadvantaged groups.

ESTONIA

In the 1990s a significant restructuring of the labour force between economic sectors took place.
Employment in agriculture and industry decreased substantially (by 2/3 and 1/3 since1989), whereas
the services sector expanded at a rapid pace. The overall employment rate declined sharply in the
1990s as a consequence of economic restructuring but also due to a population decrease of more
than 100.000 between 1989 and 1996. The overall employment rate in 2002 was 61.7%. The
employment rate of women has been in constant decline since the beginning of 1990s. Relatively
favourable economic development alone has not brought about a significant job growth and
unemployment reduction, for a number of reasons (insufficiently qualified labour force, restricted labor
mobility, etc.). Whereas gender disparities in unemployment are relatively small, many other factors
such as age, low or disrupted educational attainment, outdated qualifications and skills, disability or
insufficient knowledge of the Estonian language predetermine vulnerability in the labour market. Since
2001 there has been a trend towards increasing employment and decreasing unemployment;
however, the economic inactivity rates continue to grow owing to increasing numbers of persons
studying, taking care of children or other family members, persons with disability or long-term health
problems.

Exclusion from the labour market is the main single cause of living in poverty in Estonia. Thus,
promoting employment of all those who can work is not only a key way out of poverty, but also one of
the best means of preventing poverty and social exclusion.

The main labour market policies in response to economic inactivity and unemployment were
discussed in the Joint Assessment of Employment Priorities in Estonia (JAP, signed in March 2001).
Since then, National Employment Action Plans have been prepared annually, based on the priorities
identified in the JAP and in accordance with the objectives set out in the European Employment
Strategy. These action plans aim at the development of active labour market measures and the
launching initiatives targeted at integration of vulnerable groups into the labour market. The plans
focus on the following vulnerable groups: young and long-term unemployed, disabled persons, older
workers, and Russian-speaking jobseekers with insufficient command of Estonian. To help these
vulnerable groups into employment, a number of measures and projects were been put in place.

The Estonian Labour Market Board (LMB) was established in 1990. Employment offices (at first local
offices of the municipalities and since 1994 belonging to LMB) started to provide labour market
services and to pay unemployment allowance to unemployed people in 1991.
All registered unemployed persons are entitled to the following labour market services provided by local employment offices: information on the labour market situation, training and employment opportunities (vacancies); vocational counselling and guidance; labour market training; employment mediation; employment and business start-up subsidies; community placement. However, in practice, the availability of and access to services is limited (for example, only 10% of the registered unemployed could participate in labour market training programmes in 2002, owing to insufficient funding of the active labour market measures). Limited funding hinders the more extensive implementation of active labour market measures as well as widening their range (the overall funding of labour market policy, despite gradually increasing expenditure, remained low - at 0.21% of GDP - in 2002 Furthermore, expenditure on active measures comprises just 0.08% of GDP).

Best practices: 1) Assessment of employment priorities; 2) Development of National Employment Action Plans; 3) System of vocational counsellors and long-term unemployment consultants working in local employment offices and integrated projects to provide support to long-term unemployed; 4) Projects and schemes to help disabled persons into the labour market; 5) Integrated labour market “packages” and apprenticeships for young unemployed.

Expertise: 1) Ministry of labour, Social Affairs and Health; 2) Estonian labor Market Board (LMB); 3) PRAXIS

LITHUANIA

During the transitional period to a market economy, rapid changes took place in the economic structure, which in turn impacted on employment trends. The employed population decreased by a little over 11%, during the first half of the 1990s, (whereas GDP fell by 40%). Employment started to rise again from the middle of the decade and fell again in 2000 (according to the Labour Force Survey −LFS- carried out in May 2001, the employment rate at that date was 58.4% - the lowest rate since beginning of reforms). Substantial changes took place in the employment structure during the 1990s.

Unemployment rate in Lithuania peaked in 1995 (17.1%, according to LFS). Thereafter, the unemployment rate fell gradually to 13.3% in 1998. The economic recession which started at the end of 1998 led to a reversal of this downward trend, and by 2000 the average level of unemployment had risen to 15.9%.

The main institution dealing with employment policy at national level is the Ministry of Social Security and Labour. However, it is recognised that the programmes and policies of other ministries have a major influence on employment developments. These include most notably the Ministry of Education and Science, the Ministry of Economy, and the Ministry of Finance. In order to co-ordinate the policies of these ministries in the employment sphere, an Economic Development and Employment Committee (EDEC) was established by resolution of the government in July 2000.

The main implementing bodies for labour market policies and programmes are the Lithuanian Labour Exchange (established in 1991) and the Lithuanian Labour Market Training Authority (established in 1992). These are two independent institutions under the Ministry of Social Security and Labour.

The Labour Exchange (LLE) is responsible for job-brokerage as well as for managing a range of active labour-market programmes. It also has responsibility for ensuring the legal employment guarantees for the groups identified in the Law on Support for the Unemployed. The LLE operates through 46 district labour exchange offices situated throughout Lithuania, with 26 additional sub-district offices in a number of major settlements.

The Lithuanian Labour Market Training Authority is responsible for organising labour market vocational education and training, vocational guidance and counselling as well as for the supervising of the implementation and quality of labour market vocational training. It has 6 subordinate regional services dealing with the organisation of training and counselling and providing vocational guidance and consulting services to adults and youngsters. In addition, the Authority regulates the activities of 14 labour market training centres. Formerly owned and funded by the Authority, the 14 labour market
training centres are now organised as joint stock companies that are self-financing by means of sales of their training services.

The main strategic policy document on employment produced during the transition period was the Programme of the Republic of Lithuania for increasing employment for 2001-2004, drafted under the responsibility of the Ministry of Social Security and Labour and approved by the government in May 2001. The Programme’s structure matched the four-pillar structure of the European Employment Guidelines, and its main strategic objectives were:

- to cope with negative consequences of structural economic reforms and the external impact on employment and the labour market;
- to increase employment, reduce unemployment and restore balance on the labour market;
- to get ready for participation in the EU employment policy co-ordination process.

On 19 November 2002, the Employment Programme was revised and amended with necessary additional measures to ensure fulfilment and control of the recommendations provided and commitments undertaken according to the Joint Assessment Paper on the Employment Policy Priorities in Lithuania signed by the Government of the Republic of Lithuania and the European Commission on 12 February 2002.

In October 2004, Lithuania submitted the Employment Action Plan of the Republic of Lithuania to the European Commission. The Lithuanian Employment Action Plan 2004 stipulated the political commitments of the Government and the key measures applied in implementing the national employment policy in accordance with the general employment policy guidelines and recommendations approved by the European Council. Starting in 2005, the three-year employment policy programme (aims, goals, objectives and measures) has been integrated in the National Lisbon Strategy Implementation Programme.

Starting in 2001, passive support for the unemployed has been gradually replaced with their active integration in the labour market. Active labour market policy has been strengthened. Since 2004, support from the EU structural funds (the European Social Fund in particular) has been widely used for financing employment promotion measures.

On 15 June 2006, the Parliament of the Republic of Lithuania adopted a new Law on Support for Employment of the Republic of Lithuania and legally preconditioned the reform of employment promotion policy aimed at seeking full employment of individuals, reducing social exclusion and strengthening social cohesion. In implementing the law, new measures of employment promotion development policy were introduced.

**Best practices:** Strategic planning and programming of employment policy, in accordance with European Employment Guidelines / Active labour market policies / Modernisation of labour market institutions-Labour Exchange

**Expertise:** 1) Ministry of Social security and Labour (Labour Market Division); 2) Lithuanian Labour Exchange; 3) Institute of Labour and Social Research

**POLAND**

In Poland, employment fell sharply after 1989, with a cumulative decline of some 14% by 1994. Thereafter, there was a recovery in employment, with growth averaging slightly in excess of 1% per annum between 1994 and 1998. This moderate increase in employment, in the context of rapid output growth, is explained by the significant productivity gains made over this period. Employment growth was reversed during 1999, reflecting both the economic slowdown and the accelerated privatisation and restructuring of state enterprises. By February 2000, employment had fallen by just over 5% from the level reached in early 1998 and the employment rate was 51.5% in 2002 (64.3% in EU-15); the employment rate among older workers and young people being particularly low (26.1 and 21.7, respectively, in 2002).
The early years of transition saw major changes in the sectoral distribution of employment, with large decreases in agriculture and industry and much smaller in services sector. This resulted from differential rates of decline across sectors, rather than from significant growth in any sector. Sectoral change continued in the employment-growth period after 1994, with a deceleration of the losses in the industrial sector (although still important) and important gains in the services sector. Overall, the sectoral structure of employment has been on a gradual path of convergence with the pattern of the EU. Even by early 2000, however, the employment rate in agriculture remained high by EU standards, while the employment rate in services was still relatively low.

A combination of privatisation of smaller-scale state enterprises, together with the establishment of new small businesses, saw a rapid change in the ownership structure of the Polish economy in the early 1990s. By 1994, some 53% of employment was in the private sector (including co-operatives), and this share went on increasing in the following years years, rising to 62% in 1999 and 64% in early 2000.

Many of the new businesses established in the transition process were single-operator firms. By 1994, almost one-third of workers in the non-agricultural private sector were self-employed. While self-employment continued to grow after 1994, dependent employment in the private sector rose even more rapidly, reflecting the pattern of enterprise growth. As a result, the proportion of self-employed in total employment in the non-agricultural private sector had fallen to less than one-quarter by 1998.

Employment growth since 1994 was relatively more rapid in the Warsaw area and in the western voivodships, and slowest in the eastern part of the country.

The absolute size of the labour force remained almost unchanged between 1994 and 2000, at about 17.2 million, despite rapid growth in the working-age population.

The labour force declined less rapidly than did employment during the early transition years. As a result, unemployment rose sharply – from approximately 6% in 1990 to a peak of 15.9% in the first quarter of 1994. Thereafter, a combination of resumed employment growth and continued decline in the size of the labour force saw unemployment rate decline significantly. The unemployment rate reached a minimum of just over 10% in the second quarter of 1998. However, unemployment rose sharply after mid-1998, averaging 13.9% in 1999. By early 2000 unemployment had risen to over 16%. This increase reflects the general economic slowdown and the acceleration in restructuring during 1999.

The assessment of employment policy jointly carried out by the European Commission and the Government in 2000 noted that education levels in the workforce and in the adult population were relatively low. Therefore, one of the policies to be implemented for promoting more and better jobs was to reform the education system – particularly in what concerned vocational education and training – so as to increase the education levels of the job seekers (new entrants in the job markets or those in need to find a new job after losing the previous one) and adjust their qualifications to the new needs of the job market. A reform of the school system was designed in mid 1990s and was implemented in the period 1999-2006.

By late 1990s, Poland already had the elements of a system of continuing training, making it possible for adults to improve their level of education and professional qualifications as well as change profession. However, these elements did not create a coherent system and, in the context of a National Strategy for Employment and Human Resources Development 2000-2006 adopted by the Government at the turn of the new century, a major programme of expansion of continuing training within a coherent framework and with involvement of the social partners was launched.

During the 1993 - 1999 period the public employment service became a separate, specialised governmental administration – the Labour Offices System. The structure of this system was based on the National Labour Office and its subordinated labour offices at voivodship and local levels. Patterns for the operation of public employment services were developed over the period 1995 – 1997. Uniform principles were developed for job placement, vocational counselling, delivery of training for
the unemployed, and the running of Job Clubs. A uniform system for assessment of the efficiency of active labour market programmes was developed. In addition, since 1993 the labour office staff have been provided with training courses to improve their skills in rendering fundamental services on the labour market.

Reconstruction of the PES system was commenced at the beginning of 2000 based on the decentralisation principle. Employment services are no longer a separate administrative body - the voivodship and county labour offices were incorporated into self-governmental structures.

In terms of implementing active labour market policy programmes the public employment service in Poland plays a similar role as that played by employment services in the EU. The active programmes under implementation by the PES correspond with the four pillars of the European Employment Strategy:

- Improvement of employability.
- Development of entrepreneurship
- Promotion of adaptability
- Strengthening of equal opportunities.

In relation to active programmes, a number of clear priorities were set out in the National Strategy for Employment and Human Resources Development 2000-2006

CZECH REPUBLIC

In the first transition phase, the Czech Republic's labour market experienced a decline in participation rates, particularly for women, a decline in employment and an initial decline in real wages. Overall employment levels declined by around 10% during the first years of transition before picking up slightly in 1994 and 1995. However, the Czech Republic did not experience a substantial rise in unemployment until 1997-1998, when the recession, coupled with restructuring of certain sectors of industry led to a sharp rise in the number of unemployed. Unemployment became particularly high among women with small children, persons with low qualifications, including members of the Roma minority, persons with disabilities, those over 50 years of age, school-leavers and young people. Regional differences in employment became substantive, as well as long-term unemployment related to levels of educational attainment.

Economic transformation relating to privatisation, restructuring and labour force intersectoral mobility influenced the changes in employment by sector. In 1990-2002, employment in agriculture fell from 12.4% to 4.8% in and in industry from 45.1% to 39.6%; and increased from 42.5% to 55.6% in the services sector.

Fundamental legal provisions such as Act No. 1/1991, Employment Act, and Act of the Czech National Council No. 9/1991, concerning employment and competence of the state administration authorities of the Czech Republic, set out the basic legislative framework of the Employment Policy. The Employment Act specifies the implications of the "right to employment", which every citizen is granted by the Constitution. This gives each person who is actively seeking work an entitlement to brokerage assistance in finding suitable employment, training support when necessary, and income support in the case of unemployment. This corresponds to the three principal tasks of the Czech Public Employment Service (PES). The PES operates a network of regional and branch offices that are responsible for administration of unemployment benefits, training programmes, jobplacement services, counselling, job-creation schemes, and monitoring compliance with the Labour Code. The office network is directly subordinate to the Ministry of Labour and Social Affairs, which thus retains ultimate control of all operations.

Employment policy reforms were aimed mostly at supporting entrepreneurship, especially SMEs, which led to a diversification of the job market. Other reform measures focused on programmes supporting the employment policy in order to increase geographical and professional mobility of employees, and on educational system reform (wider and more diverse preparation for employment, greater school autonomy, and establishment of private school system). An essential part of the transformation effort was the reform of public employment services aimed mainly at active
employment services and at harmonizing Czech legislation with the EU acquis. This resulted in introducing 4 weeks of vacation, limiting overtime hours, introducing parental leave and flexible working arrangements.

In addition, the tax system and social benefits systems were coordinated, resulting in a higher motivation for the unemployed to work (e.g. gradual increase in minimum wage above the level of social benefits).

Best practice: Making sure it pays off to work (Motivating people by increasing the minimum wage)
When introduced, the minimum wage was above the subsistence level and was more than 50% of the average wage in the Czech Republic. Due to insufficient adjustments and unsuitable use, the minimum wage stopped serving its purpose and its ratio to the average wage and subsistence level worsened. In order to prevent further worsening, the link between the minimum wage and health insurance, which put considerable strain on the budget, was removed. In addition, it was established in legislation that the minimum wage should be regularly adjusted. After its increase over the last years, the minimum wage started to fulfil its motivational role again.

SLOVAKIA
In Slovakia, employment fell after 1989, with an estimated cumulative decline of some 20% by 1994. Thereafter, rapid economic growth was initially reflected in a recovery in employment, with the number of jobs increasing by over 5% between the second quarter of 1994 and the same period in 1996. However, despite continued high economic growth, employment fell by 1% between 1996 and 1998; this jobs decline accelerated with the economic slowdown, with average employment falling by 4.4% between 1998 and 2000. Average employment in 2000, at 2.08 million, was therefore marginally lower than in 1994.

The unemployment rate had reached 14% by 1994 when the first official Labour Force Surveys were conducted. Thereafter, employment growth led to a decline in unemployment until 1996, when the average rate for the year was just over 11%. However, unemployment began to rise again from mid 1996, to 12.5% on average in 1998, 16.2% in 1999, and 18.6% in 2000. This increase reflects the continuing increase in the size of the labour force and the decline in employment, which accelerated from 1998 onwards.

The main strategic policy document on employment is the National Employment Plan. A framework for the development of national employment planning was approved by the government in November 1999. An actual plan for the period to 2002 was discussed and agreed with the social partners in the Council of Economic and Social Agreement in September 2000, and the government approved this document by formal resolution in November 2000. The National Employment Plan follows the four-pillar structure of the European Employment Strategy, while taking account of the specific conditions of the Slovak labour market.

While a range of ministries and agencies have responsibilities related to employment, the Ministry of Labour, Social Affairs and Family is responsible for producing drafts of legislation and policies in the field of employment policy and co-ordinates their implementation. Employment policy proposals formulated by the ministry (as with the National Employment Plan) are generally discussed and agreed with social partners in the Council of Economic and Social Agreement prior to submission to government for final approval.

The main executive body for the implementation of labour market policies and active programmes is the National Labour Office, established by legislation in 1997. It is a tripartite three-layer system, governed at national level by a 15-member governing board with a smaller, 9-member, supervisory board. There are 8 lower level boards at the regional labour office level and each of the 79 district labour offices also has a governing board. At each of these levels, the boards are made up of representatives of employees, employers and the government. The NLO is responsible for active labour market measures, including job brokerage, occupational guidance and information, occupational rehabilitation for disabled people, and the operation of employment, support and retraining programmes.
The NLO also has responsibility for passive labour market measures – unemployment benefit payments, collection of contributions under the unemployment insurance scheme, collection of contributions for the Guarantee Fund (since May 1, 2000), and payment of compensation for wages not paid by insolvent employers to employees (since July 1, 2000). In addition, the NLO has responsibilities in the field of labour market statistics. The NLO’s activities are funded mainly through contributions within the unemployment insurance scheme.

HUNGARY

Transition towards a market economy instigated a profound adjustment in the Hungarian labour market. The main characteristics of this adjustment were a reallocation of labour between sectors and a strong increase in labour productivity. This meant a temporary decline in both employment and labour force participation, in particular for women and for workers over 50, and an increase in unemployment. In 2001, this adjustment of the labour market was largely completed, although there remained significant regional differences and shortages of skilled labour in high growth sectors.

Over the ‘transition shock’ of 1989-1992, Hungary lost around 1.1 million jobs, constituting a fall of 21.4% of total employment. The decline in employment continued over 1993-1997 with a further drop of 5% in total employment. The employment level first stabilised in 1997, and came to show a slight increase in 1998. These favourable labour market trends continued and became more pronounced in 1999.

Shifts among the three main sectors started well before 1989 but accelerated over the transition, with agriculture losing around 45% of total employment and industry losing around 26% of total employment over the 1989-1993 period. The reallocation of labour since transition would appear to be the outcome of two factors working in opposite directions: a loss of roughly 60% of jobs due to downsizing, mergers or liquidation of (state owned) enterprises on the one hand, and a gain of roughly 23% in jobs created in the newly established (private) enterprises on the other. In 2000, the employment share by broad economic sector for Hungary was 6.5% in agriculture, 33.7% in industry and 59.8% in services.

In parallel with the sharp fall in employment over the 1989-1992 period, unemployment emerged rapidly to climb to its peak level of 11.9% (according to ILO standards) in 1993. The rise in unemployment, however, was never been as dramatic as job losses, which reflects the widespread withdrawal from the labour market. Since 1993, unemployment steadily decreased, the annual average rate of unemployment was 6.4% in 2000. This decline was both the outcome of withdrawal from the labour market prior to 1997, and of the decrease in unemployment which started only in 1997. There was, however, a significant increase in the stock of long-term unemployed, which stood at 21.0% in 1992 and had risen to 44.2% by 2000. The majority of the long-term unemployed were multi-disadvantaged workers.

During transition, Hungary had a wide range of active labour market measures for the unemployed, including placement services, training programmes, public works and subsidised employment. Since the beginning of the 1990s, total spending on both active and passive labour market measures has been decreasing as a share of GDP. After 1993, due to tightening of benefits, total spending fell from 2.8% of GDP in 1992 to 0.86% in 2000. The share of active measures amounted to around 0.4% of GDP in 2000 with the major part on subsidised employment (0.22% of GDP in 2000). In second half of the 1990s the share of active measures has been increasing and was 45% in 2000 of total spending.

The Public Employment Services comprise the National Employment Office, the Budapest Labour Centre, the 19 county-based labour centres and the 174 local offices. As a central agency, the Employment Office operates under the direct supervision of the Ministry of Economic Affairs; it is responsible for the technical supervision of the employment centres, methodological tasks concerning unemployment benefits, support to promote employment and labour market services, the development and operation of related IT systems as well as tasks of statistics, processing, analysis and the supply of information that reflect labour market processes.
SLOVENIA
In the early nineties, Slovenia experienced a strong fall in employment as other transition economies. Between 1987 and 1993, the number of employed persons declined by 20%, according to the employers’ survey. According to Labour Force Survey (LFS) data, employment started to recover in 1994, albeit with very limited growth until 1997 when it increased by over 3%. Employment rates are high overall except for two age groups – those under 25 and those over 50 years of age. In 1998, the share of unemployed persons aged over 40 exceeded 46%, while the share of long-term unemployed persons was 62%.

As a consequence of the major structural economic changes and the lack of labour demand, new programmes were created at the beginning of the nineties (co-financing new workplaces, promotion of entrepreneurship and self-employment, investments in human resources development). Owing to the sharp economic recession, a programme for preserving productive workplaces was also introduced. Along with newly created programmes, the size and the content of the preliminary programmes were also changed (subsidising the labour force in companies employing disabled persons; programmes of awareness-raising and assistance offered to unemployed people in planning their professional career; psychosocial rehabilitation programmes for long-term unemployed persons, etc.). One of the most important programmes was a programme of public works.

The Employment Service of Slovenia (ESS) is the most important institution for delivering services and implementing employment policy. It is responsible for traditional activities such as job brokering, employment and vocational counselling for the unemployed and youth, implementation of active employment programmes and the unemployment insurance scheme. During the transitional period, ESS was given a number of new tasks and had to deal with a substantially increased number of unemployed persons.

ROMANIA
Employment policies in Romania are in line with the new European Employment Strategy. Between 1990 and 1999 the specific problems dealing with employment and vocational training were carried out exclusively inside the Romanian Ministry of Labour. Law no. 76/2002 placed emphasis on active measures for increasing employment of labor, which stimulate the employers to employ unemployed persons, but stimulate also the people looking for a job to became employed before the expiring of the period for which they are entitled to receive unemployment benefit. In 2004, this law was modified and completed in order to adapt it to the new labour market requirements.

Due to economic reform, the society demands and the important socio-economic changes occurred after 1990, it was necessary to establish an institution to deal particularly with employment, vocational training and guidance for people looking for a job, but also, for making cash payments for the unemployed population.

Thus, in 1999, a National Agency for Employment and Vocational Training was set up, as a public institution of national interest, having legal personality. The Agency was renamed in 2000, becoming the National Agency for Employment (ANOFM).

From a body that deals with the payments for the unemployed, the Agency has become a service provider for people looking for a job, now offering a wide range of services such as professional counseling, vocational training, pre-dismissal services, labour mediation, consultancy for starting a business, subsidized employment for people in disadvantaged groups of population, providing favorable loans to create jobs, and more.

In 2006, Regional Action Plans for Employment aimed at implementing employment policy at regional level were elaborated. The regional action plans are managed, revised and upgraded through “Regional Employment and Social Inclusion Pacts” which involve all relevant players at local, county and regional level. The pacts have 3 levels of operation – the programming/planning and evaluation (regional level) – and two implementation levels (county level and local level - municipal or communal). The pacts are supported by a management structure, permanently providing logistical and technical assistance, namely permanent technical secretariats.
For the period 2006-2007, the “Decent Work for All” Romanian Programme was successfully implemented, with ILO assistance. It was structured along three complementary priorities, combining different aspects of decent work, namely increasing the employability of specific groups, improving social protection and strengthening industrial relations system. For the period 2008-2009 this programme was transformed in Decent Work Romanian Agenda, more flexible and focused to secure a results oriented cooperation, based on elements from international development agenda such MDG’s, strategic documents of the EU and, of course, on national development objectives.

**Best practices**

1. **“Counselling services for persons with disabilities”**
   A World Bank loan funded project with the duration 2007-2012, results to date: 20 counselling centres for the disabled set up throughout the country, fully furnished and equipped including with specialized IT and employing specialized personnel; training programme for social workers targeting assistance to the disabled, including through the setting up of an e-learning platform; organization of an on-the-job-assistance service, in partnership with Hamburg assistance services.

2. **Creation, within the National Employment Agency of a National Network of Centres for Professional Training of Adults** (a IBRD co-financed project).
   The project intended, during the development of these centers, to ensure a legal framework for them to operate as independent institutions on the labour market, to be able to provide comprehensive training services, both for people seeking employment, but also for other interested persons.
   The first activities carried out were for rehabilitating and equipping facilities, and also staff training.
   So far, for the autonomy of regional centres, were achieved the following:
   - they became legal institutions, subordinated to ANOFM, thus having their own budget, as well a greater independence in concluding contracts with different partners.
   - their functioning principles were approved by the Governing Body of ANOFM.
   The centres are licensed for 123 occupations/qualifications and are providing vocational programmes for territorial agencies; 3 of these regional centres for adult vocational training are licensed as centres for assessment and certification for skills acquired in other way than formal.

**Expertise:** Ministry of Labour, Family and Social Protection – Department for Policy and Labour Strategies - Employment Division.

- **Social dialogue**
  An important structural element developed in central and eastern European countries during their processes of transition to market economy were the bodies and mechanisms set up for ensuring the dialogue and concertation between government, trade unions and employers’ associations in matters of economic and social policy. Although mostly of a consultative nature at the outset, these tri-partite social dialogue mechanisms later expanded to more specific policy and public governance issues (such as the management of active employment policies at regional and local level).

Bilateral social dialogue between trade unions and representatives of employers did also develop from that start point, and in some areas or aspects it had already replaced trilateral dialogue by the end of the transition.

However, one aspect of social dialogue that showed a very slow development during the transition was that of collective bargaining, both at sector or regional level as well as at the level of individual companies or enterprises. Nevertheless, although by the date of their accession to the EU this particular form of social dialogue still had to be strengthened in many of these countries, their experience – including in the design and implementation of EU-funded projects in support of social dialogue – can indeed be very valuable for developing countries facing similar processes and difficulties.
LATVIA

Improvement of the legal framework and environment for social dialogue was recognised as a challenge for Latvia in its National Programme for the Adoption of the Acquis.

By the end of the 1990’s decade, the tripartite social dialogue was well developed in Latvia on the national level. The National Tripartite Co-operation Council (NTCC) operating within the framework of the Ministry of Welfare is the main forum for tripartite dialogue. In the NTCC, employers are represented by Latvia Employers’ Confederation. Workers are represented by the Free Trade Union Confederation of Latvia. The NTCC, in addition to its plenary sessions, operates through a number of sub-councils dealing with specific elements of economic and social policy (for example, on labour affairs, vocational education and training, and social security matters).

During the transition, bi-partite dialogue and collective bargaining were, however, less well developed. Employers’ organisations and trade unions were still covering a relatively small share of all employers and employees. In the private sector, most collective bargaining on wages was taking place at the enterprise level. Although not all industries had trade unions, the number of collective agreements had been growing, and by the end of 1999 there were almost 1,700 agreements in place, covering 208,000 employees. Bipartite collective bargaining was also developing at the sectoral level. About 40 sector collective agreements had been concluded on wages and labour conditions, covering 55% of the enterprises where a trade union was represented. The new Labour Law contained provision for the legal extension of collective agreements; where a sectoral agreement covers at least 60% of the workforce in that sector, the agreement will be binding on all employers and employees in the respective sector.

In the 2003 Joint Assessment of Employment policy, the European Commission and the Government observed “some trends of strengthening in bipartite dialogue”. For instance, at the national level, cooperation between the social partners had resulted in the conclusion of an agreement between the Latvia Free Trade Union Association and the Latvia Employers’ Confederation on social partnership. However, no proper structures for bipartite social dialogue had been set up in the regions or at sector/branch level. The assessment also concluded that “special emphasis should be put on promotion of social dialogue at company level, which has not been easy to reach so far”.

ESTONIA

At national level tripartite social dialogue was launched in 1992 with the framework agreement on social guarantees (the Trade Unions and the Government had concluded an agreement on social guarantees already in 1991, but this agreement did not include employers’ organisations). In 1993 this was followed by tripartite agreement on key principles of social guarantees. From 1995 to 2001 the minimum wage was agreed annually between the three parties. Since 2001 the minimum wage is agreed between employers’ representatives and trade unions. The Government has always accepted this agreement and adopted the minimum wage proposed by the partners.

Tripartite social dialogue did also produce a number of important documents: Agreement on Participatory Democracy (1996), Agreement on Guarantee Fund (1997), Agreement on methodology for calculating minimum means of subsistence (1997), Agreement on setting up tripartite works councils (1999), Agreement on labour market policies (2002) etc. From 1993 to 2004 the Government and the Estonian Employees' Unions' Confederation concluded annual bipartite agreements regarding the salaries and overall wage regulation of the civil servants. At the same time also several bipartite agreements between the Estonian Employees' Unions' Confederation and Estonian Confederation of Employers and Industry were concluded: Memorandum of Cooperation (1999), Agreement on Unemployment Insurance (2001), Agreement on Social Dialogue (2001).

Between 1992 and 2002 fifteen tripartite agreements were concluded. Although there has been several tripartite negotiations and consultations no major tripartite agreements has been conducted since 2002. The main reason for this is different views on the role and competence of the Government in conducting tripartite agreements. However, this does not mean that since then tripartite social dialogue has been non-existent. Tripartite social dialogue continued in the context of special bodies
set up for that reason: The Estonian Council of the ILO, The Socio-Economic Council, The Work Environment Council and Works Councils. As social partners are also involved in policy-making and pass their opinion on all legal initiatives in the field of social and labour policies there have been continuous tripartite legal consultations in writing.

**Expertise:** Institutional contact: Tiit Kaadu, Working Life Development Department, Adviser, E-mail: tiit.kaadu@sm.ee; Ph +372 626 9190


**LITHUANIA**

In Lithuania, social partners are involved in the formulation and implementation of employment policies at a number of levels, through a range of tripartite advisory bodies. These bodies consist of an equal number of representatives from public administration institutions, trade unions, and employer organisations.

The main national forum for social dialogue is the Tripartite Council of the Republic of Lithuania, set up in 1995 as a result of the consensus between the government, trade unions and employer organisations. The Council was set up to solve social, economic and employment problems on the basis of reciprocal consensus (for instance, discussions on the minimum wage). In addition, an Employment Council consisting of 15 members was established under the Ministry of Social Security and Labour. Its responsibilities include investigation of employment problems and the factors underlying them, and submitting proposals to the Ministry of Social Security and Labour on labour market policy measures and their implementation and financing. Social partners were also included in the process of preparation for accession to the EU. A National Trade Unions Integration Commission was established which was responsible for analysing, in cooperation with the representatives of public institutions, the main issues related to EU accession. Trade unions were involved directly in some groups engaged in the development of negotiation positions of the Republic of Lithuania.

