2.4 EVALUATION OF THE REFORM ATMOSPHERE

The developments outlined in the preceding chapters were determined and accompanied by reform measures suggested and implemented by representatives of the citizens elected to public offices at the national and local level. Decisions made by executive and legislative bodies and other public institutions affect the quality of life of the population of the country. The relationship between policy makers and citizens depends on how the former respects the needs of the latter, and vice versa, how citizens are informed about reforms and how able they are to provide their representatives with feedback. This relationship is crucial for the quality of the decisions adopted and their impact upon human development. The following paragraphs of this section present an overview of important measures in the field of economic, politic, and social spheres, as viewed by the expert public (see Box 2.4).

Graph 2.9 is based on the average rating of measures adopted during the corresponding quarter; it documents the development of reform in the society. A decreasing trend can be observed during the monitored period of 2000-2002, which may be attributed to the parliamentary elections. It was during the pre-election period that politicians tended to focus on short-term targets rather than so-called public interests. The adoption of low-quality laws and decisions favoring certain groups of people may be popular though over the long run these actions fail to positively influence the quality of life of the population. As a rule, their negative effects will show up in the income of the ordinary taxpayer being limited, and in economic growth and wealth of the country being slowed down.

Box 2.4
The HESO Project

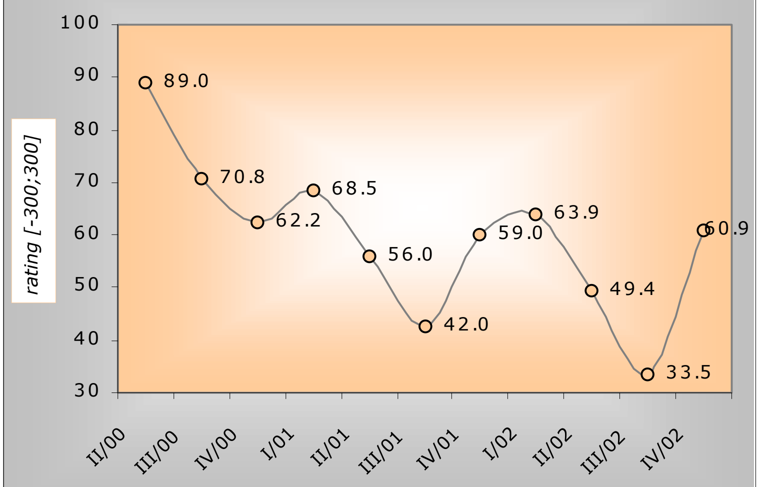
Under the project of the Institute for Economic and Social Reforms, INEKO – entitled Evaluation of Economic and Social Measures (Slovak acronym HESO) – a wide professional public including independent economists, analysts, professional journalists, business people, academic community, non-profit, professional organizations and local government representatives, comment on selected suggested and implemented measures taken by the legislative and executive power as well as on decisions made by public institutions, which may significantly affect the quality of life of the country's population. The comments are taken at regular quarterly intervals. Based on the evaluation made by experts, the measures are ranked by their rating scores, which reflect the opinion of the evaluation commission concerning the quality and importance of the adopted and drafted laws, standards, decisions. The value of the rating suggests which measures and reforms represented and represent an important contribution towards the social and economic transition of Slovakia and which, to the contrary, hinder the process. Since the launching of the HESO Project in April 2000, the evaluation commission has commented upon 252 economic and social measures (see Statistical Annex).

Professional public has kept up its critical commentary on health care, education, and social policy measures. Some concepts included visions of positive change; however, the actual steps remain but fragmented measures rather than systemic initiatives. As an illustration may serve the extension of the ban on executions of health insurance companies and health care facilities. This operative ad-hoc measure was intended to prevent Slovakia's health sector from collapse. In addition, the new University Act turned down tuition fees therefore avoiding a resolution to the burning problem of funding Slovakia's education sector. Keeping the public's wrong idea of "free-of-charge" studies and health services just intensifies the problems and delays of making the necessary decisions concerning a stronger direct participation of citizens in the financing of health care and education.

Evidently, the reform potential and the readiness of the population to accept draconian changes, which were present after the 1998 elections, remains unused. Namely, the commitments of politicians to pursue reforms and to undertake the unpopular steps happened to subside with the approaching parliamentary elections in September 2002. This applies mainly to the absence of the pension reform. Leaving the social system unreformed, populist bidding on the amounts of pensions cannot be eliminated, even if there are no funds to cover the needs, as was the case during the preceding period. Any preferences given to a particular group of the population will eventually have to be borne by the taxpayer. Therefore, financing the increased pensions was dealt with by the government by increasing contributions to public funds. Increasing the contributions alone, while failing to reform the health sector and the social system, will not resolve the accumulated problems, since it only represents "throwing money into a huge black hole". The level of the tax and contributions-related burden rather envisaged a reduction as stated in the Program Declaration of the government. The opposite trend increases the price of labor, acts counter-productively upon the reduction of unemployment, and disfavors economically active individuals.

