

Structural reforms and economic growth, with a focus on good governance

As the country reaches the end of the second decade of transition towards a functioning and competitive market economy, it is probably the right time to debate on how the values of equity, citizenship, and service will be sustainable on the next generation.

An enormous change has happened to our society; a cultural, social and economic change, which has no precedent in our history; we enjoy today living in a much wealthy and prosperous nation than ever before. But, at the today's speed of change at global level, very fast "today's modernity becomes tomorrow's antiquity", as Fukayama puts it.

As human needs evolve from satisfying material needs to quality of work and quality of life, - these are values beyond the state and the market, suggesting there are limits to both. But, "hopefully" we are not yet at these frontiers of perfection. The state and its institutions, as well as the markets, are in great need of deep, profound changes, to improve the health of our society and bring our nation at the modernity of 21st century.

With this introduction, let me share with you some of my reflections on the challenges I believe lay ahead of our society and would require an appropriate priority policy response. I am intentionally avoiding discussing the detailed and more technical policy agenda, since there is currently under way a very comprehensive and in depth study on the challenges to sustaining economic growth in the next decade by technical teams of the World Bank. We enjoyed very much the first Country Economic Memorandum produced by this team in 2005 and I shall accept that much of the government program was clearly based on the priority policy responses outlined in that report. I am sure the coming study, which is going to be complemented with investment climate assessment and provide

firm-level evidences on issues of productivity, an area which has clearly been in short supply in the research work up to now. In addition, the report is going to focus strongly on the increased macroeconomic risks and managing such risk to ensure a stable framework for growth and investment.

The bottom-line of future reforms, I believe, lies in the words “*good governance*”, with its definition including:

- Legitimacy – ensured by a pluralistic multiparty democracy
- Accountability – transparent government and independent media
- Competence – appropriate public policies and efficient delivery of services; and
- Respect for the rule of law and human rights.

I would like to talk a little bit in more details on accountability and competence issues, which are more relevant to our discussions of today. But, before doing that, I would like to start with some remarks on the weakness of the mechanisms of checks and balance, which undermines the legitimacy of government and the principles of “good governance”.

If all one hears and often discussed in the daily media are politicized audit reports of the so-called independent audit institution, reports often written at a highly politicized language, we are badly damaging our nation’s long term interests. These “watchdog” institutions shall develop the appropriate framework and tools to measure the value for money of public spending. If they have no methodologies and have not developed evaluation tools, how can they come to derive “policy neutral” conclusions? Conclusions which comes under public scrutiny but given their political language and lack of sound professional standards, they can easily be discredited on the public opinion and loose their power as instruments of self-correcting mechanisms and of improving government accountability.

At this point, I would like to put forward some ideas, derived from the best practices of other developed nations:

- Why not introducing the practice of hiring private audit companies to audit the government agencies accounts? Wouldn't this give more credibility to the audit reports and their findings are more influential of the public opinion? Let these auditors be selected and contracted by the national audit office and the government agencies shall pay for this service to audit office and not the auditors.
- Why not to reconcile with the Ministry of Finance on the accounting standards and develop joint manuals on financial management by public institutions, rather than each institution tries to demonstrate its muscles?
- Why such Parliamentary institutions do not build proper mechanisms with Parliamentary structures, both to enhance credibility of their work, as well as give a chance to institutions affected to report to a collegial and high level body, rather than going to public before it has gained its integrity by another check of quality control of such reports?
- If there are not developed regulations and manuals on judging the "value for money" of public spending, how then on earth can the audit reports be safe of being politicized?

I am coming back from a study fellowship in the UK, a country which is pioneering the work on shifting from the audit of institutions to audit of services to citizens. And this is the proper 21st century kind of challenge, rather than a simply highly controversial financial audit. The government itself shall introduce a Comprehensive Public Spending review as a tool of increasing the transparency of public money and how effectively we are using the taxpayer's money to improve the quality of services to our citizens.

This shift is very critical to re-engineer the democratic renewal and participation of population on the democratic processes. Otherwise the politics is going to lose more the popular support and less and less people are going to participate in democracy. And this in a country of the youngest democracy.

Having said that, allow me to go to the core of my presentation of today - government and the public administration.

In his recently published book on challenges to 21st century of public management, Drucker wrote that, “the most innovative, entrepreneurial people, behave like the most time-serving bureaucrats or power hungry politicians, six months after they have taken over the management of public institution.” The implication of this citation is enormous: The problem is not the administration; is the system in which it operates. The public procurement process does not make that flexible public spending. These “rigidities” do not give incentives for “entrepreneurial” type of behavior. I believe that if we want our schools and our hospitals be better, there shall be much more decentralization; we shall bring these services to the scrutiny at the community level, with some power of planning and management of development objectives, quality control and budget spending. Why not, for example, give more power to spending money to every school, its management board, composed of all stakeholders (local government, parents, and the community of teachers) and let the board be responsible for the quality of management of the school and its resources. I am just taking one element of a deeper reform of our education system, of which I am probably only able to underline its critical importance for the future of our nation.

Touching on such kind of reform as how to include community and public in general in policy making and implementation, we are entering the area of devolution of powers down at local level. This is not just a “trendy” or “fashionable” policy orientation. It is a lessons learnt by history of democracy and how it works better on the benefit of its citizens.

Leaving aside ideological and philosophical discussions –which we may continue in our academic research and debates, - there is no excuse for not acting upon policies and actions which empower citizens, to enable them take care of themselves and cope with challenges of a modernizing nation. Still challenges to our local authorities are cleaning, paving and lightening streets and painting flats! But we have to look behind the walls of the flats! And there you find depressed families, elder people with no care, children grown up in deprived areas and a degrading environment in our capital - which is going to have tremendous effect on the health of our citizens and communities.

Local authorities shall not understand decentralization as “some more money to procure”. They have to diversify and deliver services at community level, other than frequently used passive social benefits which offer no hope and never enables or empowers people. To build healthy community – which is the mission of local governments – requires an important shift from separate to integrated services, with a direction which goes from paternalism to personalization.

Although in a market economy, the notion of purely perfect market competition, is probably just an assumption used to build a theoretical citadel of positive economics, to borrow the words of Daniel Hausman (*see: Economic Analysis, Moral Philosophy and Public Policy*). These imperfections or market failures provide for the justifications to take care not only of excluded people, but also to supervise the functioning of markets, through better regulation and strong and efficient regulatory agencies. There is no excuse for not having strong institutions, “guardians” of ensuring that free competition is a rule rather than an exemption. Supervisory agencies, such as Competition Commission and other regulatory board on the provision of public goods such as telecoms, energy, water, etc., shall develop capacities and skills to do properly their job.

It is a myth that regulators are independent. No body is an independent body with economic power in democracy. Regulators should obey to rules! They should

become transparent on the way they arrive to decisions, so that the public or economic agents can see the dangers of arbitrariness, if any. They shall display all the facts they consider on getting to a decision. The regulators shall know that there is one indicator enough to judge their performance: prices we pay as consumers and mark-up of companies selling these products.

Talking of private sector development and the business environment, a lot is said and much is done so far, from the perspective of government policies. By this I do not mean it is the end of government further actions, certainly there remains a lot to learn both from our history of successes and mistakes as well as from the history of other nations.

To conclude with these introductory remarks, I think we should look to reality and try to respond in a positive way. It is a fact we are facing a loss of legitimacy of authority in society. Opinion polls and elections poll turnover are clear messages to the political elite of the country. And this is valid and relevant to all parliamentary parties. The rise of critical citizenship is good for the health of democracy, but it shall be read carefully and acted upon!

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