Social partners are also involved in consultation at the level of policy implementation. The Lithuanian Labour Exchange (LLE) has tripartite advisory bodies at both the national and district level. The National Tripartite Commission (consisting of 9 members) advises the LLE on strategic issues, including the overall balance of labour market programmes, including financing priorities. District and later regional commissions (consisting of 6 members each) consider and advise on activity reports submitted by the respective Labour Exchange office, and may have oversight of the detailed operation of specific programmes at the local level.

In 1999, an EU PHARE project “Development of Local Employment Initiatives on a Tripartite Basis” was implemented in five locations (the districts of Alytus, Lazdijai, Marijampole, and Varena, and the city of Druskininkai). It was implemented by the territorial Labour Exchange offices in co-operation with other local social-economic partners. Representatives of ministries, labour exchange offices, trade unions, and employer organisations were trained to administrate PHARE assistance and familiarised with the EU structural policy. Overall the PHARE project was seen as successful in demonstrating that the solution of practical employment issues at the local level requires co-operation between local and national public institutions, employers, trade unions, civic organisations and local communities.

The Lithuanian Vocational Training Council which was created by the Law on Vocational Education and Training was set up. This council is a national tripartite body to advise both the Ministry of Education and Science and the Ministry of Social Security and Labour on strategic vocational training policy issues. An Expert Council (consisting of 15 members) established on a tripartite basis aims at providing assistance to the Lithuanian Labour Market Training Agency in the development of the system of labour market vocational education, training and consultation, and in improvement of its relations with labour market partners.
However, development of bilateral social dialogue (trade unions – employers’ associations) and in particular collective bargaining during the years of transition, took place at a very slow pace. For instance, at the end of 2001, only 10% of the work-force were covered by collectively-negotiated agreements (only common in the public services, health sector and public utilities). To address this problem of the near absence of branch and firm collective bargaining and agreements, new legal provisions on collective agreements were included in the new Labour Code passed in 2002. The code provided a more detailed positive legal framework for collective bargaining, including the provision of training for employers and worker representatives on bargaining procedures.

- to develop and strengthen social dialogue in regions (counties and municipalities);
- to encourage cooperation of trade unions and employers’ organisations, as well as tripartite cooperation, where, apart from employees’ and employers’ organisations, representatives from state and local authorities also take part in social dialogue;
- to train social partners;
- to strengthen public control of employment relations and occupational safety and health;
- to share good practice of trade union activities, raise public awareness through media about the importance of social partnership.

**Best practices:** Experience of Tripartite Council, in particular in regards to minimum wage; Development of local employment initiatives on a tripartite basis; experience with tripartite management of Guarantee Fund.

**Expertise:** MSSL (Labour Relations and Remuneration Division)

**POLAND**

Social dialogue has been conducted in Poland since the 1990s in institutionalized form. Since 1994, the most important role among the formal social dialogue structures at national level has been played by the Tripartite Commission for Social and Economic Affairs (TC). The Tripartite Commission was initially set up by a resolution of the Government (Council of Ministers), following up from the signature on 22 February 2003 of a “Pact on State Enterprise under Transformation”. The signatories of this Pact - Government, Trade Unions and Employers’ Organisations - expressed their will to establish a Tripartite Commission to constitute a basis for the development of joint positions on directions and instruments of social and economic policy of the state and a forum of competent and responsible dialogue between the social partners and the government.

The principle of social dialogue became enshrined in the new Constitution adopted in 1997 as one of the basic tenets underpinning the Polish political, economic and social model, and at the same level as the principles of freedom of enterprise, private property and social justice. After the adoption of the Constitution, a Law was adopted by the parliament in 2001 providing statutory coverage to the Tripartite Commission at the maximum legal level and laying down its organisation, competences and tasks.

In accordance with legislation in force, the National Tripartite Commission is composed of representatives of the central government and administration (designated by the Prime Minister and including representatives from all the Ministries more directly involved in economic and social affairs), the Trade Unions (at present, three different Confederations) and the associations of employers (at present, four nation-wide organisations).

Its mandate covers the following:
1. conducting social dialogue on remunerations and social benefits-related issues and other social or economic affairs.
2. deciding on cases of a great social or economic importance presented for agenda of the Commission by one party, if such party considers that solving of such case is crucial for maintaining social order.

3. establishing joint agreements, subject of which are mutual obligations of the parties aiming at finding an consensus of the interests of employees, employers and public welfare as well as achievement and maintenance of social order.

4. participation in works on draft budget act – by opportunity of providing opinions by the employees and employers in the Commission – of the selected macro-economic values constituting a basis to develop draft state budget as well as assumptions and draft state budget for the following year and by opportunity to present proposals concerning growth in the following year of: remunerations in national economy, including state public sector and employers, as well as minimum remuneration for work as well as pensions and annuities from the Social Insurance Fund.

5. Fulfilment of other tasks defined in certain Laws: 1) the Act of 16 December, 1994 on negotiating system of entrepreneurs’ average remuneration increase and on amendment of certain acts; 2) the Act of 23 December, 1999 on remunerations in the state budget sector and on amendment of certain acts; 3) the Act of 10 October, 2002 on minimum remuneration for work ; 4) the Act of 12 march, 2004 on social aid; 5) the Act of 17 December, 1998 on pensions and annuities from the Social Insurance Fund; and 6) the Act of 28 November, 2003 on family benefits.

There also exists a mechanism of general social dialogue at regional level. “Voivodship” commissions for social dialogue (VCSD) are the fourpartite institutions of dialogue at regional level, cooperating with the Tripartite Commission for Social and Economic Affairs. At present they operate in every of 16 Voivodeships.

In the field of employment, social dialogue takes also place in the context of the national, regional and local Employment Councils.

Tripartite dialogue has also taken place on a sectoral base, mainly dealing with the restructuring of sectors of the national economy. The active presence and involvement of the Government in this dialogue was needed, during the transition, because of the position of the Government concerning the state-owned enterprises; and later on, because of the implications of processes of industrial restructuring in Government’s managed systems and schemes (state aids, social insurance, etc.)

Bilateral dialogue (formal collective bargaining leading to collective agreements) also plays a very important role in social dialogue in Poland and takes place at sector/branch, regional and enterprise levels. Although initially circumscribed to wages and working conditions, its scope has later extended to also cover other aspects (such as industrial restructuring and employment). At enterprise level, social dialogue also takes the form of rights of information and cooperation and through other types of agreements.

In June 2000 the Government initiated a dialogue on a pact for employment through a number of topic groups established within the framework of the Tripartite Commission for Social and Economic Affairs. Within these groups, social partners comment on the labour market analysis prepared by the Government, as well as on the proposed package of decisions and institutional changes aimed at reducing and counteracting unemployment. The groups’ activities should lead to an agreement, which would constitute the basis for “consensus above political divisions” resulting in a “pact for employment” supported both by social partners and the Government.

**CZECH REPUBLIC**

As regards support and development of social dialogue, new legal framework for the freedom of assembly and collective bargaining was created; the Council of Economic and Social Agreement was established at national level (a tripartite body comprising representatives of trade unions, employers and the government) and the plurality of trade unions was strengthened. Other steps included replacing administrative wage regulation by collective bargaining on salaries and expanding the system of collective agreements to cover entire sectors.
SLOVAKIA
In Slovakia, social dialogue takes place at a number of levels: tripartite dialogue at national level in the Council of Economic and Social Agreement, and in governing bodies of the Social Insurance Agency, National Labour Office and health insurance companies; bi-partite social dialogue (collective bargaining) at sectoral level; micro-level – bipartite-based social dialogue among employers and trade unions at an establishment level.

The role of the Council of Economic and Social Agreement is regulated by legislation dating from 1999, which provides that social partners are involved in drafting legislation and any other principal documents in the economic and social field including employment policy. The Council of Economic and Social Agreement has played an important role in promoting understanding between the Government, trade unions and employers on issues in the fields of the economy, employment policy, and income and social policy. The Council has also been important in developing agreement on employees’ and employers’ rights resulting from valid legislation and ILO conventions and recommendations. Recent years have also seen increased tripartite involvement in advisory bodies in the field of education at national, regional and local level, particularly in relation to the alignment of vocational education with the needs of the labour market.

In June 2001, an official Joint Consultative Committee was established as a forum for dialogue between the Slovak social partners and those in the EU (as represented by the Union's Economic and Social committee). This allowed the Slovak partners to familiarise themselves with the consultation processes of ECOSOC and with the social dialogue in the EU in general. At the same time, the EU partners had the opportunity to familiarise themselves with the social dimension of the reforms of the economic and social structures taking place in Slovakia.

Difficulties for bi-partite collective bargaining are caused by a decline in union membership. As a result, most SMEs did not have any trade union organisations or units, so a significant part of employees were not protected. To address this issue, the new Labour Code provided for the establishment of employees’ councils representing all employees in firms where no trade union operates.

As a further measure to support bi-partite dialogue, training was provided (with the support of projects financed by the PHARE Programme) for already practising and newly appointed intermediaries and arbitrers to improve their ability to provide impartial and objective assistance in different phases of collective bargaining.

HUNGARY
The most comprehensive institution of economic and social consultation in Hungary is the Economic Council. This forum is designed to discuss those comprehensive policy and strategic issues which affect the whole of the economy. In addition to social partners, other strategically influential organisations, (such as the Hungarian National Bank, the Bank Association, the Council of Stock Exchange, the representatives of multinational investors, as well as economic chambers) participate in the Council.

The central consultative forum for comprehensive employment and labour issues is the National Labour Council, which operates on a tripartite basis. Its core function is to consult on all issues relating to the world of work and to negotiate in certain labour areas. Its mandate includes consultation on labour legislation; agreement on the national minimum wage; shifting work days; and consultation on draft regulations governing the powers and activities of the social partners. The Council operates through special committees focusing on various issues (including wages, labour law, employment and social policy), which are instrumental in preparations for national level consultation and negotiation.

In addition to consultation and negotiation, social partners also participate in decision-making on issues related to employment and unemployment. Employees’ and employers’ organisations are involved in decisions concerning the National Labour Market Fund both at the national and county
levels. The use of the Fund is decided upon by the Steering Committee of the Labour Market Fund, which is a tripartite body. At county level, it is the tripartite County Labour Council which makes the decision on the allocation of the decentralised sources. County Labour Councils have established close cooperation with regional development councils that have access to decentralised funding from other ministries.

**SLOVENIA**

Social partnership takes place at bipartite and tripartite levels. The employees are well organised in numerous trade unions. At national level, there are six trade union associations and confederations. The public-sector trade unions are not combined into associations or confederations, but their activity is coordinated by the trade unions that belong to the non-economic activities sector.

The Economic and Social Council is a tripartite body (Government, employers and trade unions), established in 1994, with each group being represented by five members. It is the highest body for social dialogue and discusses all regulations and other documents affecting social and economic matters and is supposed to monitor the implementation of the social agreement.

Since 1990, the employers in Slovenia have had an increasing importance in negotiations for collective contracts, social agreements and other tasks within social partnership, industrial relations and international relations. On the national level, the employers are represented by the Association of Employers of Slovenia, the Chamber of Commerce and Industry of Slovenia, the Chamber of Craft of Slovenia and the Association of Employers for Craft Activities of Slovenia.

Within the social agreement, which is concluded under the umbrella of the ESC, a special chapter is devoted to social protection, and efforts to raise the social level of all the inhabitants of Slovenia are included in various chapters – such as the chapter on employment policy, which aims among other things at improving employability through education and further training, the chapter on wages with the determination of the minimum wage, the chapter on health, where the aim is to increase efficiency, solidarity and transparency of the public health system, the chapter on fiscal policy, in which the proposed new legislation should ease the burden on those in the lower income brackets and ensure more equal and transparent taxation of income.

**ROMANIA**

Institutionalized social dialogue in Romania involves two major components namely:

Tripartite social dialogue (Government, trade unions, employers), which is structured in Economic and Social Council, and also in sectoral and territorial committees. A superior type of social partnership is the negotiation and signing of social agreements at national level (2001, 2002, 2004). The main outcomes of these agreements are: the elaboration and implementation of sectoral and territorial social dialogue, legal initiatives with large social impact (Labour Code, Employers’ Association and Union Trade Laws etc.) and the creation of a peace and social stability climate.

Bipartite social dialogue (trade unions, employers), which is involved in the negotiation process and the concluding of collective labour contracts at national, sectoral and economic units (with more than 21 employees) level, but also in collective labour conflicts mediation. As programme for training the social partners could be mentioned the PHARE Programme “Promoting autonomous social dialogue”, in partnership with Germany.

- **Unemployment protection system**

Due to the impact of economic transition in employment, with significant job losses and the emergence of unemployment as a new and pressing problem affecting social stability, all countries of central and eastern Europe had to set up or restructure systems and mechanisms for providing the unemployed with at least temporary sources of income. Solutions were diverse in different countries, but as a general rule a right or entitlement to some sort of temporary unemployment benefit related to previous working life and based upon wage-based compulsory contributions was the first-tier of such systems.
Some countries also introduced a second-tier of non-contributory unemployment allowances; and eventually a third tier was formed by the social assistance system.

However, due to a number of reasons, including scarcity of financial resources, these systems provided a limited protection, especially in cases of long-term unemployment (except for some situations of unemployment produced at an age close to retirement age).

In a second stage of the transition, and in parallel with the reforms in employment policies and instruments, unemployment systems were again reformed so as to link more closely the entitlement and conditions of the benefits to the effective search for employment, avoiding situations in which such benefits could become a disincentive for the unemployed to take an active stance towards finding new jobs.

LATVIA
The State Social Insurance agency (SSIA) is responsible for the payment of unemployment benefit. At present, this is an insurance-based payment based on the individual's previous work history, and is financed from social contributions (a new Law “On Assistance to Unemployed Persons and Job-Seekers” came into force on 1 July 2002, replacing the law “On Employment” of 1991).

To receive unemployment benefit from the State Social Insurance Agency (SSIA), an individual must first register as unemployed with the SES. In addition, the person must have been socially insured for at least one year, and have been socially insured for at least nine months within the year directly preceding unemployment. Benefit is payable for nine months, and is related to average earnings in the nine months preceding registration. Depending on the length of the person’s previous employment record, the rate of benefit according to the law is 50%-65% of previous earnings for the first three months of payment, 37.5%-48.75% for the next three months, and 25%-32.5% in the final three months. Unemployment benefit is not subject to income tax.

Those unemployed who are not entitled to unemployment benefit (primarily young people, whose insurance record is too short, and those unemployed over 9 months) or whose benefit entitlement is below a certain level, may apply for social assistance payments. Overall responsibility for social assistance lies with the Social Assistance Fund under the supervision of the Ministry of Welfare, but payments to individual applicants are managed by local government authorities and financed from their general budgets. The overall coverage of the unemployed by the system of income maintenance is relatively low. Furthermore, due to the lack of accurate statistical information, uncertainty remains on the effective coverage of unemployed qualifying for social assistance.

ESTONIA
The risk of unemployment is covered by two-tier cash benefits: contributory earnings-related unemployment insurance benefit (to provide primary protection) and non-contributory flat-rate State unemployment allowance (to provide secondary protection).

Unemployment insurance system is financed through unemployment insurance premiums, which are obligatory for all employers and employees until pensionable age. This insurance covers payment of unemployment insurance benefits, benefits upon collective termination of employment contracts and benefits upon the insolvency of employer in accordance with the Unemployment Insurance Act and other legislation. The unemployment insurance is managed by a special institution, the Unemployment Insurance Fund, which took up its activities in 2002 and started to pay the benefits in 2003. The highest body of the Fund is the Supervisory Board composed of six members. According to the Unemployment Insurance Act, the Government of the Republic appoints two members of the Supervisory Board. The Confederation of Estonian Trade Unions and the Estonian Employees’ Unions’ Confederation both appoint one member and the Estonian Employers’ Confederation appoints two members. A three-member Management Board is responsible for managing the operations of the Fund.

Unemployment allowance is financed from state budget. Right to receive unemployment allowance has a person, who at least 180 days during the 12 months prior to registration as unemployed, has
been employed or engaged in an activity as: self-employment, enrolment in daytime or full-time study, service in the Defence Forces, raised a disabled child of up to 18 years or a child under 8 years, underwent hospital treatment, were not employed due to disability, were in prison etc. (60 - 70 % of persons getting unemployment allowance have been employed or self-employed). Allowance is a means tested benefit - is paid to person whose monthly income is less than the 31-fold daily unemployment allowance rate. As a general rule an unemployed person can get allowance up to 270 days. Unemployed persons, whose last employment was terminated due to a breach of service duties, loss of confidence etc, can receive benefit up to 210 days. Since 1991 -1992 the amount of unemployment allowance was 80 % from minimal wage. Today unemployment allowance is a lump sum benefit. According to the Labour Market Services and Benefits Act the rate of the unemployment allowance is going to be at least 50 % from the minimum wage from 2013.

From May 2009 both the unemployment allowance as well as the unemployment insurance benefit are managed and paid by Estonian Unemployment Fund.

**Expertise:** Kati Lõbu, Head of Benefits Ministry of Social Affairs, kati.lobu@sm.ee; info@tootukassa.ee

**LITHUANIA**

Since the early 1990’s, unemployed persons registered with the State Labour Exchange were entitled to unemployment benefit if they had worked and paid social contributions for least 24 months during the previous 3 years. Unemployment benefit was payable for a period of six months. The monthly rate of payment varied according to the length of previous insured employment, with a minimum and a maximum rate. Relating the level of benefit to length of insured service was seen as encouraging persons working in the private economic sector to seek legal labour relations and regular payment of state social insurance contributions. The minimum rate represented approximately 19% and the maximum rate 34%, respectively, of the net monthly earnings of a person on the average wage in Lithuania. However, at the end of 2001, out of a total of 217,000 registered unemployed, only 33,000 were receiving unemployment benefit and therefore coverage of the unemployed by this type of benefit was during this long period relatively low in Lithuania. Moreover, in general, the rates of payment were low relative to net earnings when in employment.

People on low incomes could also apply to their municipality for social assistance. The social assistance system had three main elements – a social benefit payment, a housing/heating "guarantee", and free access to certain social services such as healthcare and pre-school and school-based childcare. The social benefit is a means-tested payment calculated on a household basis and, for instance, given the rates for the unemployment benefit, families where no-one was working and only one of the adults was receiving unemployment benefit would also be entitled to a certain level of social benefit. However, for a number of reasons, and even in the absence of exact figures, in early 2002 it was estimated that less than half of all people with a theoretical entitlement to social assistance actually received it.

The new Law on Unemployment Social Insurance, adopted in 2003 and effective as of 1 January 2005, reformed the former system of support to the unemployed into an individual system of unemployment insurance. After the law took effect, the unemployment benefit was replaced with the unemployment social insurance benefit, which rate depended on the amount of the person’s previous remuneration, the duration of payment of the benefit depending on the length of regular work. The new unemployment insurance system is more coordinated with active labour market policy measures and the new social assistance system. The principle is that only active job seekers are entitled to the unemployment social insurance benefit and the cash social assistance. This resulted in greater effectiveness of unemployment insurance benefits, and the conditions were created to more rational use of unemployment social insurance funds to reduce unemployment.

**Expertise:** 1) Ministry of Social security and Labour (Labour Market Division); 2) Lithuanian Labour Exchange; 3) Institute of Labour and Social Research
**POLAND**
Up to the year 2000, unemployed persons could receive unemployment benefit, or – for older unemployed with long work histories – pre-retirement benefits or allowances. Where entitlement to unemployment benefit had been exhausted, social assistance could be paid.

Unemployment benefit was flat-rate, not related to previous earnings. This was paid where the recipient had between 5 and 20 years work-history; the payment was reduced by 20% for those with less than 5 years employment, and increased by 20% for those with over 20 years. The standard rate was equivalent to 78% of the take-home monthly minimum wage and 29% of the monthly take-home average wage. The duration of entitlement to benefit was related to the unemployment rate in the local labour market: six months in areas with unemployment below the national average, one year in areas with unemployment between one and two times average, and eighteen months where unemployment was more than double the national average. In 2000, only around 22% of the registered unemployed received unemployment benefit.

Pre-retirement benefit or pre-retirement allowance was paid to the elderly unemployed until they became eligible for an old-age pension. Entitlement to these payments was determined by a combination of criteria related to age, duration of previous employment, and the circumstances giving rise to loss of job (e.g. re-structuring). The level of payment was higher than that for unemployment benefit – ranging from 120% to 160% of the basic benefit. In mid-2000, 276,000 people – equivalent to 12% of the registered unemployed – were receiving pre-retirement payments.

Poland also has a system of social assistance payments for people whose income falls below a minimum guarantee level. Unemployed persons who have exhausted their benefit entitlement (or whose benefit entitlement is lower than the minimum guarantee level appropriate to their family circumstances) may receive social assistance.

Finally, the unemployed may receive family and other allowances payable to the population at large, and their health insurance costs are borne by local Labour Offices.

By mid 2000, two main potential problem areas in the existing structure of benefits and allowances had been identified: 1) the structure and level of pre-retirement benefits and allowances had become a disincentive to re-integration of older workers leaving declining sectors; 2) the overall system of financial support for unemployed people should have stronger links to past or prospective employment experience – on the basis of the principle of insurance against the risk of unemployment.

A reform of the system was undertaken, with two different aims: 1) Changing the conditions and requirements for entitlement to unemployment and pre-retirement benefits, as well as its correlation to the number of years previously worked; and 2) Moving to a separate system of unemployment insurance. Financed through payroll contributions for this specific purpose.

**CZECH REPUBLIC**
Unemployment insurance is one of the components of the Social Insurance system in the Czech Republic (alongside sickness and pension, health and accident insurance). It is financed with contributions by employers, employees and State.

**SLOVAKIA**
After reforms implemented in 1999 (which tightened the more favourable previous conditions), unemployment benefit was payable in Slovakia to people who had lost their job. To be eligible for such benefit, an individual must had been insured in his/her employment for two of the last three years prior to claiming benefit. Benefit was granted for 9 months (if an unemployment insurance contribution was paid by the individual concerned for more than 15 years), otherwise for 6 months. If the unemployed individual left his/her last job without any serious reasons the duration of benefit was reduced by half. The rate of benefit was 50% of previous earnings for the first three months and 45% for the remaining months, subject to a maximum monthly benefit payment (the average amount of unemployment benefit granted in 2000 was equivalent to about 40% of average net earnings for the same year).
Where entitlement to UB had been exhausted, or where the amount of benefit is lower than the subsistence minimum, an individual was entitled to seek a social assistance benefit under the Social Assistance Act.

**HUNGARY**

All employees under employment contracts are entitled to unemployment benefits. The support is financed by (separate) unemployment insurance. Entitlement to support is based on contribution payments for at least 200 days in the preceding four years. The support is financed from the Labour Market Fund. Unemployment benefits amount to 65% of the average previous income of the person, but may not be less than 90% of the minimum pension to which a person is entitled in his/her own right and not more than double this minimum pension and is paid for a maximum of 270 days. However, the unemployment benefit is relatively low compared to the living costs.

The so-called pre-pension unemployment benefit is a special form of support offered to unemployed people who are close to retirement age. A person is entitled to this support if he/she loses a job within five years of retirement age and if he/she has paid social insurance contributions for at least 15 years. The sum of the support amounts to 80% of the minimum old-age pension and it is paid from the Labour Market Fund.

**SLOVENIA**

In October 1998 the Government adopted the *Law on Changes and Additions to the Law on Employment and Unemployment Insurance*. The law introduced some substantial changes in the definition of unemployed person and aimed to encourage the unemployed to participate more actively in job searches and in labour market programmes. The conditions for acquiring and keeping the unemployment benefit became more rigorous, the duration of its entitlement was shortened and the method of setting the level of unemployment benefit was changed.

**ROMANIA**

The Law no. 1/1991 on social protection and reintegration of unemployed was the first normative act which recognized, after several decades, the existence of unemployed in Romania. This law was replaced, since 1st March, 2002, with a modern European law, Law no. 76/2002 on the unemployment insurance system and stimulating employment.

Since 1999, the National Agency for Employment and Vocational Training, renamed in 2000 as National Agency for Employment (ANOFM) deals with cash payments to the unemployed.

- **Pension system reform**

All countries of Central and Eastern Europe managing a transition to market economy in the 1990s had to confront the issue of the reform of their pension systems. Before transition, such systems were based on a pay-as-you-go model, fully funded by the state budget and with very early retirement ages, different for men and for women.

Economic and demographic changes rapidly brought about by the transition process soon revealed that such systems were financially unsustainable and there was a risk of collapse of the systems in a short period of time unless substantial reforms were introduced.

Work and studies on this reform were started in all these countries in mid-1990s, but it was only in the final years of the decade – or in some cases in the early 2000s – that such reforms were eventually implemented, through the adoption of new legislation.

The common approach to these reforms was the introduction of a three-pillar pension system, mostly based upon compulsory wage-based contributions but also providing for a voluntary contribution element or component.

With differences between the specific arrangements adopted in different countries in a number of aspects, the first pillar (and the sole one for older generations) remained the pay-as-you-go system,
financed by wage-based contributions payed by employers or by both employers and employees, and with important changes in the rules governing retirement age (especially regarding early retirement), periods of contribution needed to have access to a pension, ways of calculating the individual pension amount, etc.

The second pillar is now based on individual capitalisation of a percentage of the compulsory wage-based contribution, in some cases with an additional and also compulsory contribution by the employee. As a rule, participation in this second pillar was made compulsory for new entrants into the labour market, and voluntary for those already under the pay-as-you-go system.

The third pillar is the purely voluntary one, also based in individual capitalisation of additional voluntary contributions, linked to retirement.

Alongside this work-life wage-based contributory pension system, a number of countries have introduced an additional system of non-contributory pensions, for all those who, when reaching the statutory retirement age, are not entitled to a contributory pension and do not have other sources of income.

**LATVIA**

Due to unfavourable demographic situation and worrisome trends (declining birth rate and increasing life expectancy), Latvia had to make considerable efforts during the course of its transition to ensure the long-term sustainability of its pension system and the adequacy of retirement income. As in many other countries, the reforms in the pension system (that started in 1995, when the Parliament adopted the concept) were aimed at establishing a three-pillar system: a largely revamped pay-as-you-go system as first pillar; a fully-funded mandatory public pension scheme based on capitalisation as the second pillar and a voluntary and privately managed fully-funded pension system as the third pillar.

**ESTONIA**

The pension reform in Estonia started in 1998, modifying the pay-as-you-go scheme and introducing new mandatory and voluntary funded components. The statutory pension system comprises two types of schemes: the state pay-as-you-go pensions and mandatory funded Defined Contribution pensions. In the pay-as-you-go scheme, pensions can be divided into two groups: employment-related and national pensions. Employment-related pensions (old age, invalidity, survivors) are financed by 20 percentage points (or 16 in the case of members of the mandatory funded pillar) of the 33% social tax, paid by employers. The national pension is a flat-rate minimum pension for those who are not entitled to an employment-related pension. National pensions are financed from the general state budget.

The compulsory funded Defined Contribution scheme was introduced in 2002 by diverting a portion of contributions from the statutory pay-as-you-go scheme into private funds. Participation in the funded Defined Contribution scheme is mandatory only for persons born in 1983 or later (i.e., new entrants to the labour market). For people born between 1942 and 1982 joining the scheme was voluntary. For younger cohorts, the window of choice for joining the funded scheme remains open until 2010.

Participation in the second pillar entails an additional individual contribution of 2% of gross wage to be paid by the employee. This is supplemented by the state with 4% of gross wage, being re-directed from the pension insurance part of social tax paid by employers. The total contribution to the second pillar is thus 6% of gross wage.

Benefits can be received upon reaching the standard retirement age. First benefits should be paid in 2009. The funded scheme covers only the risk of old age. Invalidity and survivor risks are covered only by the pay-as-you-go scheme.

Contributions are directed to a pension fund at the choice of a participant. Pension fund assets are managed by private fund managers. There are 3 different categories of second pillar pension funds:

- low-risk funds, which invest only in fixed-interest instruments (bonds, money market instruments and bank deposits);
- medium-risk funds, which invest up to 25% of assets in equities;
higher-risk funds, which invest the maximum allowed amount (50%) of assets in equities.


**Expertise:** Vilja Kuzmin, Head of Pension Policy, Ministry of Social Affairs, Vilja.kuzmin@sm.ee

**LITHUANIA**

On 14 January 2000, the Government of the Republic of Lithuania formed a working group for drafting the concept of the pension system reform. The concept was adopted on 26 April 2000. It provided for a three-level pension system: the first level – pension contributions, the second level – compulsory pension accumulation, and the third level – voluntary pension accumulation. The following legislation was adopted with a view to implementing the concept: the Law on Reform of the Pension System; the Law on the Accumulation of Pensions; as well as the Law on Pension Funds, which took effect in 2000 and preconditioned voluntary accumulation of private pensions and which was drafted in a new version and renamed as the Law on the Supplementary Voluntary Accumulation of Pensions.

The new pension system took effect as of 1 January 2004. The first-level pensions are the state social insurance pensions financed from the compulsory state social insurance contributions. The second level is accumulation of pensions. Before reaching the retirement age, persons covered with compulsory pension insurance may voluntarily opt to become participants of pension accumulation and sign pension accumulation agreements with the chosen pension accumulation company. After the agreement comes into effect, participation in the pension accumulation system cannot be terminated until the person reaches the retirement age. If the person becomes a participant of pension accumulation, part of the person’s paid state social insurance contributions is transferred to the pension fund of his/her choice.

The rate of contributions transferred to the funds has been gradually increasing since 2004. In 2004, it accounted for 2.5 per cent, in 2005 – 3.5 per cent, in 2006 – 4.5 per cent, in 2007 and 2008 – 5.5 per cent of the person’s insured income. As of 1 January 2009, with regard to the current situation of the budget of the State Social Insurance Fund, the rate of a cumulative pension contribution has been temporarily reduced to 3 per cent and to 2 per cent for the period from 1 July 2009 until 31 December 2010. There are plans to restore the rate of a cumulative pension contribution to 5.5 per cent in 2011, and, in compensation of the provisional reduced rate, to transfer 6 per cent of a person’s insured income in 2012–2014.

**Expertise:** Ministry of Social Security and Labour (Social Insurance and Funded Pensions Division)

**POLAND**

The changes introduced to the retirement pension system since 1999 were necessary mainly because of the changing demographic conditions.

The Polish society, as well as other European societies, is ageing. The effects are very well visible in the social insurance system. The number of people working and paying social insurance contributions to the Social Insurance Institution (ZUS) in the last quarter of a century has not changed substantially. On the other hand, the number of people receiving retirement and old-age pensions from ZUS more than doubled in the same period. This unfavourable trend will intensify in the coming years.