The principal standard of the labor law, the new Labor Code, is also in contradiction to its declared aims, which are expected to provide for optimum functioning of the market economy, reduce the extent of enforcement provisions, and strengthen the principle of contractual freedom of employers and employees. The new Labor Code has not resulted in the declared improvement of flexibility of the labor market; to the contrary, some of its provisions have made labor more expensive and less flexible, restricted competition, which may result in an increase in unemployment and an increase in the extent of shadow labor. The measures adopted and suggested with respect to employment have frequently been but partial, introducing no principal systemic changes. As already suggested in chapter 2.2, the problem of unemployment and generation of new jobs can be resolved through improving the quality of the business environment and through improved flexibility of the labor market.

Graph 2.9
Development of the Reform Atmosphere in Slovakia (HESO quarterly rating)



Source: *INEKO.*

2.4.1 Measures in the Field of Economic and Political Development

Public Finance

Partial changes were introduced to the management of public finances. New methodology was used to set up the State Budget (so-called program budgeting); this method replaced the sectoral budgetary classification by a program-related one, thus classifying expenditures on programs by the various functions of the government. Budgets over the following years will not lack medium-term fiscal outlooks, which is expected to enable budgeting within a multi-year frame. This is expected to bring about a better approach to measure efficiency of the funds spent, stabilization of their budgeting, stronger responsibility of the sectors in drafting their budgets and following them, as well as making budgetary funds more focused upon government priorities. The State Treasury system under preparation, which envisages centralizing records of revenues and expenditures of state and public administration agencies, should also make a contribution to higher transparency of financial flows of public funds.

During the second half of its term, the government failed to provide for a continuity in the gradual reduction of the public service management. For the time being, the deficit exceeds 4.5 percent GDP (the deficit scheduled by the budget was 3.5 percent).[44] It will be efficient to cut high public expenditures, but this will only be possible after health and social security reforms are launched. Reform of public finances and sustainable reduction of their deficit will be one of the most important tasks of the new government. The aim is to direct public budgets towards balanced management since the ongoing accumulation of deficits may represent major problems for the Slovak economy.

The overall tax- and contributions-related burden (estimated tax-related burden for 2002: 18.6 percent of GDP, contributions–related burden: 12 percent of GDP)[45] is high[46], despite the reduction of direct taxes. A more pronounced reduction without reforms of so-called spending sectors, however, would result in further increase of indebtedness. The shift of State Budget revenues to indirect taxes (excise taxes, VAT) may be viewed positively. In the framework of the accession process, Slovakia will have to continue the gradual harmonization of the tax system by raising excise taxes (on mineral oils, tobacco, alcohol, wine and beer). In addition, multiple tax rates of the value added tax will have to be unified and/or abolished. Attempts to simplify the complex tax legislation (such as introduction of a flat

[44] According to EU methodology, which provides a more realistic view of the standing of public finances, the deficit of the general government approaches 6 percent GDP, the convergence criterion for EU accession being 3 percent GDP.
[45] Source: Chren, M.: Analysis of Public Expenditures and of the Contributions-related Burden in Slovakia; Establishing the Tax Break-even Point. ZDPS, Bratislava (2002)
[46] See, e.g. World Bank (2001), p. 49.

rate tax for small trade licensees) met with general support on the part of the business community; tax legislation includes too many exceptions and has been subject to frequent changes, thus representing a significant hindrance to economic growth.

Financial Sector

The restructuring and the subsequent privatization of state-owned banks (Slovenská sporiteľňa, Všeobecná úverová banka, Investičná a rozvojová banka) represented the principal prerequisite for the recovery and consolidation of the banking sector in Slovakia. The process of the sale of the banks was transparent; however, it was criticized for the high restructuring costs and the method used to transfer classified loans to Slovenská konsolidačná (Slovak consolidation bank). The privatization proceeds corresponded to the quality of the banks to be sold as well as to the interest in comparable bank institutions in neighboring countries. Apart from establishing a sound competitive environment, privatization also brought into the Slovak banking sector foreign know-how of the parent banks. Making credit more accessible and eliminating previous political pressures provided for stability to develop business activities. The nearly completed process of restructuring and privatization of the banking sector can be considered one of the greatest successes undertaken by the government in the area of economic policy in the past four years.