There has been an actual decline in population in Poland for the last seven years. Due to a low birth rate and negative balance of foreign migration, the population in Poland is declining. This phenomenon is accompanied by an unfavourable change in the demographic structure of our society. The birth rate is decreasing, while life expectancy of Poles is getting longer. As a result, our population is getting older. The number of people of working age is decreasing. It is estimated that their share in the population will decline from 64 per cent in 2008 to 50.4 per cent in 2050, which will translate into a significant increase in the old age support ratio (from 56 persons in 2011 to 98 in
The above changes, unless accompanied by a significant increase in employment (of elder people in particular), may soon lead to a shrinking number of people of working age and dynamic increase in the number of people benefiting from various forms of support provided by the social aid and insurance system. As a consequence, the pressure on the tax system and public finances will increase, which may cause higher labour costs and fiscal burdens as well as a drop in economic growth potential.

It should be noted that the unfavourable demographic changes directly affect the condition of the social insurance system. The relation between the number of people paying contributions and the number of people receiving retirement and old-age pensions is getting worse, which contributes to a greater deficit of the Social Insurance Fund.

**New retirement pension system**

The new retirement pension system in Poland has been into effect since 1 January 1999. Its authors assumed that ultimately the future pensioners will receive pension benefits from at least two sources, i.e. from the reformed Social Insurance Institution and open pension funds.

In the distribution part, a notional defined contribution (NDC) system was introduced. Individual retirement accounts were introduced as well as a general rule that the level of pension benefits is dependent, under the new system, on the amount of contributions paid.

Some of the compulsory retirement pension contributions are capitalised and handed over to be managed by the open pension funds (OFE). An open pension fund is a legal entity having assets separate from the managing institution, i.e. the Comprehensive Pension Company (PTE). It means that the Comprehensive Pension Companies which manage OFE may not disburse the funds accumulated in OFE to cover their own costs or investments. The main activity of OFE is focused on accumulating funds from the contributions paid by the insured and investing them in the financial market for the purpose of paying retirement pensions to the OFE’s members once they have reached the pension age. Each person born after 31 December 1968 who begins their first job which imposes the obligation of compulsory or optional pension insurance is obliged to join an open pension fund.

The legislator has also envisaged the possibility of establishing Employee Pension Schemes, which are voluntary and complementary to the general retirement pension system.

In practice, the insured persons have been divided into three groups, depending on the method of saving, pension privileges and the manner of calculating the pension.

- Persons born before 1 January 1949 will receive a pension based on the provisions on the pension system introduced by the Act of 17 December 1998 on retirement and old-age pensions from the Social Insurance Institution.
- Persons born after 31 December 1948 but before 1 January 1969 have the possibility of saving for pension not only in the Social Insurance Institution, but also in the newly established financial institutions – open pension funds.
- Persons born after 31 December 1968 are covered by the new retirement pension system and it is obligatory for them to save a part of pension insurance contributions in open pension funds.

Until this year, one of the issues of the pension reform, which remained unaddressed for many years, was the problem of entitlement to early retirement.

Early retirement constitutes one of the major problems of the social policy and labour market policy in Poland. It results in lower labour supply and decreased potential State budget revenues as well as increased spending on social transfers, which makes it necessary to maintain high taxes or even increase them further and limits the possibility of allocating public funds to other areas, including social investments. For the above mentioned reasons it is necessary to be consistent in applying the principles of the pension system reform related to gradual elimination of the possibility of early retirement.
The necessity of meeting this objective results also from the adopted principle of equal treatment of all insured persons paying identical pension insurance contributions, which stems from the two main acts introducing the pension system reform: the Act of 13 October 1998 on the social insurance system and the Act of 17 December 1998 on retirement and old-age pension from the Social Insurance Fund. Thus, in order to comply with this principle, it was necessary to unify the conditions of awarding and calculating benefits.

The “new pension system”, which entered into force on 1 January 1999, did not provide for the privilege of early retirement for any professional group, while for those working in specific conditions or performing work of a special nature it provided for the system of bridge pensions.

Enacted on 19 December 2008, the Act on Bridge Pensions is at the same time an implementation of the principle of the pension system reform introduced in 1999, i.e. an attempt at gradual elimination of the possibility of early retirement, as well as an expression of the fundamental principle of the new pension system, i.e. the principle of equal treatment of all insured persons who pay identical social insurance contributions.

Some of the Government’s proposals failed to be implemented. One of the major sources of these problems might be the enormous sensitivity of the society to any suggested changes in the area of social insurance. An example might be the proposed introduction of a correlation between old-age and retirement pensions.

The Act of 17 October 2008 amending the Act on retirement and old-age pensions from the Social Insurance Fund and certain other acts proposed to introduce a new system of calculating work incapacity pensions for persons born after 1948, related to the amount of contributions paid and consistent with the principles of calculating benefits under the new pension system.

The adoption of a uniform basis for calculating retirement and old-age pensions for persons born after 1948, resulting in the adjustment of the rules of old-age pension calculation to the implemented pension reform, was supposed to preserve the relation between the level of retirement pension and old-age pension benefits, which was necessary for both systems to co-exist. At the same time, the proposed changes would increase the financial stability of the social insurance system by adjusting the level of benefits to the amount of contributions paid and would make the amount of individual pension benefits more dependent on individually paid contributions.

The Act proposed to base the calculation of work incapacity pension of a person born after 1948 on the sum of uprated pension insurance contributions and the initial capital accrued on the insured person's account run by the Social Insurance Institution. In the case of persons being members of open pension funds, the amount of pension insurance contributions would be increased by correction ratio.

It was also intended to introduce a transitory period, during which old-age pensions would be calculated by the so-called mixed method, i.e. partially according to the old and partially according to the new principles.

Moreover, the Act proposed to introduce the principle that work incapacity pension would not be decreased or suspended due to the lack of income from paid work. This principle would also apply to persons incapable of working who receive family and social pensions. The main objective of this change was to make the disabled more active.

The Act was adopted by the Sejm of the Republic of Poland on 17 October 2008. However, it did not enter into force due to the veto of the President of the Republic of Poland (29 November 2008).

Expertise: Ministry of Labour and Social Policy - Department of Social Insurance

CZECH REPUBLIC

The pension system forms an integral part of the social insurance system. Pensions are provided in three different social situations. These are the retirement age (old-age pensions), long-term disability
(full and partial invalidity pensions) and the decease of a breadwinner (survivors' benefits – widow's, widower’s and orphan’s pensions). The pension system consists of two core parts: the basic system of pension insurance, which is mandatory, and the system of supplementary pension insurance with a State contribution, which operates on a voluntary basis (just like the other form of income security in old age - life insurance). Within the mandatory system, the principle of solidarity between generations applies (operating as the pay-as-you-go principle) and solidarity between groups with high and low income rates. Within the voluntary systems, which operate on the fund-financing principle, solidarity is extremely limited.

SLOVAKIA
During most of the transition (till 2003-2004), Slovak pension system was established on a pay-as-you-go basis. The retirement age was set at 53 to 55 years for women (depending on number of children brought up) and 60 years for men. The amount of the retirement pension depended on the retiree’s work history. The system contained some motivation to people to remain employed beyond the normal retirement age. In such cases, as long as the person concerned did not draw a pension, the pension entitlement was increased by 6% for each full year of employment after the right to old-age pension has been established. However, there was a ceiling on pension amounts, as a result of which pensions were levelled down to a generally low level.

A reform of the pension system was started with the adoption of the Concept of Social Insurance reform in August 2000. As of 2004, a three-pillar pension insurance system was introduced. Other changes included the extension and gradual equalisation of men’s and women's retirement age (60) and the elimination of the possibility of early retirement after 25 years of employment, as well as the elimination of the mechanism for the levelling out of pensions.

HUNGARY
A gradual reform of the pension system was begun at the start of the 1990s. Since 1998 a multi-pillar system has been in operation in place of the previous uniform government pension system.

The mandatory pension insurance system was reformed in 1998 through the partial privatisation of the state system and the private pension scheme was established in addition to the social insurance pension system:

• The social insurance pension pillar makes up 3/4 of the mandatory scheme for persons participating in the private system. A PAYG-type model has been retained when defining services, in which the relationship between the amount of contribution paid and the benefits received becomes stronger. (First pillar.)
• The private pension scheme, which covers 1/4 of the system, operates on the fully funded principle. From 2013 it offers life annuity defined with payments. During the accumulation period the funds in the person’s individual account may be inherited. It is a non-profit fund operating on a corporate model. This system is mandatory for persons beginning their careers – with minor interruptions – while 51% of the persons thus insured joined the system. (Second pillar.)
• In addition to the mandatory social insurance pension system, a voluntary pension fund system was introduced in 1994, and to date 30% of economically active persons have joined it. (Third pillar.) This pillar is fully independent of the mandatory pension system.

At the time the pension system was reformed in 1998, a system of government allowances was introduced for the elderly who had not earned pension rights or whose pensions were very low. It guarantees a minimum income as a benefit for persons whose incomes are below a given level. We call this welfare benefit, offering cash support to the elderly, the “zero” pillar of the system. (This benefit is financed by the state budget.)

SLOVENIA
During the transition, transfers through the public pension system were the biggest single item on the public finance expenditure side, accounting for 27% of total expenditures in 1999. This large share was the result of a relatively generous pension system and early retirement programmes from the beginning of the 1990s leading to one of the highest ratios of pension spending in Europe (13.5 % of
A new Pension and Disability Insurance Act was passed in December 1999 and came into force in January 2000. The social partners agreed on pension reform enabling introduction of new act.

One of the purposes of the modification of the pension system was the prolongation of the active life and the postponement of early retirement. So-called “full retirement age” was introduced, which is set at 61 years for women and 63 years for men. At this age there are no deductions for pension benefit, but afterwards there are monthly supplements for later retirement. This would individualize decisions and the acceptance of the consequences of early retirement.

There is also a partial pension where the insured person has the possibility of combining employment and retirement in the years preceding retirement. In such an event the income consists of half of the wage and half of the pension; partial retirement eases the transition from the labour market to retirement and mitigates the pressure for early full retirement. For special cases of retirement equal criteria with the highest possible deviation from the general conditions will apply, and for hard work and work harmful to health, a compulsory additional insurance, came into force in January 2001 on the basis of capital funding, where increased contributions are paid by the employers. Insured persons in employment have the possibility of voluntary additional pension insurance.

The economic and financial effects of these changes would halt the amount of expenditure on pension and disability insurance at the approximately same level as in 1999; although a substantial increase in expenditure is expected again in 2012 when post-war generations, larger in numbers, will start to retire; however, the reduction of current expenditure and increase in savings would occur only in the event of a strong development of additional voluntary pension insurance.

ROMANIA

Creation of a multi-pillar pension system for the main purpose of diversification of pension funding sources to include both state and private sector sources.

The main objectives of pension reform in Romania are the following:

- setting up of multi-pillar pension schemes for supporting old age incomes;
- introducing private pension system component;
- increased individual responsibility in providing incomes in old age;
- changing the role of state from provider of benefits into a body exercising the control and issuing the regulations in this area;
- dividing social security obligations between employees and employers;
- closer link between contributions and benefits.

The pension system in Romania has been reformed since April 1, 2001, the reform being designed to improve the system sustainability in the context of demographic challenge and the need for adequacy of resources in the future, introducing new components optional and mandatory, privately managed meant to partially relieve the state social insurance budget.

Reforming the first pillar aimed to create a more equitable redistribution and to improve links between contributions made and benefits received, as well as improving the long term sustainability of the system. A new calculus formula for pensions was introduced based on points system, taking into consideration all contributions made during the entire active life, by transforming the monthly contributions into points and multiplying the average number of points by an annual established value of the pension point.

Compared to the previous pension system, the coverage for all types of workers was enlarged, with particular emphasis on the inclusion of own account workers.

It was also taken into account the need to improve the social protection system in line with national priorities in order to encourage greater solidarity with the most vulnerable persons. In 2009 it was established the minimum guaranteed social pension. The purpose of this measure was to prevent the
social exclusion of a part of the public system pensioners and to ensure a minimum subsistence income, taking into account the economic situation and social developments in Romania.

Recognizing the importance of a regulatory and prudential and monitoring control body for the functioning of private managed pension systems and for the development of capital market, during the negotiations with the World Bank, one of the goals was the adoption of a capacity building comprehensive program for supervision of occupational pension scheme, which was materialized by the adoption of Government Emergency Ordinance nr.50/2005 on the establishment, organization and functioning of the Supervisory Commission of Private Pension System, approved by Law no. 313/2005. This translates the provisions of Directive 41/2003/CE/PE on the activities and the monitoring of institutions for providing occupational pensions, regarding the monitoring authority of private pensions system.

The Supervisory Commission of Private Pension System is an autonomous administrative body with legal personality, under control of the Romanian Parliament, whose authority is exercised throughout entire country and which regulates, coordinates, supervises and controls the activity of private pensions. The activity financing of the Commission was for the first time supported from the World Bank loan 4616 RO. The legislation for creating the institutional framework necessary for the implementation and operation of privately managed pension system was also established. The legal framework necessary for the implementation and operation of privately managed pension system is permanently updated.

**Best practice:** A pension system based on three “pillars”:
I. A system managed by the public sector, based on mandatory contributions;
II. A mandatory savings system managed by the private sector;
III. An optional savings system based on voluntary contributions;

**Expertise:** Ministry of Labour, Family and Social Protection

- Other social welfare benefits and services
In addition to reforms in the core part of the pension systems (retirement pensions), during their transition the countries of central and eastern Europe also dealt with the reform of the systems providing other family or social benefits and the setting up and development of systems of social assistance and social services so as to cover the basic needs of the segments of the population mostly affected by the economic and social changes or otherwise placed in a worse situation to be able to benefit from such changes.

In some cases and aspects, these reforms were aimed at correcting mechanisms and systems in place that could be producing undesirable effects, so as to encourage individuals and families to take a more active stance and responsibility towards seeking for employment or other forms of active participation in the new economic and social life.

But in most cases, the challenge was to create and finance new financial instruments and in-kind services that would help the most disadvantaged individuals and families to cope with the economic and social difficulties arising from the new situation.

All this had to be done in a period of tight budget constraints, during which the economy of these countries had to overcome a deep initial recession and later on the recovery of the economy was nevertheless lagging behind in what concerns the provision of sufficient sources of revenue to the public administrations (state and local) responsible for the provision of such assistance and services.

In this process, one of the elements that seems to have been common to most countries was the effort to define a “minimum guaranteed income level” based upon objective indicators, so as to be able to arrange the system of social assistance and its set of benefits and services in such a way that it could ensure such minimum income level to the whole population.
The experiences and instruments developed, implemented and frequently adjusted and corrected in these countries were quite diverse, but offer an array of possible approaches and solutions that constitutes, in itself, a valuable asset, in terms of its possible sharing with developing countries.

**LATVIA**

**Social security benefits.**

Two kinds of state social benefits are granted: 1) regular payments (state social security benefit, child care benefit, government family allowance, etc.) and 2) single non-repayable grants (birth allowance, funeral allowance). Government family allowances, which since 1996 are awarded differentially depending on the number of children and births by order, are the largest. However, although the average amount of all kinds of state social benefits has increased, their growth rates have been considerably below the growth rates of monthly pensions and average wages and salaries.

**Social assistance benefits**

A reform of the social assistance system was undertaken at the turn of the century. The main elements of this reform were set out in a *Concept Paper of Provision of Guaranteed Minimum Income Level to Needy Persons*, approved by the Cabinet of Ministers in February 2000. According to the Concept, the existing national system allowing local governments to set their own criteria for establishing entitlement to social assistance payments would be replaced by a simpler nation-wide approach based on a Guaranteed Minimum Income (GMI). Among the main features of the system would be:

- a single benefit (instead of several types) will be compulsory for all local governments;
- social assistance will be granted after the assessment of the income situation of the person, and will be designed to bridge the gap between that assessed income and the GMI;
- a requirement to co-operate in improving one's personal situation will be one of the criteria for receipt of assistance;
- initially, the GMI shall be set at the amount of LVL 21. This amount equals to the benefit amount currently paid to low-income families;
- the level of assistance will be the difference between the amount of 21 LVL for each family member and the level of income for the household;
- the GMI benefit will be financed by local governments. The decision to grant the benefit is also taken by a local government;

The new system will include a number of measures to prevent disincentives to take up employment. Where a beneficiary enters paid employment, the payment of social assistance will not be terminated immediately. It will continue to be paid for a further three months, gradually decreasing the amount granted. Further, the maximum assistance limit for a household is set at level of two minimum wages.

Finally, persons receiving social assistance must be registered as unemployed; the status of a registered unemployed can be deprived if the person refuses to participate in any active employment measures, is not actively looking for a job or has rejected suitable job offers twice.

A pilot project for implementation of GMI was carried out in twenty municipalities for six months. After evaluation of the pilot project, the Parliament adopted the law “On Social Assistance and Social Services” on 31 October 2002. The Law came into force on 1 January 2003. On top of GMI each local government can pay other types of social assistance according to their budget possibilities.

**ESTONIA**

**Social benefits**

Other than the benefits covered by the Pension, Health Insurance - this including sickness and maternity benefits - and Unemployment systems (all of them covered by payroll contributions), the social security system provides family benefits, social benefits for the disabled, funeral grants and compensations for victims of violent crimes (financed from general taxes).

A “national pension” scheme guarantees a minimum pension to persons who have attained 63 years of age, but do not qualify for the old-age pension and also serves as a basis for calculating the minimum pension in cases of incapacity for work or loss of breadwinner if persons do not qualify for
normal incapacity for work pension or survivor's pension.

A Social assistance benefit is granted - as a constitutional right - if the person's or household's income after payment of housing costs (up to certain limits) falls below the subsistence level (which is calculated taking into account minimum expenditure on consumption of food, clothing, footwear and other goods and services). This benefit is provided by the municipalities but financed by the state budget.

On the other hand, the real values of benefits are relatively low and do not always prevent economic hardship or lift recipients out of poverty.

Social services in general fall within the responsibility of local municipalities. The State finances maintenance of children without parental care in foster families and institutions, rehabilitation services for disabled children, rehabilitation, supported living, employment and institutional care for people with psychiatric needs or intellectual disability and technical aids for disabled persons. Municipalities provide counselling, rehabilitation, accommodation, personal assistance, care and other services that are aimed at supporting independent living, improving the quality of life and promoting social integration.

Several State-managed and -funded programmes have been implemented to design, develop or deliver welfare services at either national or local level. Overall these programmes have aimed at diversifying service provision, setting quality standards, improving access to social services for different groups. In 2000-2003 the following welfare programmes with relevance to social inclusion were carried out:

- Implementing Community Care Arrangements (foster families scheme for children without parental care; rehabilitation, supported living and employment arrangements for people with special psychiatric needs as well as for people with intellectual disability).
- Preventive work in the social sector (preparation of the child protection strategy to ensure better-coordinated services and support to families with children and children at risk; development of a family and community network to reduce the number of placements of people with psychiatric needs or intellectual disability in special care institutions; establishing a free Estonia-wide help-line in cases of psychological crises).

The Concept of Social Welfare, approved by the Government in November 2004, forms the basis of current reforms. Development of the social welfare system is based on the principle that implementation of social policy measures (i.e. social services and benefits) is an investment in human resources and thereby in the economy and society as whole. The state is obliged to interfere in order to ensure proper protection of social rights and provide assistance if the potential for a person or family to cope is insufficient.

The main reforms and changes since 2004 have been:

- Legal provisions related to the rehabilitation service were established as of 1 January 2005. The purpose of rehabilitation service is support the ability of persons with special needs to cope independently, their social integration and employment or commencement of employment.
- Legal provisions related to the children belonging to the target group of foster care services were established as of 1 January 2005, specifying their rights and requirements were set out to the provider of the foster care service and his/her adult family members.
- In 2005 the victim support service was introduced. The conciliation service was introduced in February 2007. The conciliation procedure is applied to crimes in the second degree; conciliation is carried out between the parties of the crime in the second degree, i.e. between the victim and the suspect or accused.
- The distribution of caregiver’s allowance was reorganised since 1 April 2005. The distribution of the caregiver’s allowance via the Social Insurance Board was terminated and the right to pay the caregiver’s allowance was transferred to the local governments.
• The legal regulation relating to child care service and substitute home service as well as to activity licenses and supervision of the service provision was set out by the amendment to the Act, enforced as of 1 January 2007.
• Legal provisions relating to substitute homes were established as of 1 January 2007. Substitute home is more child-friendly than children home. In the substitute home children live in “family-like” conditions where a family parent lives together with up to 6 members of the substitute home.
• As of 2008 the principle of case management came into force upon the provision of assistance if a person, in order to improve the ability to cope independently, needs long-term and diverse assistance which includes also the need to grant social service or benefit.
• As of 1 January 2009, legal provisions related to the social welfare services for persons with special mental needs were established in the Social Welfare Act. Previously the services were regulated by the Regulation of the minister of Social Affairs.

**Expertise:** Institutional: Ministry of Social Affairs (Social Welfare Department); Academic: 1) University of Tartu, Institute of Sociology and Social Policy; 2) University of Tallinn, Institute of Social Work; 3) Pärnu College, University of Tartu.

**LITHUANIA**

**Social security benefits**
The benefits provided under the social insurance system for sickness and maternity (paternity) have been regularly and constantly improved and increased so as to enable reconciliation of professional and family life and thus creating the conditions for increasing births. Latest legal reform in this field took place in December 2007.

**Social assistance benefits**
In Lithuania the system of social assistance benefits covers state aid to families raising children (regardless of their income and property) as well as to children deprived of parental care; and aid provided to persons with low income.

The first type of benefits are regulated by the Law on “Benefits to Children”, which first version was adopted in 1994 (the current one was adopted in 2004). The Law stipulates the following cash benefits, to which all children/families are entitled: birth grant, child benefit, benefit to a conscript’s child, guardianship grant, a grant for housing/accommodation and pregnancy grant. An “adoption” grant (additional to the birth grant) was added in 2006, in the same amount as the birth grant. Child benefit, in turn, is a benefit for all families raising children or for those raising children under guardianship. Is paid for every child under 18 or even older, if they continue studying. At the time of becoming self-independent (emancipation or marriage), every individual is entitled to an “accommodation” grant paid by the state as a help for the expenses associated to the commencement of an independent life. In addition to this, low-income families with children in school age are also entitled to additional state benefits established in the Law on Social Assistance to Pupils, and related to coverage of schooling costs (books and materials, meals), as well as to additional cash and non-cash aid that can be provided by the municipalities.

As for aid to persons with low income, an important step was the adoption in 2003 of a Law on Cash Social Assistance for Low-income Families and Single Residents (in force since 2004 and amended in 2006 and 2008). The benefits that can be granted under this Law are based on an assessment of the income and property of the relevant family or single resident, and include a social allowance, coverage of costs for heating and water consumption (cold and hot) and access to social services. Municipalities may supplement these cash benefits with additional sums or other non-cash benefits.

**Social Services**
In 2002, the reform of the social services system was started in Lithuania. The purpose of the reform was to create legal, administrative and financial conditions for more effective planning, provision and organisation of social services in order to meet the basic needs of an individual and encourage active self help from an individual.
While implementing the measures provided for in the aforementioned resolution, the Seimas of the Republic of Lithuania drafted a new version of the Law on Social Services and adopted it on 19 January 2006.

Greater focus has been lately shifted on the quality of social services. Adherence and implementation of the social care norms for social care establishments approved by the order of the Minister of Social Security and Labour and compliance of these norms with the set criteria will precondition regular monitoring and control of the quality of social care provided by these establishments and licensing social care activities in the future.

Seeking to ensure accessibility of social services to the most socially vulnerable groups through strengthening the financial possibilities of municipalities to organise social services and promoting development and accessibility of the necessary social services, special target grants have been allocated to municipalities from the state budget since 2007 to ensure social care provided to persons with a severe disability in social care homes, day centres and at home.

The development of social services was mainly affected by the programmes for the development of social services infrastructure. Having regard to the limited financial resources of municipalities allocated for the development of the social services network in local communities, the Ministry of Social Security and Labour has been implementing these programmes since 1998. The Government of the Republic of Lithuania approved the Programmes for the Development of Social Services Infrastructure 1998–2003, 2004–2006 and 2007–2009. They aimed at reducing the differences of social services infrastructure across municipalities, and improving their quality, diversity and accessibility in communities. In implementing the programmes from 2001 to 2008, project tenders were organised and 238 projects of social services development were financed and implemented in 58 municipalities; about 850 new workplaces were created. Approximately 36 per cent of all financed projects were submitted by non-governmental organisations (individually or jointly with municipalities), and approximately 35 per cent were implemented in towns or rural areas, rather than cities or district centres.

While pursuing the goals of the Strategy for Reorganisation of the System of Childcare (Fosterage) adopted by Resolution No. 1193 of the Government of the Republic of Lithuania on 31 October 2007, the preventive measures for solving family problems were implemented: social services provided for social risk families were developed.

In 2007, seeking to strengthen social work with social risk families and ensure the quality and effectiveness of social care services by making them more accessible to individuals, the funds from the state budget were used to create workplaces of social workers dealing with social risk families (in 2008 – 612.5). Work with social risk families is aimed at helping them constructively solve problems and improve parental skills. Help includes identification of families at risk, evaluation of the situation, drawing up the assistance plan, assessment of results and planning further actions. Social workers were employed in municipal social services centres, family assistance services, neighbourhoods and institutions subordinate to municipalities. Most social workers were employed in rural areas.

**Expertise:** Ministry of Social Security and Labour (Social Insurance and Funded Pensions Division / Financial Social Assistance Division / Social Work and Social Services Division)

**POLAND**

**Social security benefits**

In addition to pensions (old-age, disability and survivors’), the two social insurance schemes that exist in Poland (for employees – ZUS – and for farmers – KRUS) provide short-term benefits (sickness and maternity) and lump sum benefits (work-injury compensation, funeral grant).

**Social assistance**

Social assistance consists of various categories of cash benefits as well as different forms of non-financial support. Cash benefits can be granted to persons and families whose income per capita does not exceed the limit stipulated in the law. Some of the benefits are compulsory (i.e. permanent
benefit, permanent compensatory benefit, guaranteed periodic benefit and maternity benefit) and are financed from the State budget. Optional benefits (such as periodic benefits and special-purpose benefits) are financed by municipalities’ budgets. There are also nursing benefits provided for persons needing assistance.

Non-financial assistance covers mainly the services provided by social assistance centres and centres for family support and services at the place of residence. People who need permanent care may also benefit from services provided in special social assistance units, such as social assistance houses, care and education centres and support centres.

Pursuant from the legislation in force during the transition (Law of 29 November 1990, with subsequent amendments and implementing regulations), social assistance is organised by units of central and local administration in cooperation with organisations such as the Catholic Church, other churches, religious groups, foundations, associations, employers and both natural and legal persons. Units of social assistance are as follows: (i) in municipalities – social assistance centres; (ii) in powiats – powiat centres for family support; and (iii) in voivodships – regional social policy centres.

The majority of social welfare services are provided by social assistance centres and powiat centres for family support. They are responsible for payment of cash benefits as well as nonfinancial assistance. Regional social policy centres focus on cooperation with providers and organisers of social assistance (for example NGOs).

**CZECH REPUBLIC**

*State social support and Social care allowances*

Through the State social support the Government primarily supports families with dependent children in cases of particular social situations which the families cannot manage to resolve themselves from their own resources. When assessing entitlement to State social support allowances (non-contributory benefits), income is examined (but only in the case of certain allowances) and property is not taken into account. The actual basis on which the system is constructed is the minimum subsistence amount (minimum standard). The system further applies the solidarity principle between high- and low-income families and between families without and with children.

Through social care the Government provides assistance to citizens whose basic needs are not sufficiently covered by their income from working activities, pension benefits, sickness benefits or other income. Social care allowances are also provided to citizens who are in need owing to their state of health or to their age, and to those who are not able to overcome a difficult situation in life or unfavourable living conditions without help from society. Social care (assistance) is primarily implemented through social care allowances and social services.

The minimum subsistence amount is a minimum rate of income acknowledged by society and specified by law, which defines the state of material need. It represents the amount of financial means necessary for a household to provide temporary basic living needs to its members on a very modest level. It is a criterion used in the social protection network for deciding on the provision of social benefits and for determining their level. It is increased in accordance with changes in consumer prices.

*Social services*

Social services are provided by the central government, regions, municipalities (voluntary associations of municipalities), non-profit non-governmental organisations and individuals. The scope and types of social services available in the Czech Republic during the transition did not fully meet the needs that emerged in connection with the transformation of the social and economic system after 1989. According to the legislation in force during that period, the beneficiaries could only be one of the following: family and children, people with severe disabilities, senior citizens, people in need of special care, so-called “socially non-adapted” people, people placed in hospital facilities.

**SLOVAKIA**

Until 2003, state social support for families with children comprised a system of single-payment and
multiple-payment State social benefits (system of State social support). State social benefits were granted for the birth of a child and throughout the entire period during which dependent children were present in a household, but not when a dependent child was older than 25. This system of benefits incorporated certain elements for increased protection of low-income families with dependent children, single-parents families and families including a person with severe disability.

The state of material distress of citizens was addressed in the Social Assistance Act. The protective principle is relied on to provide for basic living conditions (one cooked hot meal a day, clothing and shelter), which are guaranteed for every person under the SR Constitution. If a person meets other requirements under the Social Assistance Act, they are granted social assistance benefit at a higher level.

The subsistence minimum (SM) is the amount, laid down by law, which is considered necessary to meet the most basic living needs of individuals and families. Below this income threshold, the situation is defined as a state of material distress. The Subsistence Minimum Act does not in itself establish entitlement to any benefit; it merely serves as a criterion for determining the personal situation of beneficiaries and for working out the amounts of some social security benefits.

In 2003, social assistance expenditure represented a long-term burden on the State budget, and there were doubts as to the efficacy of this spending. As far as basic living conditions are concerned, a reform of social assistance provision was being planned to preserve the protective function of social assistance for those groups among the population which are at risk, while providing incentive elements aimed at making people become more active by various means, such as acquiring new qualifications, further education courses and reintegration into working life. The establishment of an integrated system of employment and social benefits and the creation of two main types of social benefits ("activation" benefit for those potentially able to join or re-join the labour market and "protection" benefit for persons who, owing to old age, health problems or other reasons, are not able to find a way out of unfavourable social situation, either temporarily or in the long term) were among the measures envisaged and planned to be implemented as of 2004.

**HUNGARY**

*Family benefits*

Family benefits include the following cash benefits: family allowance, childcare allowance, child raising support and maternity benefit. All parents raising children are entitled to these benefits.

Family allowance is a universal entitlement. All Hungarian citizens with a child under a certain age are entitled to family allowance. This benefit is funded by the central government budget. All women with children are entitled to maternity allowance, which is a single lumpsum payment equal to 150% of the minimum pension. Childcare allowance is another universal entitlement, which is paid until the child reaches the age of three. The monthly payment is equal to the minimum pension receivable in a person's own right. Child-raising support is an entitlement for a parent with three or more children in the household, if the youngest is between the ages of 3 and 8.

*Social assistance*

The social assistance system in Hungary is based not on social insurance entitlement but on means-testing. It is financed partly by the central budget and the own resources of local governments. Providing social aid comes under the responsibility of local governments. There are three main types of assistance:

- *general subsistence assistance*, a regular monthly payment in cash. There are several types of benefits: (i) ordinary social assistance; (ii) non-contributory old age allowance; (iii) nursing fee; and (iv) finally, ordinary child-protection support.
- *assistance related to special needs*, such as housing support, indigent medical care, funeral assistance, reduced fees in child care institutions
- *one-off assistance*, including temporary assistance, special child protection benefit, help with housing debts
Social services

By 2003, the system of primary (general) and specialised services defined in the Social Act and in the Act on Child Protection was established. Ninety percent of the population lived in settlements where access to general services was ensured. However, the ratio of the population covered was lower and many services did not cover the existing needs. In fact, a large number of small settlements were unable to maintain general services (in 2001, 30% of the local governments operated all forms of primary social services), hence the principle of equal access was not fully ensured.

SLOVENIA

Additional rights linked to pension and disability insurance and “State pension”

Through compulsory pension and disability insurance, the insured persons receive pensions (old-age pension, disability pension, widow’s/widower’s pension, survivor’s pension), exercise their disability insurance rights (occupational rehabilitation right, various compensations) and additional rights (attendance allowance, pension support, transitional and maintenance allowance, pensioner’s recreation grant).

The 1999 Act on Pensions and Disability insurance introduced the right to a State pension, which can essentially improve the situation of older persons. The State pension is not a right under compulsory insurance but a benefit which is guaranteed to persons on reaching a specified age who have not completed the minimum insurance period for recognition of the right to a pension under either domestic or foreign regulations. The conditions for obtaining a State pension are: having reached the age of 65 years, permanent residence in Slovenia for at least 30 years between the ages of 15 and 65 and meeting the assets condition, the level of which is the same as that required for obtaining pension support, whereby for obtaining the right to a State pension only personal income is relevant. The State pension amounts to 33.3% of the lowest pension basis.

Parental protection and family benefits

Within the context of family benefits, the rights to parental allowance, child birth allowance, child benefit (increased for single-parent families and for pre-school children not included in pre-school education) and special child care allowance were newly defined by the Parental Protection and Family Benefits Act of 2001 and, as a completely new right, the Act introduced large-family allowance and partial payment for lost income. Of these, only child benefit is means-tested. Parental allowance is a monthly benefit intended for parents who do not fulfil the conditions for obtaining parental benefit deriving from insurance. Child benefits are an important social benefit and are means-tested. The Maintenance Fund, which was introduced in October 1999, has an important role in improving the income position of children. It is intended for children for whom maintenance has been determined but is not being paid by the person responsible.

Social assistance and services

Institutional care, home help and other social services are regulated by the Social Assistance and Services Act (1992, later amended on several occasions); the providers of institutional care are old people’s homes (mainly public), while the main providers of home help are social work centres. The Ministry of Labour, Family and Social Affairs is responsible for policy-making.

With the amendments introduced in 2001, social assistance was substantially increased and provisions were enhanced in such a way that responsibilities and obligations are incumbent on the persons applying for and receiving social assistance. Entitlement to benefits may be granted to persons who cannot ensure means to the level of the minimum income for themselves and their family for reasons which were or are beyond their control. Social assistance can be conditioned by a contract specifying the actions to be taken by the recipient (such as health treatment).

Social assistance is income-tested. The threshold is minimum income, which is determined for individual family members in proportion to the basic minimum income. Social assistance is equal to the difference between the sum of minimum incomes to which family members are entitled and their own income. Social assistance should be the last financial resort provided by the State. Before a person becomes entitled to social assistance, s/he must exercise the rights to benefits on the basis of
other regulations (State pension, unemployment assistance) and other rights (alimony).

- **Social inclusion/integration and poverty reduction strategies**

Although the economic transition had a very important effect in terms of growing inequality and poverty in most countries of central and eastern Europe, during the first years of transition not too much attention was paid by governments and civil society to this very serious problem. International and domestic organisations present in the field and dedicated, among other objectives, to combatting poverty and promoting social integration and inclusion were nevertheless active from the beginning of the transition; and it was to some extent thanks to their efforts that the issue of social inclusion/integration and the fight against poverty became finally part of the public policy agenda.

In the second half of the 1990s, the process of preparations for EU membership and in particular, the need for the candidate countries to get prepared to join the EU’s Open Method of Coordination on poverty and social exclusion triggered a new and more comprehensive and consistent approach to these issues. The various aspects of each country’s situation were subject of a more thorough analysis, objectives and priorities were identified in the various policy areas related to social inclusion and a more coordinated system of managing the implementation of the appropriate measures was taken.

**LATVIA**

The idea of social integration was unknown in Latvia in the immediate years after the restoration of independence. Moreover, in the first years of transition was what then perceived as the most important social integration problem – access to full Latvian citizenship by the large Russian minority – was highly politicised and controversial, even affecting Latvia’s international relations (with Russia, but also with the EU). Given the importance of the language issue for the integration of this important minority, a strategic National programme for Latvian Language Training (NPLLT) aimed at promoting cohesion in Latvian society by reducing the language divide and promoting the strengthening of common values, was designed and launched in 1996. The was supported by a number of bilateral and multilateral donors (including the EU), which financial contributions were coordinated and their use monitored by UNDP till 2001, when this role was taken over by the Ministry of Education and Science. In October 2004 the NPLLT management unit became the National Agency for Latvian Language Training.

Despite the huge impact of economic reforms undertaken in the first decade of transition in terms of growing inequality and poverty (as shown by the Gini coefficient), and the collapse of the systems of social protection, in Latvia the Government was not really concerned about this issue and, in general, populations were reluctant to even discuss it. A number of factors were influencing these developments. It was only at the turn of the Century, when the prospect of EU membership was getting closer, that Governments started to address the problems of social exclusion and poverty. In the second half of the 1990’s – also as a result of the publication of a number of studies and reports, such as UNDP’s first Human Development Reports – a broader understanding of integration which included the poor, people with special needs and other vulnerable groups started to emerge. By 1997 – when Latvia was not included in the list of the 5 front-runner countries for EU accession - a split had formed in society – between rich and poor, men and women, various ethnic groups, various language groups, rural and city residents, young and old people, etc. It was against this backdrop that the Latvian government began to draft a social integration programme in 1998. A first Framework Document on Integration was adopted by the Government in late 1999 and, based on it, and with the participation of a number of Governmental institutions and international organisations and donors, as well as with a broad process of public consultations and debate, a National programme for the Integration of Society in Latvia was finally adopted in 2001. This experience laid the groundwork for the development of Latvia’s Joint Inclusion Memorandum after accession to the EU.

Also after the publication of 1997’s Human development Report, an inter-agency task force was set up, with the support of UNDP, to evaluate the situation regarding poverty. The Ministry of Welfare started to draw up a strategy for poverty reduction on the basis of the results of this analysis. But it was only in August 2000 when, after long and repeated discussions, the Government adopted a “Framework Document for Addressing Poverty and Basic Approches Towards poverty Eradication”,

246
which was meant to provide the foundations for a further action plan. In 2004 poverty reduction was named as one of the Government priorities (Declaration on the Planned Activities of the Cabinet of Ministers of Prime Minister Indulis Emsis) and finally, in the context of the EU’s policy on social inclusion, a National Action Plan (2004-2006) for reduction of Poverty and Social Exclusion was adopted by the Government.


**Resources:** 1) National Agency for Latvian Language; 2) Ministry of Education and Science (Social Integration Division); 3) Ministry of Welfare

**ESTONIA**

Using the EU-agreed indicator on relative income poverty, in 2002 the risk-of-poverty rate at in Estonia was higher than the EU average rate and also than the average for the accession countries. Income disparities were the highest of the accession countries and significantly higher than the EU-15 average. The nationally agreed indicator on absolute poverty (suggested by the authors of a Poverty Study elaborated in 1999 by the University of Tartu, with UNDP support and defined in terms of minimum consumption) showed that, even though the poverty rates were falling with each year, in 2002 some 25% of the population were still living below the absolute poverty line.

Irrespective of the poverty line applied, the groups at highest risk of poverty were: unemployed (in particular long-term unemployed), large families and single-parent families. According to the study on the effectiveness and impact of social benefits (PRAXIS, 2002), 62% of jobless households, 37% of families with 3 or more children and 35% of single-parent families were poor. Poverty also affected the low-paid (workers or pensioners).

During Estonia’s transition, assistance to persons and families in need was often limited only to granting social assistance cash benefits, meaning that the causes of poverty were not sufficiently tackled by using active labour market measures, housing, social counselling, rehabilitation and care services and other social work measures.

The Joint Inclusion Memorandum elaborated by the Ministry of Social Affairs in 2003 and strongly linked to the process of preparing the application for aid from EU’s structural funds (after accession) was the most relevant strategic policy document developed to tackle poverty and social exclusion during the transition process. The elaboration of this document required a multi-disciplinary approach and the active involvement and participation of different public authorities and non-governmental organisations, highlighting the need to mainstream the issue of poverty and exclusion in other policy domains than just those within the competence of the Ministry of Social Affairs.

**Best practice:** Elaboration of a strategy (the Joint Inclusion Memorandum) that outlines the principal challenges in relation to tackling poverty and social exclusion, presents the major policy measures taken by Estonia in the light of the agreement to start translating the EU’s common objectives into national policies and identifies the key policy issues for future monitoring and policy review.

**Expertise:** Ministry of Social Affairs

**LITHUANIA**

**Poverty reduction strategy**

In the years before EU accession, the Republic of Lithuania had advanced in the development and implementation of strategic documents on poverty and social exclusion reduction. These activities were supported by the United Nations Development Programme (UNDP)

The first surveys financed by the UNDP were carried out in Lithuania in 1997. They were aimed at studying household budgets, assessing the standard of living and welfare by establishing the ratio between income and expenditure (at the moment this survey is conducted on a regular basis and it
has become one of the main indicators for evaluating the implementation of the poverty reduction policy in the country, analysing the labour market and setting the living" standard of living" for potential beneficiaries of poverty reduction programmes.

In the same year the UNDP organised meetings focusing on the main definitions and notions related to poverty assessment and identification. They were attended by representatives of the academic society, politicians, and statistics specialists. An important agreement was reached concerning the definitions of national poverty and poverty assessment measures; these definitions may be used for assessing the poverty rate and developing efficient poverty reduction policy measures.

At the beginning of 1999, the National Social Committee was set up. Its main task was to prepare the National Poverty Reduction Strategy. The Committee consists of the representatives of state institutions and NGOs. The Strategy was approved in June 2000. UNDP provided technical assistance for its implementation. It was also agreed on the preparation and publication of the Annual Report of the National Social Committee.

The National Poverty Reduction Strategy is intended to reduce poverty and social exclusion. This objective was supported by relevant statistical data. This led to the preparation of the Programme for the Implementation of the Poverty Reduction Strategy of Lithuania for in 2002-2004 (hereinafter – the Poverty Reduction Programme-PRP). The PRP was approved by Governmental Resolution of 7 November 2002. The PRP is a programme document of the Republic of Lithuania, aimed at implementing the main provisions of the Poverty Reduction Strategy, improving the condition of the poor population, giving priority to active poverty reduction measures. The Programme also provides for supplementing active measures with passive measures, increasing financial support for the population below the poverty level, as well as joining efforts and activities of state and municipal institutions, NGOs and citizens to reduce the spread of poverty. The Programme sets priority objectives and actions (measures) for poverty reduction.

Annual reports were prepared for ensuring control over the implementation of the Poverty Reduction Programme. The reports covered the implemented measures and the problems encountered during the implementation period of the Programme. The reports were prepared by a working group consisting of representatives of the Ministries of Finance, Economy, Agriculture, the Interior, Education and Science, Health and Social Security and Labour responsible for the implementation of the measures specified in the PRP.

In December 2003, Lithuania signed the Joint Inclusion Memorandum with the European Commission undertaking to prepare a National Action Plan for combating poverty and social exclusion. This obligation was fulfilled and a National Action Plan for Poverty Reduction and Social Inclusion for 2004-2006 was prepared and approved. The National Action Plan provides for actions in various spheres (employment, education, health care, social security, etc) to improve the situation of the most vulnerable groups of the population, to enhance their opportunities, and to reduce their poverty and social exclusion, taking into consideration different treatment for men and women, gender-related problems and needs. Being aware of the present situation and its possibilities, Lithuania has no expectations to resolve these problems in the short run; however, an obvious progress would be achieved by 2010 by better coordinated joint efforts of the state, NGOs, social partners and the excluded persons themselves.

**Income Guarantee**

One of the objectives of the transitional period was to develop an income guarantee system in order to mitigate the negative consequences of the move from a regulated economy to a market economy for individuals with low-income. The basis of the system which was set up in early 1990’s was the assessment of an individuals’ minimum needs and ensuring guarantee of their coverage through various social benefits, which amount was related to the level of minimum needs. Another important issue of ensuring minimum income guarantees was the income indexing system. When price regulation was abolished, prices of consumer goods and services increased because their level differed from prices of the free market. With a view to maintaining the purchasing power of income (minimum income in particular), indexing and compensating for the income loss were necessary.
The Law on Income Guarantees of Individuals of the Republic of Lithuania established the system on grounds of the concepts of "minimum standard of living" and "state supported income", subject to price dynamics. Families living on income lower than "state supported income" were entitled to social benefits. The amount of income guarantees could not be lower than food expenditure fixed "after the minimum standard of living was indexed". Amounts of different social benefits were related to the "minimum standard of living". The state social insurance basic pension was also related to the "minimum standard of living". Amounts of different social benefits were related to the "minimum standard of living" by applying coefficients. The individual income guarantee system applied in Lithuania during the transitional period provided an opportunity to evaluate the "minimum standard of living" and use it as the basis for organising the provision of social assistance to individuals whose income could not ensure fulfilment of minimum needs due to objective reasons.

An important step was the adoption in 2003 of a new Law on Cash Social Assistance for Low-income Families and Single Residents (in force since 2004 and amended in 2006 and 2008). The benefits that can be granted under this Law are based on an assessment of the income and property of the relevant family or single resident, and include a social allowance, coverage of costs for heating and water consumption (cold and hot) and access to social services. Municipalities may supplement these cash benefits with additional sums or other non-cash benefits.

**Best practice:** 1) Development of strategy, plans and programmes for combatting/reducing poverty and social exclusion (data collection, process of elaboration, contents and process of implementation); 2) Methodology of "minimum living standard" as a base for minimum income support schemes.

**Expertise:** Ministry of Social Security and Labour (Financial Social Assistance Division / Social Work and Social Services Division)

**POLAND**

In Poland, since the beginning of the 1990s, the number of people suffering from poverty had been increasing. Between 1996-2002, the number of people below minimum subsistence level increased by 2.6 times, and in 2002 it accounted for 11.1% of total population (9.5% in 2001). In 2001, 15% of people (16% of men and 15% of women) in Poland lived below the poverty line (set at 60% of the median national equivalised income).

In accordance with the provisions of the Accession Partnership, and with the purpose of preparing the country for full participation in the open method of coordination on social inclusion upon accession, in 2003 the Government of Poland prepared, jointly with the European Commission, a Memorandum (JIM) analysing the factors influencing risk of poverty and social exclusion and outlining the principal challenges in relation to tackling poverty and social exclusion in Poland in the following years.

The analysis showed that social transfers highly influence poverty levels. When pensions are excluded from total income, poverty risk doubles, while if all social transfers are excluded, the poverty rate triples. Also that the poverty level decreases with age and children and youth are mostly affected, and increases with the size of families; that unemployed are mostly threatened with poverty and that single parent families face higher poverty risk. The study showed that there is also a regional dimension of poverty in Poland and that Roma families are poorer than average.

Based on this analysis, the Memorandum identified the key challenges for Poland in what concerns preventing poverty and social exclusion, in a number of areas: labour market (programmes to activate those groups that have the lowest employment rates and persons who are long-term unemployed, particularly beneficiaries of social welfare, including continuous education and training), education system (for further integration and equal opportunities for children from low-income families, from rural areas, disabled children and Roma children), housing (support citizens in their self-reliant purchasing of dwellings and provision of social apartments for households and persons without any possibility of obtaining a dwelling and threatened by or experiencing social exclusion), health care (tackling inequalities on access), social assistance (cash benefits and social services and facilities), family
benefits (especially for families with many children, low income families and families with disabled children), children without parental care, and support to most vulnerable groups (people with disabilities, homelessness, and the Roma population), etc.

**Best practice:** Economic and social integration of disabled people

**Expertise:** Ministry of Labour and Social Policy and Office of the Government Plenipotentiary for Disabled People.

**SLOVAKIA**

Although income inequality grew during the years of transition, the at risk of poverty rate (that is the percentage of individuals living in households where the total equivalised household income is below 60% of national equivalised median income) is in Slovakia much lower than in other European countries.

As regards data on social assistance beneficiaries, 7% of citizens were at risk of by material hardship in 1996. In 2001, the number of citizens dependent on State social assistance grew to 11.7%, a third of whom were dependent children, which comprises 14.0% of their total number. This significant increase arose mainly from unfavourable developments in the labour market, with a growing number of the unemployed being gradually transferred to social assistance provision (in 2002, the unemployed made up 90.4% of social assistance beneficiaries). In 2001, of the total number of registered unemployed persons, 57.3% were in receipt of social welfare benefits. Apart from the unemployed, single parents and couples with three or more children were also at high risk of poverty. Other groups at risk were disabled citizens the elderly (particularly women) and the Roma population.

As many as 80% of the Roma population were dependent upon social assistance benefit. This is clearly a high-risk group, and the available data and field research indicate that a large section of the Roma population lives in extreme poverty. This mainly applies to the Roma living in segregated settlements, whose number more than doubled between 1988 and 2000 (from 278 settlements in 1988 to 620 in 2000). It is estimated that a quarter of the Roma live here. These locations saw an increase in the key indicators of poverty and social exclusion.

The numbers at risk of poverty and social exclusion would be higher if it were not for the effectiveness of the system of social protection. Figures from the 2003 Microcensus show a risk-of-poverty rate before transfers of 19% but this falls to 5% after all transfers are taken into account. However, although the social protection system has been successful in reducing poverty levels, its passive nature and the small difference between levels of benefits and wages in low-paid jobs has contributed to reducing the incentive for some unemployed social assistance beneficiaries to actively look for a job, which in turn contributes to the very high levels of long-term unemployment. The disincentive effect is greatest in regions with low average wages, and among large families whose social income is increased by child and parental allowances.

In the last years before EU accession, the process of preparing a Joint Inclusion Memorandum (JIM) for Slovakia’s future participation in the Open Method of Coordination (OMC) on poverty and social inclusion provided an opportunity for clearly identifying the main trends and key challenges that the country is facing in terms of tackling poverty and social exclusion. The JIM process highlighted a number of recent policy initiatives introduced by the Government and provided an opportunity to review the effectiveness of existing policies in this field. This enabled key priorities to be identified for further policies and programmes to address the basic challenges and emphasised the need for a multi-faceted and comprehensive approach to tackling poverty and social exclusion.

Through the JIM exercise, the Government of the SR, in cooperation with the EC, identified the following as the most urgent challenges in relation to tackling poverty and social exclusion and agreed the most immediate policy priorities to be tackled to this end. In particular, the Government committed to following up on the work begun in the JIM with the preparation of its first National Action Plan on Poverty and Social Exclusion, to be presented to the Commission in 2004.
SLOVENIA
In February 2000, the Government of the Republic of Slovenia adopted the Programme to Combat Poverty and Social Exclusion, and in April 2002 the first two-year report on its implementation. With the adoption of the programme, the policy of social inclusion was defined as a government policy priority, and in the first report it also specified guidelines for its further implementation.

Disabled persons
The Parliament adopted the Development Strategy for the Protection of Disabled Persons in 1991, which forms the basis for the legal system of laws and sub-statutory regulations, as well as for dealing with problems of disability in various development programmes covering different areas (e.g. National Housing Programme, National Social Assistance and Services Programme, etc.). The relevant legislation is a combination of disability issues within particular topics and separate legislation, dealing exclusively with disability issues.

Disability is regulated by different laws, the most important being: (i) Pensions and Disability Insurance Act; (ii) Training and Employment of Disabled Persons Act; (iii) Social Protection of Mentally and Physically Handicapped Persons Act; (iv) War Invalids Act; (v) Placement of Children with Special Needs Act; and (vi) Social Assistance and Social Services Act.

To guarantee the rights of all people with disabilities, an Act on Equal Opportunities for Persons with Disability Act was adopted after accession to the EU. This Act, supplementary in nature, provides entitlements for disabled persons who do not enjoy entitlements under other laws or who have not been able to exercise their rights. It clearly defines the right to non-discrimination, recognises the right to special services (adapted transport, personal assistance, rehabilitation counselling, advocacy, case monitoring, etc.) and benefits and defines the regulations for disability-related measures and thus create the conditions for equality of opportunity between disabled and non-disabled persons.

Roma
In November 1995, the Government adopted a Programme of measures for the assistance of Roma, by which it determined a policy of integration of the Roma community. The programme was implemented through the preparation of programmes and measures in the areas of employment, education and housing. Ministries responsible for different domains are responsible for the preparation of the programmes and measures and for their implementation, while the Office for Nationalities is responsible for coordination and monitoring. Concerning education the Ministry of Education, Science and Sport ensures the inclusion of Romany children in pre-school programmes for at least two years prior to starting school (in cooperation with the relevant municipalities), additional teaching hours with Romany pupils for providing teaching in small groups outside normal classes, financial support for initiatives by schools for implementing forms of care and education work that encourage their socialisation, funds for school meals for Romany pupils, and assistance in buying textbooks. Concerning housing, some municipalities have already prepared programmes for legalising Romany settlements, thus giving them the possibility to obtain specific financial help, granted by the Government Service for Structural Policy and Regional Development and directed at providing concentrated Romany settlements with basic public utilities. In addition, some special programmes for the employment of Roma have been prepared and implemented.

ROMANIA
The strategic process for promoting social inclusion had the following steps:
1995 – National Commission for combating poverty
June 2005 – Signing of Common Memorandum on Social Inclusion with UE
2005 – setting up Social Inclusion Strategies and Programmes Directorate in the Ministry of Labour
June 2006 – Progress National Report on implementing the priorities from the Common Memorandum on Social Inclusion
Social Inclusion concerns were related to developing a coherent legal framework concerning benefits and social services. Development of social services system is based on national strategy for developing social services (2006-2013), which is setting up the guiding lines for social inclusion, such as: improving communication and information on rights and benefits on social services; improving the management of social services system; facilitating the participation of all social actors involved in the development of social services system.

**Disabled persons**

In the domain of protecting the persons with disabilities, the most important legal regulatory document for implementing the National Strategy for Persons with Disabilities 2006-2013 is the Act no. 448/2006 on the protection and promotion of disabled persons, with subsequent amendments and completions. This act introduces the complementary personal budget, eliminates the differences between social indemnities for different types of disabilities, develops alternative community services and stimulates the employment of persons having disabilities. During 2005-2007, the restructuring of residential institutions was accomplished through PHARE programme and for 2008-2013 is ongoing on the basis of internal funding, financed by the national and local government and also through external funding such World Bank and Structural Funds.

In May 2006 was signed in Washington the Loan Agreement by which IBRD allocates to Romania 47.2 millions Euro to finance Social Inclusion Project (SIP) submitted to the World Bank. In this project, since 2007, approximately 900 adults with disabilities from residential institutions and young people coming from institutions for child protection with disabilities will receive services through the establishment of 16 residential alternative modern welfare centers for persons with disabilities and 20 protected housing units.

**Elder people**

For the protection of elder persons, in the period 2006-2008 were developed 2 programs of national interest "Development of home care services for dependent older people" and "Combating social exclusion of homeless people by creating social emergency centres".

To support the activity of NGOs, annually the state budget ensures funding for grants to private non-profit providers of social services. From 1999 it is established the National Social Solidarity Fund through which it runs the funding program for investments in social assistance for welfare facilities for elderly, and medical-social establishments, institutions in which most beneficiaries are elderly.

In order to active participation in society of older people, since 2000 has been established The National Council of the Elderly to support state institutions in developing policies for elderly and to pursue the application of legal rules in their protection.

**Roma**

Romania has a national strategy for improving the situation of Roma population, a comprehensive document, having 10 years duration. In order to implement this strategy, there have been allocated funds through pre accession programs from European Commission and the state budget. Since 2001, the National Agency of Employment develops and implements employment programmes for Roma population.

**Best practices:**

1. An important programme for promoting social inclusion policies and fight against poverty, which also complies with the obligations under the ratification of European Social Charter is the Guaranteed Minimum Income (VMG), introduced in 2001 and modified in 2006. This contributed to the reduction of severe poverty. Also, the beneficiaries’ number of social assistance was reduced due to the implementation of this programme. Overall, the social protection programmes covered practically all of the poor by 2003 (reference: Black Sea and Central Asia: Promoting Work and well-being, OECD Development Centre Economic Outlook, BSECAO, OECD, 2008, pag 126). Also BSECAO 2008 notes that The World Bank has...
identified some well-targeted programmes as being among the best in the world, among which the Romanian Guaranteed Minimum Income (World Bank, 2005).

2. In 2004, with support from the World Bank, a funding scheme for public social services providers was developed and implemented, followed, after the evaluation of the efficiency, by the publication of a Best Practices Guide presenting the most successful projects in the field. The overall programme contained 70 projects for social services developing in 34 counties, as follows:

- 30 projects for elderly persons protection;
- 7 projects for youth protection;
- 6 projects for social services regarding women victims of violence, as well as assistance and protection of the victims of human trafficking;
- 3 social canteens;
- 8 social services projects for mother and child;
- 13 social services projects for the protection of persons having disabilities;
- 3 social services projects for day centres for different categories.

3. In 2006, in partnership with the UNDP, ANOFM created the Center for Social Support to the Roma Population in Blaj, Alba county. This project, had as objectives to improve Roma access to public services, encouraging Roma participation in economic, social, educational and cultural community; positive changes in public opinion related to the Roma ethnic group; increase participation of Roma in the labour market; improving vocational training; increasing access to information and health services; development of entrepreneurial skills and organizational skills. The project ended in 2008 and more than 750 Roma ethnics were benefitting from it.

**Expertise:** Ministry of Labour, Family and Social Protection - Family Policies Department – Divisions of Social Services, Social Assistance and Social Inclusion programmes.

**CZECH REPUBLIC**

The Czech Republic has permanently been listed among the countries with low levels of poverty. According to the results of the “Social situation of households” survey, carried out in 2000 by the Czech Statistical Office in accordance with the Eurostat rules, 8% of the total number of women (433 400) and 7% of men (354 400) lived below the poverty line. 12% of all children under 15 years of age lived in poor households.

The social protection system has successfully protected large groups of the population from falling below the poverty line. Social welfare benefits reduced the poverty rate by 28 percentage points (18% the pensions and 8% other social support and care benefits).

However, as regards subjective perception of poverty, 16% of persons over 16 years of age considered themselves to be poor. The feeling of poverty, as a sign of responsibility for a decent family existence, was more intensive in married persons in families with dependent children (in 2000, the share of poor households in the Czech Republic using EU methodology was higher than the share of poor households falling below the minimum subsistence amount, which represents the official poverty line)

**MALTA**

Malta, characterised by a social fabric which still values strong community and family ties, upholds a strongly entrenched social welfare system that actively protects those at risk-of-poverty. However in view of Malta’s changing social milieu, fuelled by globalization trends and demographic changes, which have and are relating changing patterns in the life-style of individuals, it was acknowledged that Malta cannot continue to rely upon traditional methods to promote social cohesion and reduce the risk of poverty.

In accordance with the provisions of the Accession Partnership, the Government of Malta with the European Commission has prepared in 2003, a Joint Inclusion Memorandum, with the purpose of preparing the country for full participation in the open method of co-ordination on social inclusion. This Memorandum outlined the principal challenges in relation to tackling poverty and social exclusion,
presented the major policy measures taken by Malta in the light of the agreement to start translating the EU's common objectives into national policies, and identified the key policy issues for future monitoring and policy review.

The analysis undertaken in this report has elucidated that the main challenges for social inclusion in Malta at the time concerned those of; i) combating illiteracy and improving the educational attainment of both young people and adults; ii) increasing the overall employment rate, and developing policies to make work pay while promoting more and better jobs for both women and men, who are currently inactive or who are recipients of social benefits; and iii) strengthening the welfare system and increasing social and affordable housing.

As a result, the most immediate policy priorities in relation to tackling poverty and social exclusion following accession, included amongst others those of: i) raising the provision of vocational education, training and lifelong learning, ii) providing appropriate incentives to take up work for target groups such as women, persons with a disability and persons engaged in the informal sector, iii) reforming the social protection system to ensure its sustainability, adequacy and comprehensiveness in order to stimulate work culture and minimize welfare dependence; iv) reinforce the welfare of those who are dependent by setting up additional programs to: (a) address and prevent childhood poverty; (b) assist persons with a disability in their access to education, training, employment and housing in order to secure their welfare both in the short- and long-term; and (c) provide support for the unemployed, the elderly, pensioners and other groups; and (d) increase the housing supply and affordability for the most needy.

Some of the priorities identified and the corresponding policy actions have benefited from EU financial support provided by the structural funds, namely the European Social Fund and Cohesion funds. Furthermore, the commitment of Malta's Government in implementing such measures required the setting of appropriate institutional mechanisms to ensure effectiveness in the design and delivery of all policies and services.

Apart from the unemployed, the groups which have been identified at the time and remain to the present day most at risk of poverty and social exclusion in Maltese society, include; persons with a disability, disadvantaged children and single parents (particularly those with dependent children and paying high rents as tenants). Poverty and social exclusion is encountered also among low skilled adults, those with mental health difficulties, persons with addictive behaviour and some segments of low-income elderly and irregular immigrants.

In view of its commitment to address the above social inclusion concerns and emerging needs, Malta's major social inclusion policy priorities over the last years have been those of:

- Maximizing the potential of children and young people and facilitating their social inclusion prospects in order to combat the intergenerational transmission of poverty and exclusion by; i) Enhancing personal development through education and training to enhance youth employability: i) Enhancing well-being through adequate housing, effective social welfare services and measures which create better conditions for families and, iii) Safeguarding the rights of children and young persons through for example an enhanced juvenile justice system and a review of Malta’s National Youth Policy.

- Promoting active inclusion to enhance better interaction between social inclusion and the various Lisbon strands by addressing; i) Adequate income support through undertaking a review of the social security system and providing measures to increase solidarity; ii) Access to inclusive labour markets through instituting measures aimed at increasing the overall employment rate and facilitating the entry of women and vulnerable groups into the labour market; and iii) Access to quality social services by strengthening measures to enhance work life balance, reduce burdensome procedures and enhance the effectiveness and quality of social welfare services.

- Promoting equality of opportunities to ensure full social participation irrespective of religion or belief, disability, age, gender or sexual orientation, by for example i) Combating discrimination, through enacting legislation and promoting diversity, ii) promoting the
integration of third country nationals and iii) mainstreaming social inclusion and anti-discrimination issues by strengthening structures.