Box 2.5
One Percent Tax Assignment

A novelty in the Slovak legislation is the so-called tax assignment option, which enables physical persons (since 2002) and legal entities (since 2004) to decide to assign 1 percent of the paid tax on income to support specific activities of public benefit according to one's own choice. Even though the current 1 percent tax assignment is but symbolic, it represents a positive precedent and a psychologically important shift from state paternalism towards civil society. The citizens will start to be aware of their responsibility for public affairs, of their powers in managing a portion of public funds, and will show more interest in tax redistribution issues. Out of the total volume of the tax assigned in 2002 (more than SKK 100 million), almost one third flew into non-for-profit organizations in the health sector, and almost 20 percent to the education sector. During the first year of its existence this option to assign one percent of the tax was taken advantage of by more than 325,000 individuals (Source: http://www.changenet.sk).

Privatization

In addition to the successful privatization of the financial sector, space was gradually created for private capital to enter sectors previously considered as the exclusive sphere of influence of the State (gas and power sector, water management, transport, telecommunications). In the majority of cases, privatization of the forty-nine percent stake in state enterprises meant the creation of conditions for improved management, improved efficiency, faster development, as well as elimination of corruption. New owners took over Transpetrol, power distribution companies, Slovak Bus Transport companies, and Slovak Telecommunications. The sale of the forty-nine percent stake in the Slovak Gas Industry (SPP) was of special importance; it represented the most significant privatization decision of the first government of M. Dzurinda. In view of the negative experiences with state influence upon the management of this company as well as of the macro-economic impacts of this historically largest privatization deal (USD 2.7 bn) and/or of the use of the proceeds to pay off state debt and to finance the pension reform, the privatization of SPP was a positive step. It is expected the next government will continue the privatization process for the remaining state companies. Those include the following: water and sewer authorities, Slovak Electric Company, railways and, possibly, the Slovak Postal Service.

The establishment of the regulatory framework for privatized companies of network industries operating in former monopolistic markets represented an important change. The devolution of the competencies with respect to the regulation of natural monopolies and the associated assessment of eligible costs and adequate profits within these utilities to the newly created independent, multi-sectoral authority, Network Industries Regulatory Authority, was assessed positively by experts.

Business and Investment Environment

In the opinion of the business community, the greatest barrier to business in Slovakia includes the poor condition of the judiciary, instability, ambiguity of legal regulations, widespread corruption, significant contributions-related burden, and political uncertainty.[47] Measures which favored a certain partial group and restricted competition were also viewed as hindrances for the development of a good quality business environment (e.g., tax and other concessions granted to foreign investors, the government Program of Support of Slovak Products, draft Act on Trade Chains, the Packaging Act). Negatively perceived were not only the various forms of aid provided to private or semi-private entities

[47] Source: *Report on the Status of the Business Environment – Slovak Republic 2002.* Business Alliance of Slovakia, CPHR, Bratislava (2002).

but also similar initiatives in the form of state guarantees for loans for state-controlled enterprises (such as the railways, the water management construction company). All these represented non-systemic solutions, as they softened the responsibility of managers to take care of efficient management. Enterprises will get accustomed to receiving assistance from the State, and will request it on a regular basis.

Any market-conform measures that attempted to resolve problems of the business and investment environment were met with public approval. The systemic steps contributing to the recovery of the enterprise sector included the draft amendment to the Bankruptcy and Settlement Act, which changed the nature of bankruptcy proceedings from a liquidation-oriented process to a recovery procedure; this strengthened the position of creditors and sped up and simplified the bankruptcy process.

In addition, the extensive conceptual document entitled Improvement of the Legal, Regulatory and Tax Frameworks to Support Business and Investments, brought in systemic measures to improve the business and investment environment; it suggested principal changes to be implemented in several areas (commercial law, secured transactions law, the judiciary, labor law, investment promotion, etc.). The suggested measures were aimed at simplifying the conditions of establishing and operating companies, and concerned, for example, speeding up of the register court proceedings, facilitation of residency permit awarding procedure for foreigners, speeding up of Cadastre Authorities' procedures, or extension of out-of-court settlement of disputes through extending the powers of arbitration courts. The measures directed towards improved transparency, such as publishing the Commercial Register of the SR, Small Trade Register of the SR, and a list of bankruptcies (entities in bankruptcy) on the Internet, as well as steps that created preconditions for improved enforceability of law (expedient court proceedings as a result of the amendment to the Rules of Civil Court Proceedings) were all in the spirit of recommendations made by the aforementioned document.

Acts on industrial parks and investment incentives were aimed at attracting foreign investments. The abolishing of the 100 percent tax holidays for investors may be assessed positively. In a market economy it is vital to establish an environment of equality for all entities. Namely, exceptions worsen the business environment and restrict the prospects of economic growth. Rather than granting a variety of benefits, it is therefore better to improve law enforcement, to eliminate corruption, administrative barriers, faults of the tax and contributions system, and to establish a stable political stage; all this would result in higher attractiveness of Slovakia as the right place to do business and to invest.