- Building stronger communities through consolidating and expanding (i) community development initiatives, (ii) prevention and early intervention programmes, and (iii) social benefits reform.
- Strengthening the voluntary sector, through the institution of a legal and regulatory framework for voluntary organisations and the democratisation of the social welfare sector by enhancing the mobilisation of third sector participation in service provision and development.
- Networking the social welfare sector by enhancing co-ordination between the various stakeholders to help mobilise and streamline efforts to achieve common goals, reduce gaps and overlaps, and enhance service outcomes through cost effectiveness and improved quality.

Social inclusion policy priorities as a result cut across diverse population groups, situations and needs, in a way as to promote a comprehensive social inclusion strategy for both the general public as well as to identified vulnerable groups.

**Best practices:**

**ACCESS: Cottonera Community Resource Centre**
This service platform brings together under one roof a number of different social welfare service providers, which entities offer an interagency and interdisciplinary one stop shop approach to the social welfare sector in the Cottonera region, to respond to the high incidence of unemployment and complex social problems in the area. Apart from the general community, ACCESS also caters for various specific vulnerable groups, which amongst others include; the unemployed, persons with a disability, persons with mental health difficulties, and persons with housing and literacy difficulties. In view of the perceived advantages over centralized and segmented service provision, interdisciplinary and outreach oriented services arising from such community based resource and empowerment centres are increasingly becoming the most preferred form of social intervention, as such approaches enable to address a wide range of actual and complex needs within a person’s immediate environment. In view of the successful outcomes, this initiative is in fact being reflected in the development of various other community based centers in different localities around Malta.

**Headstart Project**
This project coordinated by the Housing Authority aimed to facilitate sustainable independence among young people leaving residential care mainly by improving their employment prospects and providing better access to affordable accommodation. It also upheld the specific objective of training and certifying young people who have left residential care to enhance their employability prospects and ensure better access to affordable accommodation. It addressed these objectives through the provision of vocational guidance, training mentoring, budgeting skills, independent living, employment and long-term affordable accommodation.

**Expertise** Policy Development and EU Affairs Directorate (Social Affairs)
Ministry for Social Policy
18. **GENDER EQUALITY AND WOMEN’S RIGHTS/EMPOWERMENT**

Although from the beginning of their transition women organisations and networks established in practically all countries of central and eastern Europe started to become active in advocating the necessary policies and measures to promote and enhance the situation of women and gender equality – often with the support of international and donor-country organisations – the first significant steps were taken in the run up to the Beijing Conference in 1995. Country work in preparation for this Conference prompted the first studies and action plans, which were later adopted as a means to implement the commitments undertaken in the Conference. National gender equality machineries strated to be developed and put in place.

However, as in many other areas relevant for social affairs and human development, it was the process of preparations for EU membership, which involved not only the necessary legal changes so as to adopt the “acquis communautaire” but also the development of programmes and action plans aimed at its effective implementation, what actually gave a thrust to all these efforts.

**LATVIA**

According to UNDP studies on this issue, during the transition, Latvia witnessed a polarization of society in terms of living standards, and the situation for both genders became worse. The stress of transition contributed to an increase in deliberate harmful behaviour (alcoholism, drug addiction, suicide) and traumas among males. As a result, males in Latvia had a much shorter lifespan than those in the rest of Europe. The changes also resulted in the feminization of poverty and persistence of violence against women.

Latvia joined the Un Convention on Elimination of All Forms of discrimination Against Women in 1992. However, it was only in the run-up for the 4th World Conference on Women (Beijing, 1995) that the Government undertook, in cooperation with academic community, professional associations, trade unions and NGOs (all of them participants in the Latvian National Preparation Committee) and with support from UNDP, the elaboration of a first report offering information about the situation of women in Latvia and ways for its improvement. This report was prepared by a Latvian Women Organisations’ Cooperation Network; and was followed by another report released in 1997 on “Gender equality in Latvia: an assessment” and, in 1999 by a further one on “Gender and human development in Latvia” (both published by UNDP).

However, as in other areas, the necessary thrust to policy decisions and reforms in this field was provided by the EU integration process, that required the adoption and implementation of the EU acquis on gender equality (involving the directives on equal access to goods and services, equal pay, equal access to work and work conditions, equal treatment towards employment and professions, and harmonisation of family life and work). A policy paper on gender equality was adopted by the Government in 2001, setting the main tasks in each sector and introducing the concept of gender mainstreaming in all policies. In 2003, a Gender Equality Division was created within the European and Legal Affairs Department of the Ministry of Welfare and contact persons were designated in all ministries for coordination.

In Latvia’s transition experience on gender equality and women’s rights/empowerment, the influence of the very advanced Nordic countries (Baltic-Nordic Conference on “Women and men in Dialogue”, Valmiera, August 1997), the active role of active NGOs (Latvian Gender Equality Association) and the catalyst action of international organisations (UNDP, EU) were critical in awareness and capacity creation and policy development.

**ESTONIA**

The gender mainstreaming commitment is incorporated into the Ministry of Social Affairs’ Strategic Action Plan, which sets as a long-term objective integration of the gender equality principle into all national policies, programmes and projects. In 1996, the Gender Equality Bureau was established within the Ministry for better coordination of gender equality measures across the policy fields.

The measures taken by the Ministry have been aimed at raising public awareness of gender equality issues, supporting political activity of women, training of civil servants, social partners and women's
organisations, analysing legislation and data from social surveys and launching projects to address gender imbalances.

The Gender Equality Act, entering into force on 1st of May 2004 created basis for an institution of the Gender Equality Commissioner. At the beginning of October 2005 the first Gender Equality Commissioner was appointed. From 1st of January 2009, after entering into force of the Equal Treatment Act, the Gender Equality Commissioner became the Gender Equality and Equal Treatment Commissioner.

Until 1st of January 2009 the Commissioner had a task pursuant to the Gender Equality Act to monitor compliance with the requirements of the GEA, accept applications from persons and provide expert opinions, analyze the effect of laws on the status of men and women in society, make proposals to Government of the Republic and to government agencies, as well as to local governments and their agencies, regarding alterations and amendments to legislations, advise and inform Government of the Republic, government agencies and local government agencies on issues related to implementation of the Gender Equality Act, and take measures to promote gender equality. From 1st of January 2009 the Commissioner additionally has a task to fulfil the before mentioned tasks regarding discrimination or equal treatment based on nationality (ethnic origin), race, colour, religion or belief, age, disability or sexual orientation. Also, the Gender Equality and Equal Treatment Commissioner should counsel and provide assistance to persons in submitting complaints about discrimination publish reports about implementation of the principles of equal treatment and gender equality and co-operate with other persons and entities in promoting gender equality and equal treatment. The Equal Treatment Act also created a basis for establishing the Office of the Gender Equality and Equal Treatment Commissioner, consisting of public servants supporting and assisting the Commissioner in his/her work. Until now the Commissioner has one adviser to help her in her work.

**Best practice:** Estonian Gender Equality Act is exemplary as it covers all aspects of social life (in addition to employment sphere also education, goods and services, social protection etc), thus having a much wider scope than the regulation on EU level (relevant directives on equal treatment of women and men). Another worthwhile aspect of GEA is that direct discrimination encompasses also less favorable treatment in connection with parenting and performance of family obligations or other circumstances related to gender. Thus the law offers protection if discrimination is attributable to traditional stereotypes, which might for example limit women's opportunities on the labor market due to them being considered as main caretakers of children (and of elderly family members) or undermine men's opportunities to fulfill their parenting and family caring role which might be considered secondary in comparison to women. Reference to other circumstances related to gender guarantees that also the rights of transgendered persons are duly taken into account by the law.

**Expertise:** Gender Equality and Equal Treatment Commissioner

**LITHUANIA**

During the years of transition, Lithuania took steps to ensure that its legislation and all economic and social policies would support equal opportunities for men and women in the labour market. The Law on Equal Opportunities for Men and Women was passed in 1998, the Office of Equal Opportunity’s Ombudsman was established in 1999 and an Equal Opportunities’ Commission was established in 2000 with representatives from 16 ministries and government agencies.

Women’s rights on the labour market are provided for in the Law on Support of the Unemployed, the Law on Employment Contract and the Law on Safety and Health at Work. The cumulative impact of these laws is that, when hiring employees, employers are legally obliged to apply the same selection criteria for men and women, except for jobs that can be done only by representatives of a respective gender. They must provide men and women with equal working conditions and opportunities to upgrade their qualification, ensure equal application of benefits and requirements with regard to the quality of work done, and pay equal salary for the same work. A Programme for Advancement of Women was adopted in 1998, together with a detailed action plan for its implementation over the years 1998-2000.
However, as late as in early 2002 the Lithuanian authorities' assessment was that there were several main reasons for the persistence of gender segregation in the labour market, despite the extensive legislative provision for equal opportunities. Thus, a number of measures to address these problems were outlined in the *Programme for increasing employment for 2001-2004*. These included:

- refining existing labour legislation in order to provide equality of treatment of men and women with young children
- training and information seminars for the social partners on gender equality on the labour market.
- introduction of special training programmes for women meant to help them return back to work after a longer break
- provision of unemployed women willing to become self-employed with basics in business organisation and necessary information
- carrying out a national assessment to establish the need for childcare institutions and produce recommendations on how to develop the existing network of institutions and improve the quality of their services.

**POLAND**

The Polish law ensures equal rights for both women and men as prescribed in the Constitution, the Labour Code, and the Act of December 14, 2004 on employment and combating unemployment. In practice, however, there are many spheres of social life where the situation of women is less favourable.

Women are in general better educated. Unfortunately, this does not contribute to their better situation on the labour market. Women are economically less active and the unemployment rate for women is slightly higher. Women are usually paid about 20% lower salaries than men for comparable work. This factor, combined with the shorter period of women's contribution to the new pension scheme will result in lower retirement pay for women.

The majority of single parents are women (88% in 2002). As the development of day-care centres for dependants is insufficient, women (because of lower earnings) sometimes leave their jobs in order to take personal care or suffer from difficulties in reconciling work and family life. According to the available data, there are about 25-30% of women in Poland that suffer domestic violence.

In September 1986, in order to reinforce activities supporting women's rights, on the basis of the resolution of the Council of Ministers, the Women's Plenipotentiary Office in the Ministry of Labour was established. Since this institution was established, the Plenipotentiary's tasks have fluctuated from the problems of equal rights for both genders to the promotion of the family role. In 1997, the Government adopted a first National Programme of Activities in aid of Women, which had been drawn up with a strong involvement and participation of the more then 300 non-governmental organisations created in Poland to give legal and psychological advice as well as to provide support centres for women (that gathered in 1996 in a permanent Forum for NGO Cooperation). The main aims of this programme were to **accelerate and to effectively eliminate formal and informal barriers of social advancement for women, to support their professional and political activity and to fight against stereotypes as regards the role and place of women in public, vocational and family life.**

In 2002, the office was reorganised as the Office of the Plenipotentiary for Equal Status of Women and Men, with a mandate to incorporate the rule of equal status for women and men into all fields of policy (e.g. giving an opinion on and drafting legal acts, monitoring and assessing activities already undertaken and initiating new ones). In 2002, the Plenipotentiary for Equal Status of Women and Men started to implement the PHARE 2002 program Policy of Equal Treatment Women and Men, which main purpose was the strengthening of the policy of equal chances on the national and regional levels. In August 2003, the Government adopted the second implementation stage of the National Programme of Activities in aid of Women for the years 2003 - 2005. In the new version of the programme, strong emphasis is placed on the fight against unemployment, women's activation, non-standard forms of employment, flexibility of the labour market, public organisations of childcare and the assistance system for dependants and providing statistical data broken-down by gender.
Many government programmes were concerned with the problem of domestic violence (such as Against violence – equal chances, Safe Poland, Programme to Counteract and Fight against People Trafficking), mostly from the viewpoint of prevention. In 2002, the Polish Government adopted the National Programme Preventing and Combating Crime – Safe Poland, in which domestic violence and violence against women were considered as the most socially harmful crimes. In the second stage of the implementation of the National Programme of Activities in aid of Women for the years 2003 - 2005, a lot of tasks are included in order to mobilise all relevant bodies.

**Expertise:** Office of Plenipotentiary for Equal Status of Women and Men
Women's NGO platform (Forum of Cooperation)

**CZECH REPUBLIC**
Compared to EU-15, women’s employment levels are high in the Czech republic. Czech society regards it as normal that both husband and wife participate in gainful activities and in providing financial support for the family. On the other hand, the unsatisfactory conditions for combining employment with family responsibilities are problematic and flexible forms of employment are rare. There are practically no differences between women and men in the areas of access to education, health care and services. Participation of women and men at various levels of education is comparable. Certain differences can be observed in technical subjects, where men predominate, and in humanities subjects, where the opposite is true. Women very rarely participate in criminal activities but are frequently victims of domestic violence.

The Government of the Czech Republic responded to the existing situation in various walks of life with a view of attaining full equality between women and men. This was the reason why a programme document entitled “Government priorities and action for promoting equality of men and women” was adopted in 1998. This document includes active measures contributing to the elimination of factual and formal barriers. The proposed measures were designed to promote equal status of both sexes. Monitoring and updating of these measures by the Government takes place once a year. In 2001, the Government Council for Equal Opportunities of Women and Men was constituted and acts as a government advisory body with the right to submit proposals to the Government on promotion of equal opportunity policies.

While legislation fully ensures equality of women and men, in practice it is not fully implemented. In spite of the fact that marked progress has been achieved, really significant changes in the public’s and legal awareness of gender equality problems are slow to materialise. All ministries were invited in 1999 to implement the gender mainstreaming method, but analysis of selected material showed that implementation of this task appeared to be rather formal. Starting from 2002, gender focal points were constituted in all ministries with a view to promoting gender mainstreaming and equality of women and men.

**SLOVAKIA**
Support for gender equality is provided for in the relevant legislation and, in institutional terms, is ensured at Government level through the Department of Equal Opportunities and Anti-discrimination at the Ministry of Labour, Social Affairs and Family (MoLSAF) with the help of the Expert Committee for Gender Equality. At parliamentary level, there is a Subcommittee for Equal Opportunities and the Position of Women in Society, working with the Committee of the National Council of the SR (Parliament) for Human Rights, National Minorities and the Position of Women.

As part of the moves to encourage gender equality, the Government approved in 1997 the *National Action Plan for Women (NAP)* and in 2001 the *Concept of Equal Opportunities of Women and Men (CoEoOWaM)*. In April 2003, the Government adopted a resolution by which it called on the MoLSAF to draw up measures specifically aimed at creating equal opportunities for Roma women.

The Department of Equal Opportunities and Anti-discrimination at MoLSAF coordinates institutional provision and is responsible for the progress to be achieved in areas such as gender equality in employment and income distribution, access to health services and provision of quality reproductive health services, in access to education, training and retraining, and in access to social services. To this
end, the Department cooperates with other ministries and senior State administrative bodies, the social partners (employers, trade unions) and, above all, nongovernmental organisations.

**HUNGARY**
The Hungarian Constitution provides for the general prohibition of discrimination on any ground, including gender (art. 70-A); and contains a specific article on gender equality (art. 66). However, and with the exception of the policy and specific legislation on rights (entitlements) and equal opportunity for disabled persons (Act XXVI of 1998) there was not comprehensive anti-discrimination policy in Hungary before the end of 2003. Before that Law, anti-discrimination provisions were scattered throughout different sectoral Laws (Civil Code, Health Care Law, Public Education Law, Minority Act, etc.), the most progressive interpretation being provided under the Labour Code, which was amended in 2001 to harmonize it with the EU acquis regarding equal treatment. This situation started to change after 2002, under the influence of the EU integration process.

Although Hungary had ratified the CEDAW Convention in December 1980 and had been a signatory without any reservations since 1989, a comprehensive policy to address gender inequality started to develop only following the Beijing Conference in 1995. This policy has developed from being weak yet targeted specifically towards gender equality in the period 1996-1991 to a more powerful approach of general equal opportunities policy on all grounds, in which gender equality is only one of the aspects tackled by this policy.

As a response to Beijing, the Hungarian Government launched a first National Action Plan on Gender Equality in 1997, which set out tasks of the state along seven headings: women’s human rights, implementation of women’s equal opportunities, improvement of women’s social equality, gender education in public schools, violence against women, coordination of activities involving women NGOs and establishment of an information system for women. The deadline for implementation of the relevant projects was set at April 1998.

From an institutional viewpoint, a number of changes took place in the placement of the gender equality mechanism within the state/government structure, reflecting particular policy frames and governmental approaches concerning this issue: At the end of 1995 a Secretariat for Women’s Policy (called Secretariat for Equal Opportunities) was set up within the Ministry of Labor (under a socialist-liberal Government); after the 1998 elections, the new conservative Government established the new Secretariat for the Representation of Women at lower level and within the Ministry of Social and Family Affairs; in 2002, the newly elected Government (again socialist-liberal) first created a Directorate for Equal Opportunities again within the Ministry of Labor and later on a Governmental Office for Equal Opportunities, headed by a Minister without portfolio, responsible for equal opportunities issues on all grounds and with a specific Directorate for Gender Equality. In 2004 this Office was integrated into the larger Ministry of Youth, Family, Social Affairs and Equal Opportunities (with the Women’s Directorate being placed under the Deputy State Secretary for EU Coordination and Strategy) and, since 1996, again into the Ministry of Labor, with a State Secretary in charge of equal opportunities policy. Finally, in 2004, with the entry into force of the Act CXXV of 2003 on Equal Treatment and the Promotion of Equal Opportunities, an independent public administrative body, the Equal treatment Authority, was established. This institution was endowed by the Law with broad powers for ensuring enforcement of anti-discrimination and equal opportunities legislation in all fields.

In 2006, the Council for Women’s Affairs, which had been established in 1999 as a body where representatives of different Ministries national women associations, specialised researchers and social scientists and NGOs could discuss issues and policies related to gender equality and women’s rights, was reestablished under the name of Council for the Social Equality of Women and Men.

Although the women NGO sector is relative diverse in Hungary, in terms of policy relevant voice the number of NGOs is probably lower then 10, the most important being “Women Against Violence” (NANE), the “Habeas Corpus Working Group” and the “Women’s Rights and Children’s Rights Research and Training Center Foundation”, alongside the “Foundation for the Women in Hungary”. Several other NGOs conduct small gender equality related projects. The “Hungarian Women’s
Lobby*, an umbrella organisation for several women organisations in Hungary, is also present in the field (and a member of the EWL).

As mentioned earlier, a major shift in the policy approach to gender inequality took place as of 2003, in the framework of the process of accession to the EU. Emphasis shifted from legal harmonisation to policy implementation; and gender equality became elevated to a horizontal principle in several policy processes: National Development Plans (which introduced the concept of gender mainstreaming in the operational programmes and projects to be co-financed by the EU's structural funds), National Action Plan for Social Inclusion (prepared as a follow-up to the Joint Inclusion Memorandum elaborated in 2003), National Employment Strategy, etc.

**SLOVENIA**

*Institutional and legislative framework*

Slovenia was one of the first European transition countries to translate civil society initiatives on women's and gender issues from the late 1980s into governmental policy programmes and legislation. Since the early 1990s, women's rights and gender equality have been an integral part of the Slovenian political agenda which has even strengthened throughout the accession period to the EU. As a result of a firm national political will and with the transposition of the EU gender equality legislation into the national legislation, Slovenia managed to set the high standards in the gender equality area (even higher than required by the EU). All this facilitated and initiated an introduction of new legal instruments, strategies and methods for achieving gender equality in Slovenia.

Gender equality as a fundamental democratic principle is enshrined in the Constitution; first national gender equality machinery was established already in the early 1990s: in 1990, Women’s Policy Commission within the National Assembly (1996-2004, Equal Opportunities Policy Commission, from 2004 the issues of gender equality are within the competence of the Commission for Petitions, Human Rights and Equal Opportunities); in 1992, Women’s Policy Office - from 2001 renamed the Office for Equal Opportunities - as a self-standing professional government body in the field of gender equality.

The national machinery in the area of gender equality and non-discrimination was further upgraded with the creation, in 2002, of the office of the Advocate for Equal Opportunities for women and men (which has quasi-judicial powers of investigating individual cases of discrimination based on sex) and, since 2004, of the Council of the Government for the implementation of the principle of equal treatment. This is a advisory body to the Government of Slovenia in the matters of equal treatment; also submitting proposals, initiatives and recommendations for the adoption of directives and measures that are necessary for the implementation of the principle of equal treatment.

Since 2002 there is an umbrella law on gender equality, the Act on Equal Opportunities for Women and Men; the Act does not only focus on eliminating discrimination based on sex, but provides for a more dynamic approach, including the need for proactive strategies and policies for gender equality in different spheres of life (e.g. gender mainstreaming, special measures, advocate for equal opportunities for women and men, coordinators for gender equality at the ministries and in local governments, etc.); in 2004 a law on the Implementation of the Principle of Equal Treatment Act was adopted.

In 2005, Slovenia adopted a National Programme for Equal Opportunities for Women and Men, 2005-2013, which is implemented through two-year action plans.

The principle of gender equality has been also successfully integrated in the sectoral policies: Employment, work and reconciliation of professional and private life:

The Employment Relationships Act holds provisions on prohibition of direct and indirect discrimination, equal pay, equal opportunities and equal treatment in employment, promotion, vocational training, wages and other incomes, absence from work, working conditions, working hours and canceling employment, prohibition of sexual and other harassments, protection of pregnancy and parenting, obligation of employer to facilitate reconciliation of professional and family life. The Parental Care and Family Benefits Act regulates parental leave arrangements: maternity leave, childcare leave, paternity leave.
Violence against women / Family violence
Criminal Code (family violence is defined as an independent criminal offence)
Criminal Procedure Act (measure of a ban on approaching a specified place or person)
Police Act (providing the Police with more powers of intervening in cases of family violence)
Family Violence Prevention Act
Resolution on the National Program for Prevention of Family Violence
Protocols on organisational action when dealing with violence

Sexual Harassment
Legal prohibition of sexual and other harassment and mobbing
Employment Relationships Act
Civil Servants Act
Criminal Code
Decree on measures for protecting the worker's dignity at work in state administration

Trafficking in women and prostitution
Since 2001, Inter-Ministerial Working Group on Combating Trafficking in Human Beings – coordinating the government policy on fight against trafficking and protecting victims.
Action Plan on Combating Trafficking in Human Beings
In Slovenia, trafficking in women is connected exclusively with sexual exploitation. Detecting and investigating trafficking in women and abuse of prostitution is very demanding, particularly because of the new legal definitions of the overt forms of criminal offences. Collection and perpetuation of evidence against suspected persons exploiting decriminalisation of prostitution depends largely on the victims’ cooperation. In order to improve detection and investigation of trafficking in human beings, intensive trainings are organised for the criminal police officers.

Development of data and indicators disaggregated by sex
Office for Equal Opportunities is a member of the Statistical Advisory Committee for relevant areas (population, crime, social protection, education, work)
Gender equality indicators for all the areas covered by the National Programme
EU and national indicators
Reporting by gender equality indicators in the Reports on the implementation of the two-year action plans

Support to women's NGOs
Since 2003, the Office for Equal Opportunities has designated budget resources for co-financing projects of the NGOs working in the area of gender equality. The NGOs financed by the Office work in the areas such as: violence against women, discrimination at work, disabled women, education for gender equality, work-life balance, sexual harassment at work, women in the media representation, gender stereotypes etc. Budget 2009 (8.000 EUR), estimated budget 2010 (20.000 EUR).

Best practices: The areas where the progress is most visible is political life and fight against gender based violence. Improvement were made also in the field of sexual harassment and trafficking yet there the changes were the result of the obligatory EU legislation as directives.

Women in political representation
One of the most important new measures which certainly represent improvements or progress in the realization or implementation of gender equality in Slovenia has been made in the field of politics (balanced representation of women and men in political life). In Slovenia the number of twelve elected women MPs in the national parliament has not been exceeded since Slovenia’s independence in 1991. Similarly as the national level, the participation of women in political decision making bodies is/was low also at the local level. The share of women candidates on the lists for the position of councilors in the city and municipal councils was slowly increasing. In 1998 – 11,7 % women councilors was elected, in 2002 13,1% women councilors were elected.
The low presence of women in decision making bodies has provoked several attempts to change the situation; the most important was in 2001. The informal Coalition for Equal Presence of Women in the Public Life was formed, whose sole goal was to promote a binding quota for candidates’ political parties. They wrote appeals to politicians and supported special measures like quotas or zip lists for elections. They formed a coalition with the Office for equal opportunities and MP’s from the National Assembly in the formulation of proposal for amending the Constitution of the Republic Slovenia. In June of 2004, two-thirds of MPs supported a Constitutional reform which - following the French case - aimed to secure a legal base for the introduction of special measures which were not possible according to the Constitution. The constitutional reform basically consisted on amending Article 43 of Constitution by which it added to the provision on the universal and equal right to vote a new paragraph conferring the power to the legislator to determine in a law measures for encouraging the equal opportunities of women and men in standing for election to state and local community authorities. Special measures were now possible.

However even before the constitutional reform, an amendment to the Elections to the European Parliament (March 2004) which was also initiated by the Coalition introduced a forty-percent gender quota on candidate lists. Before the EU election we had in EU parliament only 7 male observers. The effects of this change were visible when 42.8 % of women were elected for EU parliament.

But the success of the Coalitions lobbying did not stop there; in 2005 the quota for the electoral list for municipal elections (40%) was introduced and in 2006 for the national election (35%). On the local level there is important improvement in number of elected women in 2006 21.7 % women were elected. From 1994 till 2002 the percent of elected women in local councilors was improving per 1% each year, yet from 2002 till 2006 it improved for 8 %.

Violence against women

Violence against women is another area where we can identify that important progress has been made also specially in the last years. Already in the eighties the problem of violence against women was emphasized by NGO’s. At the end of the nineties most important changes in Penal Codes, Criminal Procedure Act and Police Act were made. Then a restraining order was introduced – a ban on approaching a specified place or person. Those and future changes of the law were based on work of expert council dealing with the violence against women (established in 2001) which also made an analyses of the situation on bases of which changes in the legislation were made.

- The Housing Act from 2003 which introduced important novelty by allowing the municipalities, state and public housing fond or non-profitable housing organization to rent, when allocation a dwelling unit as a provisional solution of housing needs of socially deprivleged persons, such a dwelling unit based on the list of persons eligible for such allocation. This category includes also victims of violence in the family. This measure can be considered as support measure of the victim when trying to leave the shelter and be reintegrated in normal life.

- another good practice is a new Family Violence Prevention Act (2008), which was in process of preparation since 2004. When was finally accepted in 2008 it introduced a lot of novelties. It must be emphasized that it one of the rare laws in which preparation also NGO's dealing with violence against women were intensively included. Novelties are: obligatory interdisciplinary cooperation with guidelines for institutions; very broad definition of violence (also economical and psychological together with neglect; free legal aid (Right of the Victim to Legal Representation); Victims of violence can by themselves choose a person who can represent them in all violence-related proceedings (hereinafter: assistant). In Slovenia in 2008 with the new law it is possible to Transfer of the Accommodation in Common Use. The victim can propose to the court to pass a decision on transfer of accommodation which is in common use. The court can upon the victim's proposal by issuing the decision charge the perpetrator of violence who lives in common household with the victim, whom he or she physically harmed or injured her in any way or in any other way offended their dignity or other personal rights, to transfer the accommodation to exclusive use by the victim in the extent they used.
Expertise:

Institutional: Government of the Republic of Slovenia, Office for Equal Opportunities
Maruša Gortnar (marusa.gortnar@gov.si)

Academic: Department of Sociology, Department of History, Faculty of Arts
Asist.dr.Irena Selišnik (Selisnik2@siol.net)

MALTA
The National Commission for the Promotion of Equality (NCPE) is relentlessly committed to empower women and men through awareness raising activities such as training. Indeed, NCPE provides training on equality issues, including non-discrimination at the place of work; sexual harassment; balanced participation in familial responsibilities; gender portrayal in the media; and gender in the provision of goods and services; local and foreign good practices for mainstreaming equality and the sharing of good practices. These training sessions are tailored according to the needs of the respective participants, including public entities, private companies, legal workers, directors, teachers, students, and other groups who request it. During this training, a quick overview of the law is given, followed by the penalties that may be incurred. A description of who is covered by the law then precedes a detailed description of what constitutes sexual harassment, including some examples. The training session is usually finished off with a description of steps which can be taken in the case of sexual harassment and who can be contacted for advice if the need arises.

Moreover, the Broadcasting Authority and NCPE organised training related to non-discrimination in media and advertising. Throughout this training, legislation in relation to discrimination in the media on the grounds of race/ethnic origin and gender were presented and issues related to such legislation were discussed.

NCPE also provides gender sensitivity training, that deals with various issues relating to gender sensitivity as well as aspects of gender mainstreaming. This training includes an explanation of NCPE’s remit, an introduction to relevant legislation as well as issues related to gender equality, gender sensitivity and gender mainstreaming.

Furthermore, NCPE provides training to persons registering for employment with ETC. This training includes an introduction to NCPE’s remit and a run through of equality legislation related to the place of work, sexual harassment as well as discriminatory questions which may be asked during interviews and which may be against the law.

In addition, NCPE has direct contact with the Equality Committees that were set up in every Ministry, in order to include the promotion of equality in the Public Sector, to train officers, set up initiatives, receive complaints, and liaise with NCPE.

Best practices: The National Commission for the Promotion of Equality (NCPE) carried out various activities to empower members of society and to support capacity building, in particular regarding equal treatment and non-discrimination.

The overall objective of the project Living Equality was to monitor and identify further capacity building needs for the actual implementation of gender mainstreaming in all ministries, government departments, public entities and in the national policy-making programmes. Indeed, the activities delivered during this project were aimed at facilitating the concept of gender equality and gender sensitivity for the working staff within the Public Service and Sector, and at promoting the implementation of gender mainstreaming tools. Good practices within ministries, government departments and public entities in relation to the implementation of gender mainstreaming were shared for further replication. The components of this project entailed:

- Training Sessions on Gender Mainstreaming with management teams and workforce within the public service and the public sector. Such training focused on gender mainstreaming and gender mainstreaming tools, so that participants then able to integrate the gender mainstreaming process in their working environment.
- Gender Sensitivity Training Sessions aimed at ensuring strong ownership of gender equality by public officers, and at enhancing the implementation of gender mainstreaming. These
sessions also trained the public officials on A Gender Sensitivity Manual, a publication that was also issued as part of this project.

- A Seminar on the Implementation of Gender Mainstreaming within the Public Service and the Public Sector addressed participants who participated in the previous training session on the application of the gender mainstreaming tools. It discussed and analysed the use and uncertainties surrounding the application of gender mainstreaming tools and family friendly measures within the public service and the public sector, and shared respective best practices.

- A set of Electronic Newsletters was developed so as to have a strategic communications approach. The e-Newsletters were sent to all public officials through an email to disseminate information on the project, activities and results. They are also used as a means of communication for ongoing feedback.

The project Taking Gender Equality to Local Communities sought to assist the community in looking at gender roles at the local level and encouraged a re-examination of the roles performed by women and men in order to develop a culture of equality and equal opportunities. Through educational and publicity campaigns, citizens and local authorities were educated about the negative impact of gender roles and stereotypes. In addition, the benefits of gender mainstreaming were highlighted in order to promote a balanced social participation by both genders and as a result, increase economic productivity.

The aim of the project Gender Mainstreaming – The way Forward (July 2004 - June 2008) was to increase the participation and advancement of women in the labour market primarily through the identification and promotion of measures aimed at enhancing work-life balance in the public and private sectors. The project identified and promoted a set of measures that are considered to be highly beneficial in enhancing work-life balance for both men and women. The strategy of gender mainstreaming of policies and the concept of teleworking were promoted. The teleworking pilot project led to the development of a national teleworking policy across the public sector. The project also helped to provide a tentative answer to questions regarding gender disparities in pay and the reasons for certain career choices by graduates.

Expertise: National Commission for the Promotion of Equality
Amanda Catania B.A. (Hons), M.A. Sociology
Research and EU/International Affairs Officer
19. CHILDREN’S RIGHTS

Although international conventions in the field of children’s rights and protection were adopted by central and eastern European countries in the beginning of their transition and relevant provisions were included in main legal texts, the situation of children in many of these countries, which was already very bad in some of them further deteriorated in the first years of transition, especially in regards to orphans and children of poorer families.

For this reason, children and the youth were among the segments of the population that required the development and implementation of new policies and social programmes, focusing especially in the more disadvantaged groups (orphans, children in poor or unstructured families, children of minority groups such as the Roma, etc.)

The transition brought about a radical change in the approach to child protection, particularly in regards to prevention of child abandonment and abuse and in methods of protection and support for children without parental care, where a wide process of “de-institutionalisation” was undertaken in some countries, replacing the model of specialised institutions (orphanages) by new models based in support to reintegration into their natural families of family-type centres.

HUNGARY

The Child Protection Act, complying with European legislation, was passed in 1997. Its main aim is to promote the raising of children in families. It established a national network of child protection services, which defines the primary and special forms of services for child care in case of a family crisis or when the child has to be taken out of the family. It revised and separated administrative and service-type tasks in the child protection system, as well as it regulated and expanded the entitlement to in-cash child-raising benefits in case of need (ordinary and extraordinary child protection benefit). In order to increase the capacities of kindergartens and childcare centres and make the service flexible, alternative daily childcare services have been launched.

SLOVENIA

Best practices:

Crisis Centres for the Young

These centres are mentioned in the Joint Inclusion Memorandum as one form of protecting the young from violence, the founding of which is determined in detail by the National Social Assistance and Services Programme 2000-2005. A crisis centre is intended for children who find themselves in various forms of acute social danger and provides all-day care and treatment lasting up to three weeks. A child can come to these centres on its own, in the case of family violence without the agreement of the parents. During this time, a more permanent form of security for the child, its protection and overall treatment is taken care of. Help for children is free, financed by the State. Three crisis centres were already in operation in 2003, and the founding of two further centres was planned within that year. The Programme envisaged eight, each of which will operate for the area of an individual region in such a way that they will each cover a region of 250 000 inhabitants.

Foundation “TOGETHER”

In post-conflict countries in particular, the youth represents the most important quantitative segment affected by conflicts and bearing many negative effects that unstable political and economic situation has left behind.

The Foundation “TOGETHER” implements various programmes involving schools, teachers, mental hygiene workers, primary health care workers, volunteers, volunteer mentors, local organizations, etc.

The Foundation TOGETHER realizes its’ programs in collaboration with a network of partner organizations in particular regions. The Foundation collaborates with numerous domestic and foreign experts and governmental and nongovernmental organizations both at home and abroad. In the year 2004 a local office of the Foundation "TOGETHER" was registered in Baghdad – Iraq and in year 2009a local office in Prishtina, Kosovo.
The Foundation TOGETHER coordinates and directs most of its programs with the Office for International Development Cooperation and Humanitarian Assistance of The Ministry of Foreign Affairs of the Republic of Slovenia

The Foundation TOGETHER implements programmes such as:

**Strengthening the civil society and especially the youth**
The main objective is to mobilize human resources in the community, to develop the values and practice of solidarity among young people, to stimulate young people and especially most vulnerable groups of the society, to reflect on social problems and on the role of civil society in reducing the impact of social problems and poverty and, finally, to prepare them for a responsible and active role of citizens in a democratic society. The programme encourages the development of social capital of communities affected by war; lowers interethnic tensions and post-war social adversities by preparing and activating the youth to help those in need; builds a sustainable basis for the activation of civil society to participate in the identification of problems; raises awareness; influences decision makers and provides solutions to problems; provides tools for civic education of the youth to the school system, to the NGO system and to local and governmental authorities (regional and national level); empowers the existing governmental institutions (especially schools) and services in the field of youth participation and voluntary work and ensures the sustainability of activities.

**Psychosocial programmes for teachers**
Programmes consist of four modules of three-day seminars through which teachers are trained: to develop safe and motivating psychosocial climate in classroom; to help school-children with difficulties – traumatized children, children with psychosocial problems, children with learning difficulties; to improve the motivation of children for learning; to implement interactive learning; to minimize unfavourable consequences of poverty to a child’s development and learning; how to cooperate with parents; to introduce voluntary work in schools; to link the school with the community and activate resources for the help to school and individual children within the community. Moreover, attending the psychosocial programs also helps teachers in coping with their own problems, related to their professional work. The program includes training of local professionals for leading the programme. The transfer of the acquired experiences and knowledge to the school is assured, also through visits of local professionals to schools.

**Programmes for primary health workers**
In post-conflict societies not only institutional activities but also primary health care workers (PHCW) posses only limited knowledge on mental health issues, protection of children’s rights, and integrative approach towards vulnerable and displaced groups. Consequently, the mental health of children remains weak; children are exposed to various social adversities; whereas due to the low increase in economic development, unfavourable social and economic situation, the protection of psychosocial development of children does not represent a priority.

Through these programmes physicians and nurses get qualified for providing basic psychological and psychosocial help to children and parents in the frame of their regular work in PHCW settings. Also, the aim of these programmes is to develop cooperation among the health and school communities.

**“Art” therapy**
The programme is based on the belief that the creative process involved in artistic self-expression helps children to resolve conflicts and problems, develop interpersonal skills, manage behaviour, reduce stress and increase self-esteem and self-awareness. Art therapy is used with children and adolescents to assess and treat the following: trauma, anxiety, depression, and other mental and emotional problems and disorders; family and relationship issues; abuse and domestic violence; social and emotional difficulties related to disability and illness; trauma and loss; physical, cognitive, and neurological problems; and psychosocial difficulties related to conflict situations. Because there is no right or wrong way of express oneself, such therapy also represents a perfect tool for social inclusion of ethical minorities, refugees and internally displaced persons.
Counselling centres:
Counselling centres are established in order to develop community-based centres for the promotion and protection of mental health and psychosocial well-being of children and families affected by wars and post-war adversities. The centres are conceived as inter-disciplinary services with outreach activities in order to make professional help available also to those numerous children who do not visit counselling centres for various reasons. Central activities carried out in the Counselling Centres incorporate: development of professional activities of counselling for children and parents, psycho-education and prevention of psychosocial disorders, encouragement of youth voluntary work; working on sustainability building and institutionalisation of the programme and to contribute to sensitisation and awareness raising among the population for the needs of children. Moreover, the existence of such centres should help mobilising human resources and enabling children’s participation in the communities for helping persons in need. Last but not least, through the establishment and activities of the Counselling Centres, a dialogue with the political structures and decision makers has been enhanced in order to ensure sustainability of the programme and to empower the existing governmental institutions (especially schools) and services in the field of mental health and psychosocial protection of children.

Prevention of peer violence
The programme aims at enabling the societies to acknowledge and address the violence problem. The problem of peer violence may be tackled through the sensitisation and development of overall school policies to counteract violence and actively promote non-violence; designing of training for teachers to deal with peer violence, bullying as well as with the issues of personal, social and health education in effective way; distributing useful training materials to teachers, children and their parents; establishing a system of help at school, for those who suffer violence; organising specific actions aiming at the involvement of parents in the prevention and training activities as well as activities involving the community as a whole.

Suicide Prevention
The programme comprises a epidemiological study on suicidal behaviour in certain areas and establishment of mechanisms for its prevention, such as: establishment of the necessary help services; education of trainers, health care workers and teachers; preventive activities in schools (workshops and seminars); establishment of an expert team for crisis interventions in case of suicidal attempts; organisation of a conference on the prevention of suicidal behaviour; encouraging youth voluntary work – especially the integration of psychology students into preventive programmes. In addition, the project provides support to local authorities and different ministries in order to establish a strategic plan for the prevention of suicides and protection of the mental health of children and youth. The programme focuses on the establishment of a centre for systematic collection of data on trends and cases of suicidal behaviour. Following such trends enables the creation of strategies and recommendations for prevention. Last but not least, a group of journalists is trained in order to communicate the message to the public in a proper way.

Expertise:
Foundation "TOGETHER" - Regional Center for the Psychosocial Well-being of Children
Župančičeva ulica 10
SI-1000 Ljubljana
info@together-foundation.si
Contact: Marija Jezernik (marija.jezernik@together-foundation.si)
Individual: Moshe S Landsman Ph.D., Dr. Robert Masten, Herman Vernik, Gani Llallosi, Tanja Povšič, Katja Bizja
ROMANIA

Practical experiences:

- 1997-2004 - Institutional reform in child protection, through setting up legal framework (including for adoption), restructuring of central and local administration to create structure for promotion and protection of children’s rights (e.g. setting up of National Agency for Child Rights Protection); Objectives of reform:
  - De-institutionalization of abandoned children through re-integration in natural family, placement with professional maternal assistants, adoption.
  - Creation of family type centres;
  - Socio-professional reintegration of institutionalized children and youth;
  - Development of means of intervention to prevent child abandonment: day care centres, disability recovery centres, maternal centres, counselling centres for parents and children etc.

Example of results: In November 2004 there were 980 functioning public placement centres of which 345 apartments, 267 family type houses 124 modular residential institutions, 588 alternative service centers.

- 2005-2009 Children’s rights reform
New legal package on children’s rights enters into force in January 2005 comprising laws to reflect international legal provisions in the sector, to regulate: protection and promotion of children’s rights, adoption, setting up of the Romanian Office for Adoptions, setting up of the National Authority for Child Rights Protection and Adoption;

Best practices

1. Residential services
Transfer of abandoned/orphaned child care from centralized institutions to family type homes accompanied by specialized social assistance services: maternal care, education, health, services for development of independent living, social adaptation etc. This was done largely, especially in the first phases, with support from NGOs.

   Example of positive result: in 1998 the number of children under maternal care was 479. In 2009 it increased to 20,939. Further achievements:
   - Most of these children attended the courses of one school or another, including professional schools and high school, thus leading to the reduction of the rate of school abandonment;
   - 10% attended university;
   - Increase of number of disabled children under maternal or foster care;
   - Increased tolerance and social acceptance of children affected with HIV/AIDS;
   - Increased rate of socio-professional integration of youth and children in the social protection system.

2. Prevention of separation of children from their families
The new legal framework entered into force in January 2005 enables implementation of the principle that children, to the extent possible and in full observation, as a matter of priority the children’s welfare and best interest, should grow up under the care of their parents. At present around 40,400 children have benefited from prevention of separation from their families, through the creation of the social and material conditions to avoid child-parent separation.

Expertise

National Authority for Child Rights Protection (Ministry of Labour, Family and Social Protection)
Contact person: Cristina Cuculas, Head of Unit (cristina.cuculas@anpdc.ro)
Partner NGOs: http://www.copii.ro/content.aspx?id=79
IV. AGRICULTURE, LAND MARKET REFORM AND ENVIRONMENT RELATED ISSUES

20. LAND ADMINISTRATION AND CADASTRE

• Land privatisation / restitution of land property

LATVIA

The process of “land reform” (restitution of private property to former land/real estate owners, as well as privatisation of state-owned land and real estate property), which started in 1990, has been the subject of 6 parliamentary Laws and 4 Cabinet Regulations, that have in turn been subject of frequent amendments and changes (8 changes per year, on average). Similar principles have been applied in urban areas (towns) and rural territories, with minor differences in the respective processes.

The “land reform” process took place in two stages. In the first stage (1990-1996), applications for restitution of property submitted by former owners of their heirs, as well as applications for “assignment rights on permanent use” of state-owned land were received; and decisions were made on this latter ones. In the second phase, started in 1993 but not yet completed, decisions on land/real estate property restitution, as well as a process of conferring property rights to “permanent users” (for pay, either in cash or with vouchers) has been carried out by the State Land Service, involving several steps.

Fifteen years after the start of the process, property rights had been secured for 710400 land units (out of a total of 977900 units registered in the Cadastre – 72.6%) and the process is expected to be completed in 2011. Out of the 710400 units for which property rights have already been secured, 664030 (93.5%) have become private property of physical and legal persons; 34800 (0.05%) have become property of Municipalities, and 11570 (0.016%) remain as state property.

The process have not been without problems and difficulties, mostly related to “joint share” properties (cases in which the owners of the land and the owners of the constructions and building existing on the land are different, such as soviet-time multilevel apartment buildings, when the property of the land where they stand has been restituted to former owner, while the apartments have been acquired as private property by former tenants) or to the impossibility of restitution of properties which “permanent use” has been granted to persons or legal entitities other than the former owners, due to some of the former owners rejection of the right to receive an equivalent land property in other location or a compensation.

Expertise: State Land Service

ESTONIA

Land and housing that had been expropriated before 1940 were subject of restitution. By early 1993 more than 200 thousand restitution claims had been filed and it took a very long time to process all these claims. Years after the privatisation programme had ended, there were still a considerable number of claims that had not been reviewed and as a consequence the transfer of government land and housing moved very slowly. At the turn of the millennium, not more than 40 percent of all land was owned by the private sector. The share of arable land owned by private farmers was even less. To no one’s surprise, this has affected the productivity of the agricultural sector negatively and partly explains the rapidly declining role of agricultural production in Estonia post independence.

---

6 The information shown in this section, which is based on the countries’ responses to the questionnaire received from the EC, is circumscribed to the only three aspects explicitly mentioned in such questionnaire: 1) Land administration and cadastre (securing real property rights); 2) Food safety (regulations and standards); and 3) Renewable energies. Therefore, it misses other important aspects that were reflected in previous draft versions of such questionnaire, such as “environmental sustainability and environmental protection”; as well as aspects that could be most relevant for the purposes of this Compendium, such as food security/agricultural production strategies, support to agro-businesses or rural development policies.
The ownership and the land reforms started in Estonia in 1991 after the adoption of the Principles of Ownership Reform Act (13.06.1991). The aim of the land reform was the transfer of land from the state ownership mainly to private ownership. There were two possibilities for the creation of private land ownership – either through restitution of land which was illegally expropriated by Soviet authorities as of 1940 or through privatisation of land that is in state ownership. Expropriated land was returned or compensated to the former owners or their legal successors and state-owned land was transferred, either free of charge or for payment, to the ownership of private persons (privatisation), public legal persons or municipalities. In general there were three ways of land privatisation - privatisation with pre-emption, privatisation by auction, and a special procedure for privatisation of agricultural and forest land as prescribed in legislation. Land privatisation is organised by County Governor.

In 1992, the Parliament of Estonia made a decision about the continuity of rights, which declared that developing of new legislation had to be based on the legal acts that had been in force before June 16, 1940. Therefore, two registers were established for recording the immovable property ownership in Estonia. The location of immovable, the borders of parcel, value, natural status and information about exploiting are registered in the land cadastre. Information about the immovable and the owner are registered in the land register.

LITHUANIA
In the period before the membership of the EU and after it, Lithuania has achieved considerable successes in restoring citizens’ rights to land ownership. Until the beginning of 2009, 4 millions of hectares or 97.5% of the area applied for has been restituted to former owners or their relatives (where the right to land ownership and/or relation to former owners has been proven by documents) in the Lithuanian countryside. In the urban areas (according to the state of June 1, 1995), decisions for restitution has been adopted for 63.9% of the total land applied for.

Best practice: In Lithuania, the processes of land restitution and privatisation of collective farms were closely linked to each other. The legislation allowed the acquisition of agricultural assets that belonged to collective farms (animals, machinery) only to the persons that, by virtue of the process of restitution, had regained ownership of a certain amount of agricultural land.

Expertise: National Land Authority at Ministry of Agriculture

POLAND
A salient feature of Polish agriculture, even during the four decades of communist rule, was the subsistence of private property of land, economically operating in the form of family farms.

One result of the agricultural reform of 1944-1945 was that private peasant farming became the most important productive and social element in the structure of Polish agriculture. The first article of the Agricultural Decree of the Polish Committee of National Liberation announced that the agricultural system in Poland would be based on strong, healthy and profitable farms in a privately owned sector. However, one of the main aims of agrarian policy in the Polish People's Republic (until 1989) was a tendency to increase the degree of socialisation of Polish agriculture. This was implemented in various ways; although the establishment of agriculture producer co-operatives was the most important form of socialisation in agriculture.

Between 1948-1989 the organisation of co-operatives was subordinated to the command-distribution economic system, with all the consequences that derived from this new system of economic planning. The legal subject of the co-operative ceased to be its membership, and the aim of its economic activity ceased to be the satisfaction of their needs. The main aim of the co-operative’s economic activity was the fulfilment of the aims/goals contained in the central and regional economic plans. The law on co-operatives was changed. The co-operatives ceased to be independent and self-governing. The economic potential of the co-operatives increased mainly as the result of the fulfilment of aims set by the public administration. The system of cooperatives was included in a superstructure consisting of the general co-operative council, 15 central co-operative associations, 417 regional associations and 218 district delegate organisations.
After the 1989 elections the Parliament passed a law (January 1990) concerning changes in the activities of co-operatives, liquidating co-operative unions, suspending the co-operative inspectorate and prohibiting new co-operative formation. As a result of this legislation, wholesale cooperative trade ceased to exist as did their supplier infrastructure. With this new legislation the basis for the existence and functioning of co-operatives previously belonging to associations were changed, and this caused significant economic and social losses.

In contrast to other central and eastern European countries, in the beginning of the transition to market economy, the state sector of Polish agriculture (1.500 agricultural enterprises, with 400.000 employees and assets worth 100 billion zloty) occupied an area not exceeding one fourth of total agricultural land.

In October 1991 the Parliament adopted the Law on Management of Agricultural Property of the State Treasury, which entrusted the restructuring and privatisation of state agriculture to an Agricultural Property Agency (APA). APA was established as a state legal person that exercises, on behalf of the Treasury, property rights and other rights in relation to agricultural state property. The property entrusted to APA formed the Agricultural Property Stock of the State Treasury (APS).

In the period 1992-2005 APA took over into APS 4715 thousand ha of land, of which 1586 thousand were sold to individuals and legal persons (mostly in extensions not exceeding the 10 ha) and 330 thousand were transferred for free to local authorities, State Forest Organisation, Polish Academy of Sciences, Agricultural Chambers, State Universities and other research and development institutions.

CZECH REPUBLIC

In the Czech Republic the process of land restitution, for which there was a strong popular pressure (although not always driven by the will of cultivating the restituted land) was very complicated, because it involved not only restitution of land expropriated after the end of the II WW, but also property issues arising from the time in which the Czechoslovak Republic was established – at the end of the I WW (time at which there was already a process of expropriation of the vast land properties owned by the austro-hungarian nobility).

As for the restitution of land expropriated or nationalised after the II WW, this happened in the period 1945-1948 in two successive waves: the first one affected the large properties or those that, after the war, did not have an owner present in the territory of the Czechoslovak Republic; a second wave deprived the small land owners of the property of their land, though as a rule allowed the to continue cultivating such land – and even some additional land given to them by the state – in a collective (“cooperative”) way. Only this second type of land was subject of “restitution.


Agricultural restitution claims are handled by land registries (Central Land Registry Office and local Land Registries), which exercise some powers transferred from the courts for this purpose.

The state land (rural) property not subject to restitution was subject of a process of privatisation, started in 1995 and carried out by the State Land Fund (established by the 1991 Law). Privatisation was implemented through public offers prepared by the Fund and advertised at local and national level. The land was handed over to the best economic offer.


Sectors for possible cooperation:
- protection of water resources and the quality of groundwater and surface water; air protection
  Institutions: (belonging to the jurisdiction of the Ministry):
  - Czech Hydrometeorological Institute
  - T. G. Masaryk Water Research Institute
  - CENIA - Czech Environmental Information Agency
- geological works and environmental supervision of mining
  Institution (belonging to the jurisdiction of the Ministry):
  - Czech Geological Survey
- waste management
  Institution (belonging to the jurisdiction of the Ministry):
  - Czech Environmental Inspectorate
- nature and landscape protection
  Institution (belonging to the jurisdiction of the Ministry):
  - Agency for Nature Conservation and Landscape Protection
  - State Environment Fund of the Czech Republic

CZECH COMPANIES PROVIDING ENVIRONMENTAL TECHNOLOGIES AND SERVICES - ENVIBASE:

ENVIBASE is a list of Czech companies providing services in the field of environmental technologies administered by the Ministry of the Environment of the Czech Republic. The database presents contacts of Czech companies, organizations as well as institutions of the Ministry of the Environment active on the market of environmental services and technologies. The main goal is to provide basic overview information on potential partners in the fields of

- Environmental consultancy and engineering
- Environmental monitoring and assessment
- Environmental damage remediation
- Water purification and supply, waste water treatment
- Waste management
- Geological and hydrogeological survey
- Renewable sources of energy, energy efficiency and auditing.


Expertise:
- Institutional – Land Registries, Central Land Registry Office, Land Fund of the Czech Republic, Cadastral Office
- Academic - Faculty of Law of Charles University in Prague, Faculty of Law of Masaryk University in Brno
- Individual – Jaroslav Drobník (Faculty of Law, Charles University, Prague), Ivana Průchová (Faculty of Law, Masaryk University, Brno), Milan Pekárek (Mendel University of Agriculture and Forestry, Brno), Bohumil Janeček (Cadastral Office), Eva Chalupová (Land Fund of the Czech Republic).

HUNGARY
In Hungary, an early decision of the Constitutional Court made it clear that “restitution” of property that had been privately owned before the nationalisation of land carried out after the establishment of a communist regime in the country was to be understood as a right to “compensation” for the economic value of such property, rather than as restoration of the property itself. This “compensation” was in most cases arranged through “vouchers”, which could then be used for acquiring private property during the process of privatisation. However, a majority of the people who had received those “vouchers” decided to sell them as a survival strategy in difficult times. This gave an opportunity to a few wealthy investors to accumulate substantial amounts of those “vouchers” and later on make use of them for payment of purchases of property under privatisation. In this way, the system ended up
favouring the acquisition of land by individuals (to date, there is not corporate property of land in Hungary) who had neither previous connection whatsoever with the land, nor any intention to start up or run any agricultural business. This was particularly so in what concerns the land being used by the collective farms and, to a lesser extent, the land being cultivated by cooperatives.

Due to the separation between land property and land use, through the process of privatisation collective farms and cooperatives lost the use of the land they were cultivating; and those that remained active had to lease the land needed for the continuation of their exploitations.

As a result of the land privatisation process, agricultural land property is highly fragmented in today’s Hungary, and quite often such property belongs to individuals or families that do not even have their residence in Hungary.

Land privatisation was accompanied, since 1988, by a process of privatisation of the state-owned agricultural undertakings.

All in all, and despite the problems surrounding this process of privatisation, the fact is that the reforms brought about private property and the possibility of private entrepreneurial initiative in the agricultural sector.

• Cadastre and land registry

LATVIA
The real estate registration system is made up of two main and separate yet inter-connected registries: the Cadastre (managed by the State Land Service) and the Land Registry. The first one aims at gathering and providing information on the location and physical characteristics of all sorts of real estate objects (land, buildings, apartments) and their value (especially for fiscal purposes – real estate tax and others); while the second is aimed at securing and protecting property and other real rights over that objects.

The development of the modern Cadastre in Latvia has gone through a number of stages, its first purpose being to support the process of restitution and privatisation of land and real estate (“land reform”) by gathering information about all real estate “objects” (units) existing in the country: first land objects (since 1992, with graphical data since 1995), then buildings (since 1996, with graphical data since 1999) and finally individual apartments (since 2000). As of 1997, the Cadastre has also included the value of the real estate objects, for the purposes of real estate tax; and today, after the adoption of the 2006 Law on Cadastre, this registry fulfills a multi-purpose function and role, aiming to provide up-to-date, reliable and complete information on real estate objects to society as a whole. This process has been accompanied by a number of technological developments, so as to make cadastral information and services more easily available to all interested parties.

As for the Land Registry (property and other rights) after the restoration of independence the first step was to also restore the validity of the legislation (Civil Code and Land Registry Law) adopted in 1937. In 1993 the Parliament adopted a new Law on the Land Register, in which the option of setting up a Court-based system of Land Registries was chosen. Therefore, registration of property and other rights on real estate is carried out under the responsibility of the Judiciary, at district level. A key development in this field has been the informatisation of the land register and the establishment (in 1998, through an amendment to the Law) of the State Unified Computerised Land Register. This is an electronic data base in which Land Registers, corroborations journals and alphabetical indices shall be stored on a long-term basis without changes in the content thereof, ensuring the representation of such data on a computer screen and in computer printouts

Expertise: State Land Service (Cadastre) and State Land Registry

ESTONIA
The Land Cadastre was reestablished after the decision of the Parliament on continuity of rights and. 83% of the Estonian territory had been registered in the land cadastre by the end of 2008, thus the
majority of land has been entered into the cadastre, which provides physical and technical information about these immovables. This information serves also as basis for next developments. In order to provide an effective land administration system, it is necessary to have an overview of the existing lands and this is the task of the land cadastre. To simplify the administration of land, the database of the land cadastre was established by using the newest technologies in the field of GIS. Also the databases of property transactions and restrictions were established. The aim was to incorporate all land related databases and map databases into one land information system (http://xgis.maaamet.ee). Later the land information system has been improved by adding information about geology, soils, mineral resources, nature protection, cultural monuments, roads and detail plans. Also different other GIS services have been developed in cooperation with other Estonian registers

LITHUANIA

In Lithuania land holdings acquired by new owners are registered in the Real Estate Cadastre. On registering, the limits of a holding are put on digital maps what allows to check whether the limits of the new holding do not intersect with the limits of neighboring holdings which are already shown in the maps of the Real Estate Cadastre or with boundaries of administrative units, cadastre areas and blocks or with adjacent roads, water bodies or waterways. For putting the limits of a holding on digital maps the use is made of newest cartographic materials, orthophotographic maps and georeferential data of the Lithuanian territory. However, because since 1992 holdings created during land reform were at first registered in the Registry of Real Estate and only later put on cadastre maps, there is considerable number of holding limit discrepancies. Therefore in 2005 a process of rectification and updating of cadastre maps was started, with the aim of rectifying those borders of holding which clash with natural limits of terrain such as roads or waterways. For every holding, the limits of those adjacent holdings which were put on cadastre maps later were checked on the basis of update cartographic materials (orthophotographic maps, georeferential data).

Efficient administration of land holding needs reliable geographic data. The creation of Lithuanian georeferential data (orthographic and topographic maps, georeferential vector databases etc.) started before the EU membership. In 2004 an opinion poll was conducted among users and producers of geographic data which allowed discerning priority areas for geographic data production, important for both producers of electronic products and services and for general population. Such priority areas are administrative borders, hydrography, transport, forests, orthophotographic images, borders of real property entities entered in cadastre, addresses, relief of terrain, geodetical base and geographical names. Current geographic data are improved by making more efficient their management, guaranteeing interactivity and interface, simplifying access for users, improving data quality and promoting among users and larger public.

Good practices:
“Development of the infrastructure of Lithuanian geographical information” (LGII).
The Project was conducted according to the measure 3.3 “Development of services and infrastructure of information technologies” of the General Programming Document for 2004-2006, with the support from European Regional Development Fund. The responsible manager of the project was the state enterprise Remote Sensing and Geographical Information Center “GIS Center” in partnership with state institution and enterprises which regulate or conduct accumulation and management of official geographical data.

As the result of the project a set of measures has been elaborated which are necessary for creating a modern and comprehensive national system for transmission of geographical information which can guarantee interface among various sets of geographic data and geographical linkages within state registry and cadastre. In particular, the following results were obtained:
• Creating general model of georeferential data, data base specifications, integrated interfaces among cadastres, registries and registry data bases of state agencies.
• Creating Internet portal for LGII.
• Creating fully functioning national system of meta-data for geographical information
• Creating national integrated system of geographical information (data base and geographical services)
• Updating, putting in order and supplementing national referential geographical data
• Creating functioning electronic training system for further training of staff working with geographical data.

In this way the project has contributed to the data flow harmonization within the nation. The harmonization has been achieved by simplifying processes of accumulation, management and application of digital geographical information, while the public use of geographical information has qualitatively improved.

Expertise: 1) National Land Authority (at Ministry of Agriculture); 2) Center of Remote Sensing and Geoinformatics – GIS Centras (State Enterprise); 3) Vilnius Gediminas Technical University (Institute of Geodesy and Department of Geodesy and Cadastre of the Faculty of Environment Engineering); 4) UAB “HNIT Baltic”; 5) Individual company "Matininkas".

SLOVAKIA

Practical experiences

• Clear and constructive competence division between state administration bodies of geodesy, cartography and cadastre of real estate (GCC) and commercial sphere. It seems to be an optimum in this region a basic division of GCC activities by their nature and public merit into category of activities executed for state administration (activities executed for state requirements and activities executed in state interest including research activities directly connected with these works). Activities of commercial nature belong into second category (e. g. special-technical activities for cadastre of real estate, activities of engineering geodesy, geodetic activities in detailed minor control, creation of thematic cartographic products and other).
• Well-advised balancing of responsibilities of geodesy and cartography authority in inspection and acceptance of commercial sphere GCC activities results, which have to be accepted into state documentation.
• Well-advised constructive cooperation development of state administration and professional associations in GCC branch.
• The engagement into international cooperation in GCC branch – EuroGeographics, WPLA, ELRA, PCC, FIG, ICA.
• Analyse of various cadastral authority models and geodesy-cartography authority models from senior EU member states and from junior EU member states as well and selection the most appropriate model for the country, which executes the analyse.
• Working on the base of premise, that in the frame of constitution system of each EU member state the ownership of real estate is the element of basic human rights and freedoms and as such it must obtain an appropriate preservation. Such preservation has a visible internal connection with personal freedom. An ownership warranty has a function to ensure to individual (eventually to legal person) precise volume of freedom in relation to its ownership and so to facilitate to organize own life by proper responsibility.
• Collaboration with universities preparing future specialists for activities in GCC branch. Establishing of periodical forums of backward linkages about application rating of GCC university graduates and about study profile innovation requirements.
• Permanent constructive propaganda activity about cadastre functions and about society requirements into cadastre for laicus community with all masmedia instruments exploitation. Renewal of country as legal state is a goal of transformation of each community on the way into democracy and in its frame the renewal and warranty of all kinds of ownership including real estate ownership is irretrievable function of cadastre in this region.
• Well advised balancing of taxes, payments and tariffs for individual operations – for administrative dealings in cadastre and for information offered from cadastral information system executed by slogans: 1) that, what is offered for free of charge, does not have the value in the eyes of laicus community; and 2) that, what is too expensive for relevant layers of community (for specialists and for laicus community as well) never will be used in the future in required amount. There is very good experience when state administration bodies and public administration bodies obtain such services free of charge and other consumers are charged.
• Permanent persuasion of public, that cadastre in EU member states is an instrument 1) for execution of state functions by legal relations to real estate preservation and for personal freedom preservation and 2) cadastre of real estate serves as state information system about real estates and about ownership and other rights to real estate (the state executes on this base its economic-organizational function – state creates conditions for real estate business, state creates conditions for commercial-enterprise activities and other).