Transparency and Fighting Corruption

To a significant extent, the transparency of public administration will depend on the legal standards adopted and on opportunities for public control. This has improved through the adoption of the Free Access to Information Act, which allows citizens to acquire any information about the activities of state authorities, local government authorities, and entities financed from or managing public funds, with the exception of strictly specified confidential information. Available information has to be provided within ten days of the request, free of charge. The "Info-Act" may be considered as one of the few legal standards that Slovakia may boast about internationally.

Transparency of political party financing represents one key area of fighting corruption; the recent amendment to the Act on the Association in Political Parties brought no principal change in this respect. Improved efficiency and quality of state administration was the objective of State Administration Audit, which was labeled as a so far lonely positive attempt to change the current inefficient and expensive state administration system. It brought in some specific rationalization outcomes (were the measures suggested by the audit taken, savings amounting to SKK 4-7 bn yearly could be achieved)[48], not all the sectors however agreed.

Transparency of privatization as well as of public procurement was perceived rather sensitively by the public, and faults of those processes were exposed to strong criticism in the media in some cases (such as sale of the Slovak shipping and ports company, tender for State Treasury). The public perceives corruption in Slovakia as being rather widespread. The value of the Corruption Perception Index (CPI) for the public sector of Slovakia reached 3.7 in 2002, which made Slovakia to rank, together with the Czech Republic, at position 52 among 102 countries monitored.[49] Corruption and clientelism are the major hindrances of a more efficient functioning of the state apparatus as well as of the private sector. Even if the government is committed to aggressively fighting corruption (National Program of Fight Against Corruption), some refusing attitudes by the judges, MPs and civil servants concerning extended property declarations, adherence to ethical standards, zero tolerance of corruption, limitation of immunity of MPs,

[48] Source: Report on the Progress of Works on the Fulfillment of the Slovak Government Resolution No. 694/2000 on the Audit of the Correspondence of Activities and Financing of Central State Administration Bodies and Organizations Reporting to them, June 2001

[49] CPI value 10 = "clean" public sector. Source: http://www.transparency.sk/index-cpi.htm

or refusal to adopt the Conflict of Interest Act suggested a strong resistance within the public sector directed against such efforts.

The introduction of the institution of the Ombudsman into the Slovak legal system may be considered as standardization of democratic institutions in the country. It will contribute towards better protection of citizen rights and business entities from being violated by public service bodies.

Public Administration Reform

One of the top priorities of the government has also been public administration reform. Its aim was to decentralize the competencies and finances from state administration to local self-governments, to cut expenditures, and to establish a new organization of the public administration through establishing the second tier of territorial self-government, represented by 12 new higher-tier self-governments (regional self-governments, VÚC). The later political disagreement concerning the structure of Slovakia's self-governments caused public administration reform to become delayed; this was considered as one of the greatest losses of the previous government coalition. The corresponding legislation for the reform was eventually adopted (VÚC Act and Act on the Devolution of Some Competencies from State Administration Bodies to Regional Self-governments, so-called Small Competency Act), whose content however substantially differed from the initially adopted concept. The number of the administrative territorial units remained unchanged; eight VÚCs were created. On the plus side, there was the fact that the long-postponed reform of the public administration was launched at all, even if incomplete devolution of competencies to self-governments, incomplete fiscal decentralization, as well as the lack of will to dissolve district offices evoked justified doubts concerning one of the key objectives of the reform, making public administration activities cheaper and more rationalized.

Integration

The integration-related ambitions of the SR could be partly fulfilled by joining OECD. Membership in the Organization for Economic Cooperation and Development contributed to an improved credibility and reduced risk of Slovakia in the eyes of foreign investors. This had a real positive economic impact upon the price of foreign loans and the growth of foreign investments. The membership was a matter of prestige, but the requirements on the part of the OECD, also forced Slovakia to speed up the implementation of the liberalization measures that moved the country closer to a fully operational market economy. Military reform represents one precondition of Slovakia's membership in NATO. The Ministry of Defense developed a concept of building up the armed forces of the SR, which is based on collective defense by NATO. It envisages the abolishment of mandatory military service, troop reduction, and a smaller volume of military technologies which will account for the economic potential of the country. Experts claim that the concept of military reform represented one of the very few strategic visions, which Slovakia needs in also other areas (including, e.g., the health sector, education, social sector, the judiciary, state administration management). Concerning the European Union accession process, Mikuláš Dzurinda's government succeeded in catching up with what Mečiar's government failed to achieve; Dzurinda's government overtook other countries which had started negotiations with the EU much earlier.

2.4.2 Measures in Social Policy

Social Security

Long-term demographic development, mainly the aging of the population and the associated unsustainability of the pay-as-you-go (PAYG) financing of pensions, suggests the need for principal reform of the whole system of social security, in particular pension insurance.