• Legislative bracing of necessity of cooperation of real estate owners in creation and up-dating of cadastre (the state is obliged to administer the cadastre and the owner is obliged in frame of law to demonstrate interoperability with cadastre).

Best practices
• Elaboration of long-term (generally periodically in 5-years) Conception of land administration and cadastre including organizational and institutional representation).
• Creation of relevant stable legislation for cadastre of real estates branch and for decision making of origin, change and extinction of ownership and other real estate rights and for geodesy and cartography branch.
• Organizational and competence integration of decision making of origin, change and extinction of ownership and other real estate rights with technical aspects of cadastre into one institution – into body of state administration.
• Urgent covering of all country by some kind of cadastral mapping even though it will not be at the same technical quality (it will have an indication of various precision).

Expertise
Institutional: Úrad geodézie, kartografie a katastra Slovenskej republiky (Geodesy, Cartography and Cadastre Authority of Slovak Republic). Mrs. Katarina Leitmanova and Mr. Imrich Homansky
Academic: Stavebná fakulta Slovenskej technickej univerzity v Bratislave (Faculty of Civil Engineering of Slovak University of Technology in Bratislava),

HUNGARY
In Hungary, land books (Grundbuchs) of urban and agricultural land have been kept since 1723; and data about ownership and use of land real properties have been systematically recorded since more than 150 years ago. Until 1970, the Land Register was administered as part of the legal and judicial structures, while the Land tax Cadastre was managed by the public administration. Cadastral maps produced by this latter one were used as a base of physical information in both systems. This paper-based system was fully operational even during the communist period.

In 1971, and in order to resolve some deficiencies in the exchange of information between the two systems, Hungary was the first country in Europe that established a Unified Land Registry system, gathering under a single legal and institutional framework and structure the cadastre and the property register. There is one institutional network consisting of land offices responsible for registration of legal transactions, cadastral mapping changes and dealing with land and other real estate property related activities. Besides the cadastre and registry activities, the system is dealing with establishment and maintenance of control point network, topographic mapping, land protection, land lease registration, maintenance of administrative boundaries etc

Since its establishment in 1971, the Hungarian Unified Land Registry System has been operating under the Ministry of Agriculture, currently the Ministry of Agriculture and Rural Development (MoARD). The supervisory authority is the Department of Land Administration and Geoinformation (DLAG MoARD). The daily legal and cadastral mapping activities are performed by the decentralized land offices in an institutional network countrywide. The Institute of Geodesy, Cartography and Remote Sensing (FOMI) is a background institution, which – beyond its scientific, research and spatial referencing activities – providing technical support for the land offices.

The Department of Land Administration and Geoinformation (DLAG) as supervisory authority belongs to the Ministry of Agriculture and Rural Development and has no constituent legal function. Its duty is the general management, legalisation, strategy planning, project management and auditing of the
land offices and FÖMI. The Department has three divisions responsible for Land Surveying, Mapping and GIS; for Land Registration and for Land Protection and Land Use.

19 County Land Offices (CLO) plus the separate Budapest Land Office. The CLO acts as a second instance authority. The CLO is a 'legal person' with total independence. The DLAG decides on the scale of the CLO budget. They manage the district land offices and local project management, audit DLOs, give technical and legal support to them, market and accept new maps and data products. The CLOs provide administrative support, are responsible for quality control and certain other technical procedures and act as a “court of appeal” for DLO decisions. They are also responsible for providing mass data service for external users.

121 District Land Offices (DLO), including Budapest Districts Land Offices. The DLO acts as a first instance authority. The DLO does not constitute a 'legal person'. The DLO is responsible for the maintenance of the Land Registration and Cadastral Map information on a routine basis. They maintain the legal data and cadastral maps and the data files of land lease, land classification and land valuation too. They are also responsible for providing legal and mapping data services for clients.

The Institute of Geodesy, Cartography and Remote Sensing (FÖMI) has the same legal status as a CLO. It is a central organisation for research and technical development of the Land Administration and Geoinformation Sector, and responsible also for certain operational activities; the maintenance of State boundary points, maps, aerial photographs and orthophoto-archiving and servicing, professional inspectorate, training and documentation etc. FÖMI manages maintenance of and data supply from databases of the topographic maps, and digital elevation model, the geographical names, the control point network and the national GNSS reference frame, all serving for making any spatial data in Hungary referenced to. FÖMI supports and performs the programs of national interest in geodesy, cartography and remote sensing as well, including the technical support of land offices, and maintaining the Hungarian part of the European CORINE land cover database.

As through more than 150 years, Hungary had a fully operational paper-based system, the main task of the 1990’s was therefore to computerize and modernize the land administration sector, enabling them to cope with the new challenges.

Following an agreement signed in December 1990 between EU and the Hungarian government, the EU Phare supported programme called “The computerisation of land offices” started to establish the infrastructure background for this complex process. Besides the technological development, the legal, operational, marketing and other related problems have also been investigated within the many-year long, complex modernisation programme. Since 1997, a completely computerised nationwide system has been managing both legal data and cadastral maps for covering the demands of both public and private clients who need this sort of data and various data products. Also a digital cadastre map standard has been introduced in 1997.

Hungary started a digital cadastral mapping programme, National Cadastre Programme in 1996. A state-owned non-profit company was established for coordinating the project. It was financed by commercial bank loan guaranteed by the Hungarian Government. Private surveying companies completed the cadastral mapping. The programme was successfully finished by the end 2007. All of the cadastral maps are available now digitally in vectorized format and the larger part in object-oriented relational database.

Between 1994 and 2005, DLAG has made considerable investments in modernizing the infrastructure of land administration co-financed by the EU PHARE Programme. As a result of these investments and the counterpart funding from the Government budget, all data of the property sheets of the country have been loaded into PC based computer systems in the land offices by the end of 1997. This speeded up the management and updating processes.

The improvement and enlargement on higher level can be realised in the framework of e-government and e-administration. Since then, property sheets have been maintained and applications managed on computer all over the country. The intranet-like network of the land offices (TAKARNET) was also
built up. This network is connecting all official players of the land administration sector, providing online access to the continuously updated land registration data. Since April 2003, online access to TAKARNET network has been provided also for external users (registered and authorized) through Internet. Depending on their registered rights, they can have access to all registration data of Hungary's lands and other properties. Due to the improvement of the online case management through TAKARNET, the Hungarian land registration data supply/service managed to reach third level of e-governmental service in a qualification system defined by the EU. It means a service providing interaction from both sides.

**Best practice:**

**Integrated Land Information Services**

The Hungarian unified land registry system has been totally self-financing since January 2007, without any support from the State budget. As the income has to be generated from data selling and services, it is extremely important for the organization to provide wide range of quality services and products both to public and private clients (authorities, citizens, major players in the economy and other external users.)

Land offices and FÖMI provide legal and cadastral mapping information, data and other services for external users and citizens generally for fees. The products are available both in analogue and digital form. The sufficient revenue is very important because of self-financing status of land administration. The majority of basic laws supports the generation of revenue, for example, the Survey Law prescribes the compulsory use of cadastral mapping database for local governments, municipalities, public utility companies for different activities (town planning, public utilities registration etc.). But there are exceptions defined by law concerning the legal data/property sheet data services; local authorities, governmental institutions, ministries, etc. can receive data and services free of charge.

A linear trend can be observed in the growth of users' number since the start of online service. Currently, private individuals cannot join the network yet; this opportunity is offered mostly for users requiring bulk data (notaries, banks, attorneys at law, lawyers, local governments etc.). For certain official users (courts, bailiffs etc.) it is obligatory to use this network only. By 2009, there are more than 9000 registered users of the TAKARNET system.

The dynamics of these factual data and the ever growing strong need for this kind of service give basis for the expectations that by further widening of the services, the improvement would be not only a necessary and useful investment for the benefit of the whole society, but a financially viable venture too. The Hungarian unified land registry system as vital part of the national basic data structure reached such a level of service that has a promising future.

**Expertise:** Ministry of Agriculture and Rural Development, Dept. of Land and Geoinformation

(Piroska Zalaba / piroska.zalaba@fvmgov.hu)
21. FOOD SAFETY

LATVIA
Trade from any third country and the EU very much depends on the approximation of legislation and its effective implementation at least at a level equal to the level of EU countries. Also, adequate legislation and implementation is critical from the viewpoint of protection of public health. One of the main issues is, in this process, to develop a food chain surveillance and control system that can be approved by Commission experts and accepted by the other MSs as equivalent in quality and effectiveness. To achieve this, reorganisation and optimisation of our country’s food chain supervision system was very important; and this is a process that Latvia completed successfully in a short period of time, also thanks to the assistance, support and cooperation received from relevant institutions and food safety organisations in countries like Denmark, Germany, the Netherlands, France and Finland.

At the end of 2001 one single supervision authority (the Food and veterinary Service-FVS) was created in Latvia, which was made responsible for the supervision of the entire food chain (from “farm to fork” or from “stable to table”). The system that Latvia has developed is transparent, easily understandable and excludes the possibility of functional overlapping.

The FVS of the Republic of Latvia is a state administration institution supervised by the Ministry of Agriculture, responsible for surveillance and official controls on implementation of legal provisions regarding all sectors of the food chain, animal health and disease control, animal identification, animal welfare, circulation of animal feed, circulation of veterinary drugs, imports from third countries performing border control function on the outer border of the EU regarding to veterinary, phytosanitary, food and non food consignments and intra-Community trade. FVS has a Central level and a Regional level and carries out supervision and official control in accordance with legislative norms and quality system documentation, elaborated with the requirements of the LVS EN ISO/IEC 17020 standard (General criteria for the operation of various types of bodies performing inspection) and ISO 9001:2000 standards. All control spheres of FVS are accredited according to LVS EN ISO/IEC 17020 standard.

A National Diagnostic Centre (NDC) performs the functions of national reference’s laboratory and is the leading public institution carrying out laboratory diagnostics, testing and investigation of animal health and diseases, food products and external environment factors. NDC independently organises plans and carries out laboratory examination and related activities, operating as a unit of Food and Veterinary Service.

Best practices: 1) Modernization and capacity building of the food chain surveillance system (from stable to table) – application of legislation, functions, tasks and obligations, registration and approval of establishments, inspection procedures, training, inspection equipments; 2) Coordination and strategic planning – review of inspection system, reorganization, risk based inspection planning, planning of human resources; 3) Modern food chain inspection system – implementation of Quality Management system and auditing; 4) National reference laboratories – accreditation, quality system, training, investigation methods, laboratory facilities, equipments; 5) Training management – strategy, training curriculum and manual; 6) Residue control including veterinary medicine products – legislation, planning, laboratory investigation and training; 7) Import, export and border controls (veterinary, phytosanitary, food and non food) – legislation, certification, up-grading of veterinary control points, training; 8) Inspection information management system (IT) – data base, data collection and reporting; 9) Preparation of the proposal of a project, work-plan, budget, project contract and implementation of project.

Expertise: Food and Veterinary Service (FVS) of the Republic of Latvia Ministry of Agriculture of the Republic of Latvia

LITHUANIA
In the period before the membership of the EU and after it, Lithuania has achieved considerable successes in implementing the EU food safety standards. In the process of preparation for the EU membership, Lithuanian institutions have elaborated the Food Safety Strategy of the Republic of
Lithuania. The Strategy has analyzed and evaluated the conformity of the Lithuanian legislation with the acquis communautaire (the result of this analysis have been tables of conformity in sectors of food safety, veterinary, phitosanitary, feed and laboratory tests). The Strategy has also established the list of institutions responsible for the harmonization and implementation of relevant legislation (the Ministry of Public Health or the Ministry of Agriculture in their respective spheres of competence) and created the system of control. After the Lithuanian access to the EU Lithuanian experts have increased their knowledge and experience by participating in international workshops, seminars and technical consultations. Administrative skills were improved through international and bilateral projects and by participating in working groups such as Nordic-Baltic working group “NordBalt” for food safety and control and Nordic-Baltic working group “Implementation of Food and Nutrition Action Plan in Baltic Countries”.

Currently the Lithuanian legislation in the sector of food safety is in conformity with the provisions of the EU legislation. In the Republic of Lithuania the State Food and Veterinary Authority (SVFA, established in 2000) is responsible for the control of food, feed, veterinary preparations, animal health and animal welfare and feed) and State Plant Protection Authority (SPPA) is responsible for the phitosanitary control of plant and plant products. Both are responsible for the implementation of the EP and EC regulation No. 882/2004 concerning the state control which is performed in order to assess how the legislation concerning food, feed, animal health and animal welfare are implemented.

State food and veterinary control is based on laboratory tests and risk assessment performed by the National Food and Veterinary Risk Assessment Institute (NFVRAI) founded in 2008. National reference laboratories of the NFVRAI perform laboratory diagnostic tests of feed, food and animal diseases with the aim to guarantee public health and consumer protection. The NFVRAI also performs safety, quality and efficiency analysis of veterinary pharmaceuticals and veterinary biocides and plans introducing new testing methods for detecting pathogens of transmissible animal diseases and for analysis of the composition of food and food products.

Food management entities and data of their control are registered in the Registry of Food Management Entities having approval from veterinary control institutions and control data are regularly analyzed. SVFA has introduced the information system guaranteeing the accessibility of food control data at any time and allowing performing data analysis, coordination of officials, unification of controls and information of public.

**Best Practice:** System of food and veterinary control
The system is organized on the basis of the EU food chain control principle “from farm to table”. Food sector subjects are controlled depending on the risk level of each of them. The system is governed by the unitary quality policy accepted in the EU and in the world. The SVFA has introduced the standard LST ISO/IEC 17020:2005 “General criteria for control of different type of establishments”. It means that the Republic of Lithuania has chosen strategically efficient control model which is in conformity with EU and international standards (WHO, World Animal Health Organization). The control system set up by the SVFA obtained international accreditation in 2006.

**Expertise:** 1. Ministry of Agriculture of the Republic of Lithuania (Quality Policy Department); 2. State Food and Veterinary Authority; 3. State Plant Protection Authority; 4. Lithuanian Veterinary Academy; 5. Lithuanian Veterinary Physicians’ Association

**CZECH REPUBLIC**
During the transition period in the Czech Republic the following activities were crucial in the area of food safety:

- Complete harmonisation of the legal system based on the changes of the EU legal regulations as drafted in White Book.
- Acceptance of the inspections of the Food and Veterinary Authority DG SANCO within the European Comission, pursuing the objective of assessing the preparedness of the Czech Republic for the entry to the EU in the view of the whole organizational structure of food safety, starting from farms to final consumers, including the competences of relevant authorities.
• Coordination of work of the central bodies of the state administration and state surveillance bodies involved in issues of food safety throughout the food chain.
• Optimization of the network of laboratories ensuring a high-quality level of specialized workplaces equipped with state-of-the-art technology and working in the accreditation regime in conformity with the EN ISO/IEC 17025 standards.
• Organising of a comprehensive system of training and education of experts in the inspection authorities.
• Enhancement of cooperation with civic consumer organizations through intensive communication with consumers concerning the basic qualities of foodstuffs and meals, including specifications of possible risks.
• Cooperation with scientific institutions, consumer organizations, professional unions and surveillance bodies in the preparatory stage of new laws.
• Supporting of voluntary introduction of rules for proper production/hygienic practices in the food processing industry.
• Cooperation and coordination of activities with the European Food Safety Authority.

**Best practices**

- Negotiating and adoption of the new Act on Foodstuffs with respect to the EU requirements.
- Negotiating of the Food Safety Strategy in the Czech Republic and its adoption by the Government.
- Establishment of Food Safety Co-ordination Unit - which acted as a consultative and initiating body. Members of the coordinating group represented ministries and other state administration bodies (at the level of deputy ministers) and general directors of controlling bodies.
- Setting up of so-called Scientific Committees and the follow-up of their activities concerning mainly the risk assessment and expertises focused on the risk communication, including the proposals of adequate measures and use of available and appropriate sources of information.
- Development of the Information Centre. Role of this centre was gathering, processing and supplying information about food safety so that the public may have at its disposal timely and accurate information concerning food production, control results, potential risks, trends in nutrition, results of research etc.
- Building up of rapid alert system

**Expertise:**

- Members of the Food Safety Co-ordination Unit (Institutional expertise)
- Competent organizations designated by the Czech Republic which may assist the European Food Safety Authority with its mission according to Art. 36 of Regulation EC 178/2002 and Art. 1 of Regulation EC 2230/2004 (Academic expertise)
- Czech University of Life Sciences Prague

**HUNGARY**

Besides the principle of the free movement of goods among the EU member states, there is a strong emphasis on ensuring that the final consumer receives safe food, with a composition guaranteed by the producer. In order to achieve this, it is not sufficient to inspect the fulfillment of the hygiene and quality requirements at the field of producing and distribution exclusively, but it is also vital to possess proper knowledge on the activities carried out before the production and after the distribution. The path of the raw materials has to be traced „from farm to fork” in the whole food-chain. With the demand of providing the necessary guarantees, the efficient control of the food-chain was not possible anymore with the system of isolated authorities supervising only small fields of the food-chain, such as animal, plant, public health, and consumer protection. For the sake of complete traceability, there was a need for an authority controlling the most possible fields of the food-chain with well-trained experts.

The establishment of a unified monitoring system, which can control the whole food-chain, had been expected for long in order to build consumer confidence, improve their safety, and to achieve a more efficient, more rational, and cheaper activity of the food-safety authority. With its Resolution 2243/2006, the Government decreed the establishment of a unified food-safety organisation. The
principles laid down by the resolution put the control of the food-chain under the responsibility of the Ministry of Agriculture and Rural Development. A unified control organization encompassing the whole food-chain was formed with the reorganization of the Ministry of Agriculture and Rural Development and the regional institutions. As of 1st of January, 2007, the Central Agricultural Office was established, which implements the complex, unified official food control with the coordination of the deputy-president responsible for food-safety. On October 1st 2007, the food-safety related tasks of the National Public Health and Medical Officer Service, as well as the supervision of the Hungarian Food Safety Office was taken over by the Ministry of Agriculture.

With the forming of the unified food-safety authority, there were growing needs for the revision of the laws regulating the food-chain safety for the sake of a more efficient response, and unified law enforcement. In order to make a unified legal environment and to simplify the regulating work, and also to make the measures efficient, the Ministry of Agriculture and Rural Development created Act XLVI. of 2008 on the food-chain and on it’s official control, and many implementing regulations. Creating the act according to the principle of „from farm to fork”, the ministry took it into account that soil protection, plant health, plant protection, feeding, animal health and medication, food-safety and food quality are not separable from each other.

**Best practices:**

*Unified control, fast flow of information and fast reacting*

The direct chain of command ensures quick and efficient response from the authorities, wherever the problem appears in the food-chain, thereby, time is not wasted with turning to authorities with other competences. Due to the structural reshaping, it is now possible for the authorities to follow the preliminaries and consequences of a food-safety hazard across the whole food-chain.

The Act declares the means of the food-safety control and the penalties; grants official jurisdiction uniformly to the food safety authority supervising the whole food chain, and determines the disclosure obligation of the authorities, as well as public information for food safety.

The unified procedure allows for coherent actions. The resolute collection of information and data helps create a unified food chain control database providing for the base of efficient work of the authority. With the optimal utilization of human and technical resources, the efficiency of food control is progressing. Supported by a unified legal background, the authority can give answers to the emerging problems faster.

*Planning of control, high priority controls*

The unified food control organisation is currently working on a control plan on the basis of risk assessment. With the aid of risk assessment, the authority can determine the auditing frequency of a certain company, and the sampling numbers for each type of the inspection. In addition to the pre-planned monitoring inspections, special inspection programs take place as well with the participation of other authorities. The controls should contribute to the reduction of black economy, imposing fair taxes and improving the competitiveness of legal market actors.

*Inspections*

The special inspection programs are primarily linked to seasonal events and feasts. During Christmas and Easter holidays, the consumption of some specific products increase, which demands increased control. In the summer period, the inspections focus on the important touristic sites, restaurants, seasonal events, beaches and spas, and other touristic services. Moreover, the inspections lay emphasis on fighting fraud, illegal processing- and marketing activities.

*Expertise:* Ministry of Agriculture and Rural Development, Department of Food Chain Control
(Szabolcs Pásztor DVM - Szabolcs.Pasztor@fvm.gov.hu)

ROMANIA

*Best practices*

*Genetically modified organisms (GMO)*
The Romanian Ministry of Agriculture, Forests and Rural Development has vast experience of registration and monitor of growers of genetically modified plants (over 1500 cultivators in 2006) in order to ensure production traceability in line with EU legislation (Directive 2001/18 regarding deliberate introduction of GMO in the environment, Regulation 1829/2003 regarding genetically modified foods and fodder)

Ecological agriculture
The Romanian Ministry of Agriculture, Forests and Rural Development registers and monitors the operators in the system, ensures data centralization and processing of statistical data transmitted by inspection and certification bodies, in line with EU legislation regarding production and labelling of ecological products (EC Regulation no. 834/2007).

Expertise
Ministry of Agriculture, Forests and Rural Development
GMOs: Tatiana Preda (tatiana.preda@madr.ro)
Ecological Agr.: Teodora Aldescu (teodora.aldescu@madr.ro) and Iulia Grosulescu (iulia.grosulescu@madr.ro)

MALTA
The Food Safety Commission was instrumental and succeeded in bringing together all the Government entities working in the field of food and feed safety. Sensitive issues relating to food and feed safety are now being discussed and agreed upon within the structure of the Commission. This is in sharp contrast to past practice whereby these issues were individually handled by the separate entities. The high profile representatives from the various Governmental entities give a compact structure to the Commission. This provides a broader perspective to food and feed safety issues of national importance, enhances synergy of expertise within the Commission, eliminates overlapping of responsibilities and avoids the formulation of black spots. The Commission played a pivotal role in the area of food and feed safety prior to Malta’s accession in the EU. It was instrumental in the harmonisation of the national food and feed safety laws and advised on the impact these may have on the local industry.

Commission members regularly attend to international meetings and symposia relating to food and feed safety and actively participate in working groups thereof. Since it was set up, the Commission regularly met in excess of 180 times.

On a regular basis, the Food Safety Commission deals with queries, requests and other correspondence emanating from the various sectors of the food industry, both local and foreign. The need for new legislations and proposed new legislation is discussed within the Commission.

Best practices
Following the successful completion of a Twinning Project under TF 2004 ‘Strengthening the overall capacity of the Department of Public Health to enforce the control of the foodstuffs acquis,’ the Department of Public Health has a number of HACCP Auditors and a well equipped Public Health Laboratory. Thus equipped, the department of Public Health is now in a position to perform HACCP Audits of retail food outlets as well as in the food manufacturing and processing industry. This is the first line of audit to safeguard food and feed safety in line with the foodstuffs acquis.

With the completion of the twinning light project under TF 2006, ‘Auditing the Authorities represented within the Food Safety Commission’, the various Competent Authorities represented within the Food Safety Commission, now have a number of internal auditors capable to implement an audit process within their separate entities as required by Article 4(6) of Regulation (EC) 882/2004. This will ensure that the obligations and responsibilities of the various departments within the Food Safety Commission are properly planned, implemented, documented, regularly monitored and revised.

Health Inspectorate Services aided by the Charter Support Unit of the Office of the Prime Minister laid down a Quality Service Charter for the Health Inspectorate Services. With this charter the Health
Inspectorate Services committed itself to provide a quality service with respect to Food premises inspections and Investigation of Complaints including food related complaints.

Apart from the Quality Service Charter quoted above, the Department for Environmental Health issues and maintains, on a regular basis, standard operating procedures in the form of Guidelines to Health Inspectors in order to harmonise and reduce the subjectivity of the inspections being done. Guidelines are maintained and updated on a regular basis and in accordance with the requirements of new legislation and as discussed during regular monthly management meetings between Principal Health Inspectors and the Director for Environmental Health. The guidelines are approved by the Food Safety Commission.

Inspections of food premises are based on a risk grading system, which uses scores from previous inspections to calculate the risk associated with the premises. Inspection frequencies range from a minimum of once per year to once per month in the case of higher risk.

**Expertise:** The Food Safety Commission / Dept. for Environmental Health / Veterinary Regulation fisheries Conservation Control Division / The Malta Standards Authority.
22. RENEWABLE ENERGIES

ESTONIA
The Estonian electricity market is very much concentrated and oriented mainly towards one energy source - oil shale. The significance of other sources, including renewable sources, is low. However, Estonia's entry into the European Union influenced its emphasis on renewable energy and the share of renewable sources is growing steadily. The potential of Estonian renewable energy primarily means combined heat and power production based on biofuel and the wind power; at the same time small-scale hydropower industry is developed. The main renewable energy sources support measure in Estonia is the obligation of the grid operator to buy renewable energy sources at feed-in tariffs. Important renewable energy sources support measures also include the investment subsidies and support for technological investments by the European Union and state budget. The trade in greenhouse gas allowances is also a noteworthy support measure. The Green Energy certificate system is a voluntary renewable energy sources support mechanism of secondary importance. (http://www.tarkco.com/upload/File/Pages%20from%20IELTR07_10_171-227-6Imbi.pdf)

Expertise: Institutional: 1) Ministries of Economic Affairs and Communication, Agriculture and Environment; 2) Estonian Windpower Association – Academic: Tallin Technical University

LITHUANIA
Activities in the Lithuanian sector of renewable energy started before the EU accession however acquired intensity already in the period after accession. According to the Act of Bio-fuel and bio-oil adopted July 18, 2000(No. VIII-1875) the Ministry of Agriculture was made responsible for the development of production of liquid products obtained from bio-mass. Since the adoption of the Act and especially after the EU access, Lithuania has made considerable success in the sector. The production of bio-fuel in Lithuania started in 2004 and their production in that year was only 3900 tons. In 2008 annual production of bio-fuel increased up to 81000 tons, i.e. there has been the growth of 20 times since the EU accession. The plans for 2009-2010 foresee considerable increasing production which should grow up to 200000 tons at the end of the period.

Currently Lithuania has 5 bio-fuel factories. The largest of them is UAB “Mestilla” with the annual capacity of 100000 tons bio-diesel. In 2009-2010 three new enterprises should start production.

Positive results in the production of bio-fuel have been obtained through rules establishing favorable conditions of support for bio-fuel producing entities and through promoting them by legislation. The state supports both growers of energetic plants and producers of bio-fuel. The order No. 3D-417, July 25, 2008 of the Minister of Agriculture has approved the financing rules for the development of bio-fuel production which provide for the partial compensation of rape-seed and grain purchase prices (15-20%). The subsidy for 1 ton of rape-seed and grain are respectively 160 Litas and 114 Litas. The Ministry of Agriculture provides support for energetic plants used for bio-fuel production. The state agencies have paid respectively 14.5 and 9.98 million Litas for crops of energetic plants declared respectively in 2007 and 2008. Moreover, the Lithuanian legislation has established obligatory admixture of bio-fuel into fossil fuels. The Act on Excise provides for zero tariff for bio-fuel.

One of sources of bio-fuel especially for smaller heating facilities is plants of short-term vegetation, such as willows, osiers or asps. Areas under plant of short-term vegetation have already reached 500 ha, and should grow up to 3000-3500 ha in 2007-2013. The Rural Development Plan for 2007-2013 provides for support of short-term vegetation plant cultivation in agricultural land, non-agricultural land and in neglected agricultural land.

Best practice: UAB “Mestilla”
One of examples of successful activity in the bio-fuel production is the activity of UAB “Mestilla”. It one of the biggest producers of bio-fuel in Lithuania, founded in 2005 and expanded in 2007 after the implementation of an investment project of 130 million Litas. In the framework of this investment project, the company has built a rape-seed methyl ether (bio-diesel) plant, one of the most modern in Europe. Currently the enterprise is owned by “Linas Agro” group. The production of ecological bio-
diesel fuel is 100,000 tons annually. The raw materials for this product are produced by Lithuanian farmers which are encouraged to produce more rape seed since the enterprise has capacity to purchase and process 50% more rape-seed than is currently produced in Lithuania. The bio-diesel produced by the plant is placed in Lithuanian and Western markets. UAB “Mestilla” is a member of Lithuanian Bio-Fuel Association and actively takes part in creating National Platform of Bio-Fuel Technologies. By its bio-fuel production the enterprise contributes to energy policy goals of Lithuania and the EU set in the White Paper “Energy of Future: Renewable Energy Sources“ defining the EU energy policy strategy and action plan, the Kyoto Protocol, Lithuanian Act on Energy Policy and National Strategy of Energy Policy.

**Expertise:** 1. Ministry of Agriculture (Department of Infrastructure, Land Reclamation and Cooperation, Cooperation and Bio-fuel Division); 2. Lithuanian Agricultural University (Chemical and Biochemical Laboratory of Environmental Technologies, Institute of Environment); 3. UAB „Mestilla“

**CZECH REPUBLIC**
The Ministry of Agriculture of the Czech Republic is responsible for the renewable energy from biomass of agricultural origin. The Ministry is therefore preparing support RES (renewable energy sources) through 3 ways – legislation innovation and implementation of EU regulations, direct subsidies for plantation of energy crops and subventions for farmers into technologies for utilization of energetic biomass.

Legislation support on one hand mainly consist in duties for obligatory blending of biocontents in the transport fuels and on other hand in advanced prices for producers of green energy.

As direct subsidies for plantation of energy crops are in The Czech Republic used only subsidies from the EU framework, Czech Republic doesn’t use any national subsidy (also because of the EU rule for subvention duplicity).

Subventions into technologies for utilization of energetic biomass are available for Czech farmers in the framework of Rural Development Program of Czech Republic. These subsidies concern mainly financial support up 40 % for purchase of biomass utilization technologies such as biogas stations, furnaces or pellet and granule manufacturing machines.

**Expertise:** Ministry of Agriculture

**SLOVAKIA**
Slovakia purchases about 90% of all the primary energy resources from third countries. The only major energy resource that comes from domestic sources is low quality brown coal. That is also a reason why the renewable energy e.g. biomass, water, geothermal energy, solar and wind power are of high importance.

The usage of the RES has grown in the last decade. The share of the RES has reached in 2007 the value of 5,3% of the gross domestic power consumption. However this growth is still not enough to fulfill the potential and the national goals in this field (the goal set in the Energy Strategy and Policy of the Slovak Republic up to the year 2010 –adopted in 2006 - was to achieve 12% of RES of all energy sources by the end of 2009). In Slovakia, solar and biomass energy have the highest growth potential.7

**Expertise:** Institutional: 1) Slovak Innovation and Energy Agency (Ministry of Economy); 2) Slovak Environmental Agency (Banska Bystrica); 3) Institute of Geotechnics of Slocak Academy of Sciences

---

7 The response to the questionnaire provides data about usage of various renewable energy sources in the country – water/hydraulic, solar, biomass, wind – and financial support schemes available for promoting the use of solar and biomass energy. It also provides a list of official documents – concepts and other policy documents, strategies, action plans and and legislation - as well as a list of governmental, and academic/research institutions and non-governmental organisations implementing activities or otherwise playing a role in the field of renewable energies.
(Kosiče); Academic: 1) Renewable E. Centre of Kosiče’s Technical University; 2) Thermal Energy Institute of the Faculty of Engineering in Slovak technical University (Bratislava); Non-governmental organisations: 1) Energy Centre Bratislava; 2) Civic Association SAB (Bratislava).

HUNGARY

Practical experiences
Starting before ’98
• Good data about renewable energy sources (potential)
• Short rotation coppice (on marginal land)
• Briquette for heating

After joining the EU
• New varieties of energy plants
• Economic aspects of bio-energy production and utilization in Hungary
• Knowing of technologies and technical solving of different renewable energy utilizations
• Solar (especially solar heat and small scale) and wind energy (large and small scale)

Best practices:
Starting before ’98
• Thermal energy utilization in agriculture
• Short rotation coppice (on marginal land)
• Research activities and results in different areas of renewable energy utilization

After joining the EU
• Starting of small scale bio-fuels production
• “Agro-pellet” production for heating
• Biogas production from biomass-mix

Expertise: Hungarian Institute of Agricultural Engineering (FVM-MGI)
Hungarian Forest Research Institute (ERTI)
Agricultural Economics Research Institute (AKI)
Szent István University
University of West Hungary
University of Debrecen
Károly Róbert College
V. REGIONAL AND LOCAL DEVELOPMENT

LATVIA

Elaboration of specific policies in support of regional and local development began in 1996. A law passed by the Parliament (Saeima) in 1997 provided for the identification of "specially supported regions". Decisions on granting "specially supported region" status were made by the Cabinet of Ministers, based on a combination of a) objective social and economic indicators and b) the quality of development plans submitted by the local government. The number of territories approved as "specially-supported region" was 84 in 1998 and 135 in 2000. By the end of 2000, the number of territories having applied for "specially-supported region" status had risen to 143, and 135 of these applications had been approved. Around 90% of all administrative territories in the Latgale region are approved for this special status.

The main instrument for the development of the specially supported territories was the national Regional Fund. The task of the Fund was to favour entrepreneurship in these territories by financing projects, both private and public, that generate employment and promote growth of living standards. Apart from direct financial support for projects, there was also an information/education programme aimed at entrepreneurs and local governments. Experience has shown insufficiencies in the capacity of local institutions and entrepreneurs to draft project proposals and to deal with institutional procedures.

Starting from the year 2000 the Phare National programme provided funding for investments to be directed into economic and social cohesion and aimed at reducing regional disparities within the country. The Government identified Zemgale and Latgale region as the target regions eligible. The Phare 2001 National programme was available for all regions and was started in the beginning of 2003.

Until 2001, competence for regional development was split between different ministries and agencies. To improve the implementation structures of regional policy, in January 2002 the following institutions were merged under the umbrella of the Ministry of Finance: the Secretariat of the Minister for Special Assignment for Co-operation with International Financial Agencies, the Regional Development Department of the Ministry of Environmental Protection and Regional Development; the Division of Regional Structural Policy of the Department of Entrepreneurship of the Ministry of Economy, and Regional Development Ltd. As a result of reorganisation, the Directorate of Regional Policy and Planning was created as an institution under the supervision of the Ministry of Finance.

The Regional Development Law adopted in March 2002 defined the general framework for regional policy and included provisions related to the implementation of the Structural Funds. The Law defined the hierarchy of planning documents for regional development, including the National Development Plan as a national regional policy-planning document for a 7-year period, which will be used as a reference document in the elaboration of the Draft Single Programming Document. It also determines the institutional framework for the co-ordination of regional policy between national institutions and planning regions, providing the basis for the national, regional and local partnership in the implementation of the Structural Funds. The Law authorised the Government to adopt secondary legislation defining the management, monitoring and control system of the Structural Funds and the Cohesion Fund. It provided for the establishment until mid-2003 of the National Regional Development Council (NRDC) for the co-ordination of regional development and spatial planning at the national level, to be chaired by the Minister Responsible for Regional Development. Since the Regional Development Law replaced the law “On Assisted Regions”, it included provisions on the status of the specially assisted territories and the possibility to support these territories through the Regional Fund.

The Regional Development Law requires that in order to provide regional planning, co-ordination and co-operation between the local governments, 5 planning regions - Kurzeme, Latgale, Riga, Vidzeme and Zemgale should be established. The Cabinet of Ministers should confirm which territories are included in each of the five planning regions. Once re-defined, the territories of the five planning regions correspond to the NUTS III division of the country.
ESTONIA

Regional differences in Estonia are quite significant even at international scale, despite the small territory of the country. Characteristic is a large difference in the standard of living and competitive ability between the urban region of Tallinn (to some extent also the urban region of Tartu) and other regions in Estonia.

The first regional policy implementation mechanisms were introduced after the restoration of independence in 1991, as regional income tax incentives for new enterprise regions, which were soon eliminated, since they did not result in any significant positive influences under the transition economy conditions of the time. Somewhat later, during the first half of the 1990s, the most important regional policy implementation mechanisms were regional grants for companies for regional development activities, as well as regional loan and tax incentives and subsidies.

The first basic document of the regional policy of Estonia was the Guidelines of Regional Policy approved by the Estonian Government in 1994. In 1996, the first regional development programs were started with the objective of avoiding further polarization in the country’s economy and thereby avoiding the rise of collateral macroeconomic problems, as well as through the support of projects in program target areas, to guarantee the better use of local prerequisites for development. The respective programs directed at local governments, county governments, and non-profit organizations included an outermost regions program, islands program, frontier regions program, support program for the village movement, program for mono-functional settlements, and the Eastern Viru County program (a county in the northeast part of Estonia, with great industrial restructuring needs and a high proportion of non-Estonian-speaking residents after the restoration of independence).

Estonian Regional Development Strategy was completed in 1999 and it elaborated the main ideas of the Guidelines. This strategy, approved by the Estonian Government in 1999, identified the desired directions of regional development, the foundations of the national regional policy, and basic positions for coordinating the regional impact of sectoral policies in the period preceding accession to the European Union.

The Government’s position is that the initiative for development should originate primarily from the local and regional level (in some cases also from the national level). Therefore, the Government is committed to be an active partner that supports the development initiatives from the local and regional level by allocating specific regional policy support to accelerate the development of the regions and ensuring cooperation between the relevant ministries to improve the combined impact of various sectoral policies in supporting the development of the regions.

A new Regional Development Strategy was adopted for the period 2005-2015, which constitutes the basis for regional development policy, programmes and activities and is linked to the National Development Plans prepared as the base for EU’s structural funds support. Some of the regional development programmes envisaged in the Strategy are connected to “Measures” funded by EU funds, but other programmes are funded solely by national and locl budgets (national funding covering a maximum of 80% of eligible expenditure).

**Expertise:** Ministry of Interior – Regional Development Department

LITHUANIA

The social and economic disparities between the counties of Lithuania were constantly increasing during the economic transition period, and first legal document of national regional policy (Regional policy guidelines) was adopted in 1998. One of its objectives was to design, evaluate and implement regional development programmes. First regional development programmes used EU pre-accession support as their main financial instrument. PHARE 2000 Economic and Social Cohesion (ESC) programme was implemented in three target regions (covering 4 counties) of Lithuania – Klaipėda-Tauragė, Utena and Marijampolė counties. Target regions were identified in 1999 after the evaluation of social and economic situation in these regions, in the first National regional development plan (2004-2006), and the provisional regional development plans of the regions were drafted by regional
authorities. Total of 283 business development and human resource development projects were implemented in target regions, 16,5 mln. Euro of the EU support was used. Despite the relatively small amount of support, PHARE ESC became a valuable learning ground of using the EU support for central government, municipalities and local and regional partners. 584 new jobs were created, 18 thus, people obtained new skills, first 4 regional development programmes were drafted and implemented.

Legal background of today’s regional development plans was set in the new Law of regional development (2000, amended in 2002), according to this Law regional development plan became a main strategic document of regional level, aiming at the social and economic development of the region. County governors administration was responsible for drafting of this plan, Regional development councils (comprised of the representatives of municipalities and regional authorities) were adopting these documents. Single methodology of preparing regional development plans was adopted by the Ministry of the Interior in 2002.

In the years 2004–2006 regional policy was becoming more horizontal (using the EU and national support was centralized, the provisions of national regional policy strategy and regional development strategies were considered as a horizontal priorities), except for a border regions, using the specific INTERREG III programme. Regional development plans were drafted and implemented, but their impact on the regional development processes was insufficient due to the lack of direct financial instruments.

The substantial changes took place with a new EU support programming period of 2007–2013: about 11,5 percent of the EU structural funds support is allocated for the regional project planning (regional dimension). The project proposals, selected to finance using this method, must be in line with the development plan of the region, strategic plan of the municipality and approved by the regional development council. This support mechanism provides a better opportunity for the regional and local partners to participate in implementing regional policy and reaching the goals of the regional development plans.

**Best practices:** The experience of implementing PHARE ESC programme and the new project selection mechanism for the EU structural funds support period 2007–2013.

**Expertise:** Regional policy department of the Ministry of the Interior

**ROMANIA**

Before 1990, the communist system in Romania did not allow for a proper regional development, but it promoted a strict subordination of local / county entities before the central power.

As in many of the candidate countries, in Romania, regionalisation was not a spontaneous process, but a need with a view to accession. Therefore, with a view to accession and implicitly to complying with the aquis communautaire Romania needed to align its administrative structure to these agreed by the European Union. This gave impetus to the regionalization of the country. In 1998 the first post-communist law on regionalization was issued, setting up the establishment of eight development regions at NUTS 2 level, through the voluntary association of the counties, municipalities and towns.

In supporting regional development and the promotion of regional projects Law 215/2001 on local public administration envisaged the possibility of creating Intercommunity Development Agencies. These represent legal structures, of private law, set up by administrative – territorial units with a view to jointly develop projects of regional or zonal interest or to jointly provide public services.

This 1998 Law was issued on the basis of several analysis and studies, finalised in a document called the “Green Paper on regional development in Romania”. Taking into account the results of this study, the Parliament voted in favour of Law 151/1998, that proved to be a compromise between the European administrative organization pattern and the Romanian realities in the field. The law sets the institutional framework, objectives, competencies, and specific instruments of regional development policy in Romania. Law 315 on regional development modified the previous law in 2004.
The development regions represent the implementation and evaluation framework of the regional policy in Romania. The status of these regions is regulated by Law 315/2004 on regional development. As defined in the law, the development region, a voluntary association of neighbouring counties, is the territorial unit relevant in the framework of implementation and of regional development policy in Romania. Development regions are not administrative units and have no legal personality. The 41 counties and the capital Bucharest, are set in 8 development regions (NUTS II level).

The regional structures that support regional development in Romania are Regional Development Councils and the Regional Development Agencies. The Regional Development Council coordinates and monitors the development policy at regional level. The RDBs are non-legal entities made up, for each region, by the county council president, a representative of each local council category from each county in the region.

The Regional Development Agencies function at the level of each region, with the main purpose of promotion of regional development. The RDAs are public, non-profit, non-governmental legal entities. The RDAs are responsible for the drafting of the Regional Development Plans, to promote regional interest in different partnership structures, implement regional projects, etc. In the current period, the RDAs were designated as Intermediate Bodies for the implementation of the Regional Operational Programme 2007-2013.

Regions have to draft their own Regional Development Plans in large partnerships. These partnerships are called the Regional Committees for elaboration of the RDP. The Regional Committees are consultative structures and the gather representatives of: prefecture, county councils, deconcentrated services of central institutions, research institution representatives, academic representatives, economic and social partners’ representatives. The Regional Committee works in thematic groups as well as in plenary sessions in order to ensure a balanced participation and representation of local and central administration, and of public and private partners.

The Regional Development Plans for 2007-2013 drafted by the regions foresee a multiannual economic and social development planning and they take into account the provisions of the National Development Plan 2007-2013 and to some extent they supported the underpinning of the Regional Operational Programme funded from structural funds. However, these plans represent a second exercise of regional multiannual planning, as regions drafted RDPs for 2004-2006 in the context of the multiannual framework of Phare ESC Programme 2004-2006.

Expertise:
Ministry of Regional Development and Housing - Managing Authority for ROP
Regional Development Agencies (8)
VI. MANAGEMENT OF EXTERNAL AID

POLAND

The Paying Authority Department (PAD) within the Ministry of Finance was established in 1998 as the National Fund for the EU pre-accession schemes Phare, ISPA, SAPARD.

Since 2004 the PAD has been fulfilling the role of “Paying Authority” for the structural funds and Cohesion Fund, according to the EU regulations on the financial perspective 2004-2006.

PAD is also time involved in non-EU assistance funds or schemes: Financial Mechanisms - Norwegian and European Economic Area (EEA) and the Swiss-Polish Co-operation Programme. PAD is involved in developing and functioning of the national system of public finance and it has also a significant influence on creating legal acts concerning the state budget, especially in relation to the EU funds. PAD has gathered vast experience in the management of foreign assistance during the transition period and – after the EU accession – on the financial management of the EU funds of all kinds.

PAD has the significant experience as both “student” and “tutor” – it was the beneficiary and, as well the service provider in many of “technical assistance” or “twinning” projects.

Experiences, tasks and responsibilities include:

a) Paying/Certifying Authority

- Verifying declarations of structural funds expenditure submitted by Managing Authorities;
- Certifying on-going payments and requesting for funds from the European Commission;
- Providing the EC with annual forecast of expenditure for the current and next year;
- Gathering statistical and financial information and data;
- Creating general management systems for EU funds (and other assistance) in cooperation with relevant institutions, including legislation;
- Establishing a comprehensive IT system to collect and process data on EU funds spending in Poland;
- Executing audits and controls in some institutions, according to requirements of the EU and national regulations (checks of system, check of transactions).

b) Financial management

- Financial transfers, financial management, accountancy – for domestic resources accompanying external assistance, income forecasts, expenditures limits;
- Pre-financing scheme – setting procedures, execution;
- Co-financing schemes, setting procedures, allocations from a special budgetary reserve;
- Recovery of incorrectly spent funds;
- Financial monitoring of schemes, programmes and projects implemented;
- Monitoring and management of exchange rate fluctuation and deciding on overcontracting;
- Preparing financial analyses and forecasts;
- Creating domestic financial system and public finance act - rules on interrelation between state budget and external assistance funds, in co-operation with other MoF departments;
- Developing a model of internal system of effective control over spending of funds coming from public sources, with particular emphasis on the control over EU funds;
- Giving opinion and/or approval for submissions requesting budgetary financing related to external assistance;
- Procedural and legal assistance for other bodies involved in the implementation of various schemes, and for beneficiaries, as well

This section heading was not included in the questionnaire sent to the MSs and therefore not all of them had an opportunity to contribute with responses related to their own experience in this field.
• Executing audits and controls in some institutions, according to requirements of national regulations (checks of system, check of transactions).

PAD's institutional experience as the service provider – some of technical assistance and twinning projects led by PAD abroad, with PAD personnel as experts

• Twinning Phare RO 05 IB/FI-03 “Strengthening the capacity of the Certifying/Paying Authority to ensure sound financial management of the EU structural funds”, implemented 2007-2008
  • Beneficiary – Romanian Ministry of Economy and Finance. PAD as a Lead Partner, in consortium with the UK government. Budget – euro 0.8 million. Completed successfully, 20 experts from PAD involved.
  • Beneficiary - Government of Ukraine, Secretariat of Cabinet of Ministries. Policy advice on developing European Integration Coordination and EU-Ukraine negotiations management. Developing institutional capacity in Government. Service provider – the British Council. The PAD experts were involved in the Project. Total budget of the project GBP 0.75 million. Completed successfully.
  • “Setting up a Coherent System for the Structural Funds and Cohesion Fund in Bulgaria for the Managing Authority of the Community Support Framework and the Single Paying Authority for the SF and the CF”, implemented 2005-2006.
  • Beneficiary – Government of Bulgaria, Ministry of Finance. Developing and strengthening the institutional capacity, development of practical knowledge and operational procedures. Service provider – the UK Government – Office of the Deputy Prime Minister. Budget – euro 1.3 million. The PAD experts were involved.
  • The PAD currently shares its experience - several study visits and secondments were hosted from Serbia, Albania, Montenegro, Macedonia, Romania and Belarus. Various procedures and systems were being presented and explained, advice given and best practices shown.

**Expertise:** Paying Authority Department (Ministry of Finance)

**SLOVAKIA**

**Bilateral Aid**

In the transition period 1993 – 1999, the bilateral aid was an important tool of promoting political stability, democracy and economic reforms in the Slovak Republic. The Ministry of Foreign Affairs of the Slovak Republic was a coordinator of the foreign bilateral aid. The aid had a character of investment (infrastructure) projects or non-investment (training programmes) projects.

Examples of cooperation:

• Swiss-Slovak cooperation based on bilateral agreement (1993) and focused on the financing of environmental projects (hospital waste incineration plants in Slovakia),
  • Flemish - Slovak cooperation with the priority areas: agriculture, environment, transport, public health, regional development, SMEs, tourism, trade, migration, corruption, training and education,
  • Dutch - Slovak cooperation: MATRA Programmes, etc.

Pursuant to the Government Decree No. 299 from April 4, 2001, the competencies in the area of the coordination of the bilateral aid programmes were transferred from the Ministry of Foreign Affairs of the Slovak Republic to the Office of the Government of the Slovak Republic.

**Management of the EU Assistance**

Slovak Republic started to utilize the pre-accession help of EU in the beginning of 90s. In that time most of the assistance was made available through the PHARE programme. Later in the year 2000, two more instruments - ISPA and SAPARD - were brought in.
Aid Coordination Unit (ACU) at the Office of the Government of the SR (OoG) has practical experience with coordination of the pre-accession funds (PHARE, ISPA, SAPARD), Transition Facility and bilateral programmes provided by the European Union and EU member states. The ACU was involved in all four stages of the project cycle management, i.e. Programming, Implementation, Monitoring and Evaluation of EU funds.

National Fund within the Ministry of Finance is the Central treasury entity through which the Community funds was channelled towards the Recipient. National Fund is under the responsibility of a National Authorising Officer, which is an official of ministerial or state secretary status, appointed by the Recipient. The National Authorising Officer has overall responsibility for financial management of Phare funds. He ensures that the Phare rules, regulations and procedures pertaining to procurement, reporting and financial management are respected, and that a proper reporting and project information system is functioning.

Programming of all pre-accession instruments (PHARE, ISPA and SAPARD) was based on the Accession Partnership and on National programmes for the adoption of the acquis communautaire in respective candidate countries.

PHARE and ISPA were managed since their introduction in Slovakia under DIS (Decentralised Implementation System). Final goal was to implement EDIS (Extended Decentralised Implementation System). All projects applying for assistance in 2003 had to be prepared based on EDIS. EDIS delegated more responsibility to partner country. Ex-ante control in DIS included approval of the tender's content, approval of composition of evaluating committee, control and approval of evaluation report. It is understandable, that EDIS was implemented later, only after country have gained several years experience with administration of high financial grants from EU.

SAPARD assistance was from the very beginning implemented under EDIS, what means that the responsibility for administration of the program was fully entrusted to the Slovak Republic and the European Commission executed only ex post control.

In 1998 a Central Financial and Contracting Unit (CFCU) was established in the Ministry of Finance of the Slovak Republic with the following main tasks: tendering, contracting and payments. It has significantly contributed to the simplification and acceleration of the implementation process of the programmes. CFCU also facilitated the participation of those institutions in the programmes which did not have the Programme Management Units and staff trained in procedures of implementation of PHARE.

Establishment of SAPARD Agency in 1999 and launching of its activity prepared very good foundation for functioning of Agricultural Paying Agency after accession of the Slovak Republic to EU. Employee turnover in SAPARD Agency was not of any significance; there was also philosophy of further education and increase of employees’ qualification. Based on information from entrepreneurial sphere and experience gained through implementation of SAPARD programme, the partial changes of ‘The Plan of Development of Agriculture and Rural Development in Slovakia’ were made. Thus the feedback worked quite well.

Please note that the experience with pre accession funds has been applied and used in structural funds management in a very limited scope.

Lessons from Slovakia’s experience with the management of EU’s pre-accession assistance

Experiences have shown that programming should be based on multi-annual principle. Due to annual principle many projects, particularly from PHARE, were submitted insufficiently elaborated. Further it was shown that it is necessary to constantly invest to administration capacity development and human resources development. Involvement of non-governmental organisations was very low, which was a weak point of the performance of governmental bodies.
Also the need for a precise formulation of objective verifiable indicators of achievement (OVIs) following the SMART methodology was identified as crucial for the monitoring and evaluation purposes. The ACU organized several trainings on logical framework approach and formulation of measurable indicators and had to undergo an exercise of modification and reformulation of almost all OVIs in 2007 – 2008 programmes. Fulfillment of competencies related to roles and responsibilities of the key participants in the programming process is necessary. Identification of main programming documents as the basis for preparing the project proposals is also crucial. ACU has also organized seminars for improving the design of PFs in the programming phase.

In the programming phase, the need for good and realistic planning of contracting and implementation milestones of projects is one of the key lessons.

System of on the spot monitoring visits (OSM) should be introduced and established even during the implementation and mechanism for dealing with irregularities should be in place. Emphasis should be put on archiving of files for the purposes of ex-post monitoring, evaluation and audit.

Monitoring and evaluation should be the main tools for:
- Improving Project Design:
  - achievable objectives,
  - recognition of factors critical to project's success,
  - measurable indicators and sources of verification,
- Reinforcing Absorption Capacity
  - staff shortages, turnover of staff, training packages,
- Ensuring a better spread of implementation during the project's lifetime by avoiding last-minute contracting,
- Streamlining Assistance Delivery Methods,
- Developing Evaluation Culture:
  - mechanism for feeding back evaluation results, from a regulatory obligation to a tool of democracy.

**Twinning Experience**

Slovakia benefited from Twinning since its introduction in 1998. Twinning proved itself as an essential instrument for the development of efficient public and state administrations performing according to EU standards. Around 100 Twinning and Twinning light projects implemented in Slovakia were highly relevant in providing guidance to Slovak ministries and their subordinated bodies in various areas related to harmonization of national legislation with *acquis communautaire*.

After its launching, Twinning was coordinated by the Aid Coordination Unit (ACU) within the Office of Government, where the National Contact Point for Twinning was established. The overall coordination of this instrument was later transferred in line with EC requirements to the Administrative Office for Twinning, in Slovakia formed by two institutions (the Central Financing and Contracting Unit responsible for financial management of Twinning projects, contract signature, etc. and the ACU with
the NCP for Twinning responsible primarily for circulations and selection processes). Despite the split of functions, Administrative Office worked in a good pattern.

Best practices and lessons learnt from Twinning-in projects:

- TW/TWL is highly relevant for harmonisation and enforcement of various areas of _acquis_ (application of concrete Directives in practice, implementation of EU standards), notably in those where other instruments such as technical assistance (private consulting companies) cannot adequately address often highly specific topics (Justice and Home Affairs Sector). On the other hand, TA seems to fit better to rather technical areas of assistance and/or in situations where the beneficiary lacks absorption capacities. Decision on appropriate implementation instrument respecting the project objective is crucial since the mistake in programming phase can result in unsuccessful circulation (limited expertise available on MS side, MS experts workload in their own institution) or low performance of the private provider (missing deep knowledge about the topic of the project).

- Respective beneficiary administrations, besides declaring their political will to execute reforms, should always allocate adequate capacities to enable smooth implementation of projects. This is especially important in case of Twinning where close cooperation with MS partner(s) is one of key conditions that affect successful achievement of mandatory results and the absence of staff, its high turnover rates and vague ownership of the project might endanger the Twinning collaboration.

- Despite the fact that selection meetings are organised by AO, EC Delegation or other coordinating body, recipients of the assistance should be well prepared for the selection process, having at least basic knowledge about Twinning procedures. The selection meeting represents unique opportunity to meet potential partners and discuss their proposals. The selection committee members should know the project, its aims and activities, requirements on experts etc. by heart and should be familiar with individual proposals so that they can concentrate on particularities or unclear parts of each bid rather than spending time on general questions. Furthermore, RTAs and PLs play an important role in delivering planned outputs. Therefore personal contact and chance to meet the future counterparts prior to actual implementation of the Twinning project are inevitable, because personal discrepancies between the core personnel of beneficiary and partner administrations can negatively influence whole implementation process and eventually lead to the replacement of the RTA or the PL.

- The role of the RTA is a key factor in delivering the planned outputs. Flexible RTA represents a real added value, often willing to provide ad-hoc assistance and also extra-twinning activities. Being the interlink between the MS organization and beneficiary institution an RTA Assistant can enhance performance of the RTA helping with his/her immersion in the local environment.

- Consortia of partners are usually characterized by administrative and organizational challenges; however, they are often necessary in implementation of complex areas of _acquis_ and comprehensive reforms. In such situations it is beneficial to receive assistance from more than one MS, thus complementing different best practices. On the other hand, if the individual responsibilities of consortia partners are poorly defined and/or split of tasks are not effective, underperformance is a result.

- Good Twinning partnerships tend to last also after the completion of the project in different forms of bilateral cooperation and usually lead to selection of the same partner in follow-up Twinnings.

Government office of the SR
Department of Management and Implementation of EC Assistance
Ms. Denisa Vasarabova Kutyova (Director), Ms. Sona Gabcova (Twinning), Ms. Marianna Macaskova (Monitoring & Evaluation), Ms. Sona Stibrana (IPA coordination, bilateral programme).

Expertise (institutional)
Government office of the SR
Department of monitoring and evaluation of foreign financial assistance (Ms. Denisa Vasarabova Kutyova, Ms. Sona Gabcova)
Department of international cooperation and providing foreign assistance (Ms. Sona Stibrana)

additional contact

Ministry of Finance of the Slovak Republic
Mrs Marcela Zubriczká
Director General
Section of European and International Affairs
23. APPENDIX : SOURCES OF INFORMATION
The primary source of information for the elaboration of this document (the ETC) were the written responses received from the countries (Ministries of Foreign Affairs / development Cooperation Departments) to the questionnaire forwarded by the Commission (DG DEV) in June 2009. Additional documents were enclosed to some of the responses; and in other cases references to documents and sources available on the internet were inserted. Also, some documents and materials were provided during the country visits carried out in September-October 2009. What follows is a non-exhaustive list of such documents and sources (not all of them were found relevant for the purposes of the ETC), also including other sources searched and used by the consultant for the elaboration of the Compendium.
24. PUBLICATIONS

• “Latvia: Entering the XXIst Century, Economics, Integration, Finance”. Roberts Zile, Inna Steinbuka and others. Published by Nacionalais Medicinas Apgads Ltd. with financial support from EC Delegation in Latvia. Riga, 2000


• “Transformation: The Czech experience”, (several authors). Published by “People in Need” (development NGO) with the support of the Ministry of Foreign Affairs of the Czech Republic. Prague 2006 (available in 6 languages at http://www.clovekvtisni.cz/index2en.php?id=62 )


• “Reforming repressive state apparatus: the central European experience” (several authors) Proceedings of the Seminar held in June 2007, organised by “People in Need” (CZ), Pontis Foundation (SK), and Polish & Hungarian Helsinki Committees, with the support of the Czech Ministry of Foreign Affairs and the Open Society Institute’s “East-East Program”. Published by “People in Need” (development NGO). Prague, 2008 (available at http://www.clovekvtisni.cz/download/pdf/141.pdf )


• “Priority areas of development cooperation by the Republic of Lithuania; and best practices”. UNDP-LT, 2004


• “Public Administration in the Czech Republic”. Ministry of Interior of the Czech Republic, July 2004.


Articles

• “The Baltic Tiger: the political economy of Estonia’s transition from plan to market”, by Mr. Friedrik Erixon, Director of the Brussels-based European Centre for International Political Economy (ECIPE). Available at http://www.ecipe.org/publications/ecipe-working-papers/the-baltic-tiger/PDF

“Amidst Centripetal and Centrifugal Moves: The Ongoing Transformation of the Baltic States”. Veiko Spolitis. Head of European Studies and International relations Programme at Riga Stradins University (copy provided by the author).


“Local Government in Estonia”. Sulev Mäeltsemees. Published in “Local Governments in Central and Eastern Europe – Decentralisation: Experiments and Reforms” (copy provided with contribution to ETC by Estonian MFA).

“Methods and Techniques of Managing Decentralization Reforms in CEE Countries. The Polish Experience” (Michal Kulesza) and “Local Government Reform in Poland: an insider’s history” (Jerzy Regulski), both published (in 2002 and 2003) by the Local Government and Public Service Reform Initiative of the Open Society Institute, Budapest.

Other documents and reports

“Memorandum of the Government of the Republic of Hungary to the European Commission on the Application of the Republic of Hungary for membership of the European Union”. Budapest, 22 April 2004 (Copy provided by Mr. Egon Dienes-Oehm, Senior Advisor, MFA)

“Joint Assessment(s) of Employment Priorities” signed by the European Commission and the Governments of Estonia (March 19, 2001), Latvia (February 6, 2003), Lithuania (February 12, 2002), Poland (date unknown), Czech Republic (May 11, 2000), Slovakia (November 26, 2001), Hungary (November 16, 2001), Slovenia (July 18, 2000) and Romania (October 28, 2002).

“Joint Memorandum(a) on Social Inclusion” signed by the European Commission and the Governments of Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary and Slovenia (all of them on December 18, 2003),


Summaries of the contents of “Progress Reports” produced by the EC for each one of the candidate countries, from the publication of the Commission “Opinions” of 1997 to 2003 (2005 for Romania), by countries and by aquis areas. Available at http://europa.eu/legislation_summaries/enlargement/2004_and_2007_enlargement


“Local Government in Estonia”. Department of Local Government and Regional Administration. Ministry of Interior. (copy provided as part of contribution to ETC received from Estonian MFA).

Documents about EU-12 Development Cooperation


Websites

Estonia’s Development Cooperation and Humanitarian Aid (MFA): http://www.vm.ee/?q=en/taxonomy/term/55


Lithuania’s Development Cooperation and Democracy promotion (MFA): http://www.urm.lt/index.php?780621113

Polish Aid (MFA): http://www.polskapomoc.gov.pl/Main.page.160.html


Slovak Aid (MFA): http://www.slovakaid.sk/en/


Romania’s Official Development Assistance: http://www.aod.ro/