In August 2000, the government adopted the Concept of the Social Insurance System Reform in the Slovak Republic. The aim of the reform was to set up a system of participation in the financing of social insurance, based on a combination of the PAYG and capitalization approach to the financing, and a combination of an obligatory with a voluntary system of contributions to the insurance funds. The first pillar should consist of the previously practiced PAYG financing of the basic obligatory insurance, with the contributions in the target scheme accounting for two-thirds of the current contributions towards pension insurance. The second pillar should consist of capitalized basic obligatory insurance, with one-third of the current insurance premium deposited to personal accounts of the citizen providing for as many as fifty percent of the pensions in the target scheme in about twenty years. The third pillar should consist of voluntary supplementary pension insurance, subject to tax concessions, where employers and employees would pay contributions to personal accounts of employees kept with supplementary insurance fund, based on mutual agreements. In addition to the aforementioned system, voluntary individual supplementary insurance scheme with a commercial insurance fund was also envisaged. The new system was expected to enhance the personal involvement of every insured over the long-range concerning the amount of the pension, to minimize numbers of citizens who will be dependent on social assistance or components of state social support.

The concept of social insurance reform also accounted for the elimination of the difference in the retirement age of males and females through 2027. In Slovakia, the retirement age is lower compared with EU Member States and with candidate countries. Currently, the retirement age is 60 and between 54 and 57 (in dependence on the number of children raised) for men and women, respectively. The government justified the need to raise the retirement age for women by the principle of equality of men and women, by the unfavorable demographic development of the Slovak population (reducing natality combined with the increasing average life expectancy, with higher values for women than men), and by the unsustainability of the current pension system, in which contributions paid by increasingly smaller group of those who work will not be sufficient to cover the benefits paid to increasingly larger mass of pensioners in the future.

In May 2002, the Parliament adopted the long awaited Social Insurance Act. The Act is intended to enable gradual transition from the social security system to social insurance system. This is expected to strengthen the application of the merits-based principle, with the obligatory contributions and the parallel social solidarity principle being maintained. According to the new method, the amount of the old-age pension shall be determined by accounting for the life-long income of the contribution payer. This Act, however, fails to establish conditions for a transition to a multi-pillar social insurance financing system as it does not address the issue of the second pillar – capitalization of sources through establishing personal accounts for every insured person. The new Act only defines the first pillar of the pension insurance, keeping the PAYG system of financing. In the opinion of critics, the degree of social solidarity with respect to the redistribution of the funds collected remains at a high level. One of the most serious comments on the draft law concerned the absence of universality of the social insurance system for all employees as some so-called power sectors (e.g., police corps and military) will have their own insurance schemes, and this raises the question of equality before law and transferability of insurance schemes upon employees going over to work from the public into the private sector or vice versa.

The Ministry of Labor did not meet the time schedule of the preparation of the social insurance reform, and it will therefore be the second government of Mikuláš Dzurinda that will have to launch the pension insurance reform. The leaving cabinet managed to review, in August 2002, the legislative intention concerning draft law on the capitalization pillar of the pension insurance; eventually, the draft was adopted with two mutually contradictory alternatives of the implementation of the reform concerning the institutional arrangement of the administration of assets within the capitalization pillar. The suggestion presented by the Ministry of Labor, Social Affairs and Family (a similar system is operational in Sweden and Canada) envisaged selection of asset administrators, private administration companies, by a public authority established to that effect (Investment Board). In the opinion of the drafters, such a variant would guarantee the safety of investment of citizens' funds entrusted. On the other hand, it would establish a corruptive environment and space for political and other types of interference with the investment process. Contrary to that, the model suggested by the Ministry of Economy (as practiced in Chile, and applied in a certain modification in also Hungary and Poland), aimed at decentralizing the administration of the capitalization pillar, providing the citizen with free choice as to the selection of the administrator of the assets. Private pension funds would be responsible for the administration and investments of the pension fund assets, and competition would force the funds to achieve the best appreciation of the pension savings of their insurers possible.

The new government, however, has already expressed the intention to postpone the date it becomes effective to January 1st, 2004.

State Social Support and Social Assistance

Among the aims of the November 2000 amendment to the Act on Social Assistance was to save SKK 1 bn on budgetary expenditures into the social sector, and to reform the payments of social benefits. For an individual in material distress (e.g., with an income not reaching the minimum subsistence level and/or a set amount) to be eligible to receive social benefits from objective reasons, he/she must have paid unemployment insurance premiums for at least three consecutive months. Individuals meeting the criteria of objective material need are eligible to receive full amounts of social benefits. On the contrary, individuals who get into the condition of material distress for subjective reasons, thus because of spending inadequate efforts to find a job, will only receive half of that amount. The aim of the measure was to restrict abuse of the social system and to motivate people to find jobs for longer periods of time. Pursuant to the previously applicable legal regulation namely, it was enough to have but formal employment, for a very short period of time, and this was deemed a condition for being recognized as being in material distress for objective reasons. The restriction of the exercise of personal assistance by relatives and the cut of compensation paid by the State to individuals with health handicaps met with criticism. The new government set the objective to make social aid more targeted and to strengthen active incentives of the social system.

In May 2002, the Parliament adopted the amendment to the Child Allowances and Supplement to Child Allowances Act, introducing flat payments of child allowances since June 2002, i.e., without testing family income.

The essence of the Substitute Alimonies Act from April 2002 was the establishment of Substitute Alimonies Fund (so-called Alimonies Fund), used to pay parents taking care of children alimonies determined by courts instead of payments by the parent who fails to meet his/her duty to support. In the opinion of many experts, this provision already exceeds any reasonable measure of state paternalism. As a matter of fact, substitute alimonies represent so-called soft budgetary restriction for parents failing to pay alimonies. Misuse of the institution of state-paid alimonies cannot be ruled out. The new government envisages a prompt repeal of the Substitute Alimonies Act.

Employment Policy

As stated in the chapter on economic development and the labor market, unemployment rates ranged tightly under the twenty percent level in 2000-2002. More than forty percent of the unemployed had no job for periods exceeding two years.

The government-presented amendment to the Employment Act enabled towns, municipalities, civil associations, foundations, health care facilities, churches, but also budgetary and contributory organizations, to establish, after 1 August 2000, job positions of public benefit to be filled by the long-term unemployed. Public beneficiary works were financed from the State Budget (SKK 1.3 bn in 2000), using funds initially allocated for social benefits. The unemployed, who refused to participate in public works, were deregistered by the labor offices, thus losing eligibility for receiving the full amount of social assistance. The positive aspects of the measure included the fact that long-term unemployed started to get accustomed to working habits again, and that shadow labor could be easier disclosed. The critics, on the other hand, stressed that the artificial creation of temporary jobs is a non-systemic step to reduce unemployment, making some of the concerned misuse it just to re-gain eligibility for full amount of social benefits.

Amendments to the Employment Act presented by the MPs in November 2001 also attempted to resolve the problem of long-term unemployment in Slovakia, through introducing concessions for those who employ long-term unemployed (such as compensation of travel costs, so-called agreed job positions for graduates). Those measures could, for a transitory period of time, increase labor mobility and give the long-term unemployment a chance to find a job. At the same time, however, they represent but partial and selective attempts to reduce unemployment in Slovakia.

The new Labor Code (of July 2001) represented the second stage of the labor law reform, intended to provide for an optimum functioning of the market economy. This goal, however, failed. To the contrary, the new Labor Code made the business environment and the labor market even less flexible as it brought in excessive legal regulation, leaving but minimum space for arrangements of the relationships by the parties of the labor relationship. The rigid nature of the law shows above all in the provisions regulating the establishment and termination of the employment relationship, working time and collective relations. The negative impacts of the new Labor Code could become manifested in increases of the overall production costs of enterprises, in a worsening of their competitiveness, unwillingness of employers to sign new employment contracts, spreading of shadow labor and unemployment, as well as in a subsequent reduction of the quality of life in Slovakia. Some few faults of the new code could be temporarily resolved by small amendment to the Labor Code adopted by MPs in March 2002.

The new Civil Service Act (of July 2001), which became part of an extensive reform of the labor law, determined that clerks would not be assigned to civil service automatically; rather, they would need to pass qualification exams after attending training courses. The performance of civil servants will be appraised at regular yearly intervals. The appraisal will be the basis for further career development. Able and gifted officers will have opportunities to speed up their salary promotion and careers. Many experts agreed that the government-presented Civil Service Act did not achieve its goal to make civil service more flexible and efficient. Some provisions overly "reinforced" some job positions in civil service again, as they made impossible to lay off low quality staff quickly and cheaply. The new government showed commitment to amend the Civil Service Act.

2.4.3 Measures in the Education Sector

In 2002, Slovakia's education and science sector will have approximately SKK 40 bn available. The overall public expenditures on education represented SKK 38.27 bn in 2000, i.e., 4.31 percent of GDP. Just for the sake of comparison, their volume was SKK 14.15 bn in 1990, i.e., 5.49 percent of GDP. In recent years, some SKK 3.5 bn become usually allocated in the National Budget annually to finance science and technology in Slovakia, representing about 0.35 percent of GDP in 2001 (the total expenditures on research and development expressed in terms of GDP within 1996-2000 were: Slovak Republic 0.8 percent, Czech Republic 1.2 percent, EU 15 average 1.8 percent, USA 2.7 percent, Japan 3.1 percent, Sweden 3.8 percent). Universities were allocated SKK 7.4 bn for their activities under the 2002 State Budget, being SKK 1.2 bn more than the year before. In this way, the level of 0.71 percent of GDP was reached (1999 – SKK 5.45 bn, i.e. 0.7 percent on GDP; 1992 – SKK 3.25 bn, i.e., 0.98 percent on GDP).[50]

The majority of the measures concerning universities and colleges (U&C) is expected to be based on the Concept of the Development of Tertiary Education for the 21st Century, approved by the government in September 2000 (see also chapter 2.3). The conceptual document defined the objective of the reform of the Slovak tertiary education sector as establishing of conditions enabling the universities in Slovakia to face international competition. Every year, volumes of funds should be allocated under the State Budget to achieve, within three years, an increase of the GDP proportion from approximately 0.6-0.7 percent in 2000 to 1 percent in 2003, thus pushing the SR closer to the average of the OECD Member States – 1.33 percent of GDP. The concept suggested that the numbers of students be increased, a differentiated system of remuneration of university teachers to be introduced, and the universities to become transformed from budgetary organizations to so-called public schools financed from multiple sources rather than from the State Budget alone; as a consequence, administrators of state property would become the owners. The authors of the concept also presented two variants of tuition fees; none of them was however accepted. The issue of tuition fees at universities has remained open.

In November 2001, the government decided to approve the suggestion to pay tuition fees for distance studies at universities. The intention was to legalize and legally regulate the status quo; universities collect fees through a variety of firms and foundations, receiving but a small portion of the funds the students pay. Tuition fees should range between ten percent and seventy percent of the current costs per student spent during the preceding year, representing SKK 5,500-38,500.

The new Universities Act adopted by the National Council of the Slovak Republic in February 2002 was drafted to, a.o., confirm the form of the payment of tuition fees for distance university studies or to leave them "free of charge". Eventually, the MPs turned down (by the majority of one vote) the suggestion to introduce payments of tuition fees for distance studies as suggested by the government. Thus, students will pay fees only for exceeding the scheduled regular duration of studies. Many universities considered discontinuing their distance programs, which threatened to concern about 30,000 students. The prevailing opinion voiced by the professional public was that a certain form of payments for university studies should have been adopted, not only to raise the necessary additional resources for the tertiary education sector, but also to underline the aspect of education as being a form of investment. The fact is to be considered as socially unjust that the current model of financing tertiary education in Slovakia, which only benefits a narrow group of people, burdens all the taxpayers. Slovakia's universities need competition among the schools to be introduced, to become directed towards provision of market services, which in the future will require direct involvement on the part of students who will have to pay for being trained and educated. Many experts stated that the reform of Slovakia's tertiary education sector has stopped halfway.

Pursuant to the Act, U&C will no longer be state-run entities, turning into public law institutions (so-called public U&C). Instead of administering state property, they will now become owners of it and will start to manage themselves independently. The new law envisages several methods of how to audit the use of funds; this will be done through the Ministry of Education, academic senate of the university and faculty, as well as through a newly established body, the U&C Administrative Board. The establishment of this new institution has been met with criticism since it was given the right of veto concerning issues of management property received from State, and because some of its members should be appointed by Minister of Education, i.e., a representative of political power.

The new U&C Act restricted the autonomy of faculties and transferred some competencies taken from them to the rector and the university, which was negatively perceived by a significant portion of the academic community. Objections were also voiced against the year on year increase of the numbers of students restricted by the State (because of contributing funds to U&C), against the overall system of

[50] Source: *National Report on Education Policy.* SGI, INEKO, Bratislava 2001; *National Report on Science and Technology Policy*. SGI, Bratislava 2002; Dado, M.: *Wanting to Become a Partner to Economically Developed Countries*. SME 31 Oct. 2001; *„Education: More Funds, Reform Changes, and Higher Salaries in 2002*, SITA, 3 January 2002

checking the management of universities by self-governing bodies on the part of Ministry of Education, against awarding university rights to institutions of non-university nature. In addition, the absence of a link between Slovakia's tertiary education sector and the labor market and between science and research has been criticized; this absence is certainly not to the benefit of the competitiveness of the economy.

For years, interest in university studies has exceeded capacity and the financial potential of the schools (the numbers of students enrolling at universities have almost doubled between 1990-2000: there were 63,784 and 124,336 students in 1990 and 2000, respectively). Consequently, the government decided to allocate sufficient funds for 2000 to allow a ten percent increase in the number of university students, envisaged to bring the Slovak Republic closer to the European average number of students and university graduates. In Slovakia, about eighteen percent of the population aged 18-24 years is enrolled at universities; the corresponding ratio for the EU is approximately 23 percent. The principal problem of the current tertiary education sector in Slovakia, however, is it low quality rather than a lack of students.

To raise the attractiveness of the teacher's profession and thus to restrict the drain of good quality teachers, salaries were raised in the education sector. The tariff salaries of teachers were increased by thirty percent since April 2002; at the same time, the variable portion of remuneration (based on personal performance appraisal) was reduced from nine percent to six percent of the overall volume of wages. Reduction of the variable portion of the salary preserves the system of compensations in the education system without incentives, thus creating ample space for corruption.

The reform steps in the primary and secondary education sector should be based on the Concept of the Development of Education and Training and the National Education and Training Program for the Next 20 Years, so-called Millennium Project (December 2001). The document deals with changes to be introduced into the various elements of life-long learning (from maternity schools up to tertiary and post-graduate education). The Ministry of Education presented in October 2001 draft of an extensive new law for public discussion regulating education and training at schools and school establishments, so-called Education Act, which is intended to regulate the conditions and the contents of the learning process, rights and responsibilities of the stakeholders and institutions, as well as the mechanisms and tools to be used to shape them.

In 1999, Project Infovek (Info-age) was launched to improve the level of informatization of teaching institutions. Its principal aim is to set up, within the time frame of four to five years, information classrooms at all elementary and secondary schools, equipped with ten computers on average, with Internet connectivity, which would be used in the education process.

The amendment to the Act on the Financing of Elementary and Secondary Schools enabled (since 2002) church and private schools to receive one hundred percent state grants paid to state schools for regular operations; this created conditions to make various types of schools partly equal. Free choice of schools will have a positive effect on the competition among the schools, enabling an improvement of their quality and development of alternative education. Any church or private school, however, collecting regular tuition fees will receive grants reduced by thirty percent, and additional ten percent will be cut if curricula and study plans comparable with those applicable at state schools are not applied. This aspect became subject of criticism. As before, non-state schools will not be eligible to receive capital investments covered; however, the State will lease to them textbooks, computers and other movable assets free of charge.

2.4.4 Measures in the Health Care Sector

According to the data provided by Ministry of Health (MH SR), the total expenditures on the health care system of the SR represented SKK 59.3 bn in 2000 (net of privatization proceeds worth SKK 3.5 bn), corresponding to 6.7 percent of GDP. The Slovak health sector had SKK 65.6 bn available in 2001 (apart from privatization proceeds amounting to about SKK 6 bn), representing more than 6.8 percent of GDP. Slovakia spends a similar percentage of GDP on health care, as do several developed European countries; however, if expressed in terms of purchasing power parity, the overall expenditures fall behind. Health sector debt reached SKK 15 bn in 2000; some experts, however, claimed it to be substantially higher, in excess of SKK 20 bn, continuously increasing SKK 700 million a month. The current external debt (vis-à-vis external creditors) reaches almost SKK 30 bn, whereas the internal debt (moral wear of the equipment) exceeds SKK 50 bn. The public perceives the health sector as one characterized by the highest extent of corruption in the society (the volume of informal payments has been estimated at SKK 12 bn). The professional public continues to point out the huge reserves in the management of the sector and the need to undertake a principal reform. [51]

After the scandalous treatment of the President of the SR in the summer of 2000, the Minister of Health was replaced. The new Minister intended to speed up the transformation of the health care system. This required to complete the rationalization (reduction) of the network of health-service institutions and to change the method of their management. Hospitals were envisaged to be denationalized and transformed into non-profit public benefit institutions. The central method of control was bound to be changed into a self-governed system, with competencies devolved to health professionals. Development of multi-source financing of health care was envisaged, requiring the adoption of new laws on health insurance and supplementary health insurance. These steps also required some unpopular cuts in the consumption of medicines, health-service institutions and headcount in the health sector.

One outcome of the protest events undertaken by health professionals, who requested the adoption of a realistic concept of transformation of the health sector by the end of 2000, was the drafting of a comprehensive document entitled *Analysis of the Management within the Health Care System* and suggestions for measures to improve the management and the financial standing of the health care system. The documents were drafted by the Ministry of Health. Apart from an analysis of the status quo, the document also contained the principal objectives of the reform, measures and conditions of their implementation. Among the principal objectives of the health sector's reform, the concept included balanced management of the system, increase in public funds (in 2001, public funds accounted for 92.3 percent in Slovakia, those within the EU for 75%t-80% percent of the cost coverage), raising the active economic participation of citizens on health care (HC), increasing the share of private resources on expenditures (the document however failed to suggest a specific figure, and this prevents the defining of the specific scope of services of basic HC financed under the principal obligatory health insurance scheme, which is an issue of principal significance for the reform), reduction of the scope of health care provided under the obligatory health insurance scheme (covering almost the whole range of HC interventions), and rationalization measures. Health insurance was intended to be split into basic obligatory insurance covering the basic HC standard, voluntary supplementary insurance covering HC not covered under the basic insurance scheme, and supplementary insurance to cover above-standard services (such as the standard of the hospital room). As of 2002, there should have been a state benefit to cover uninsurable risks (organ transplantation, oncological diseases, emergency aid); the calculation base for the insurance premium should have been increased (the base according to which State pays health insurance premium from State Budget for economically inactive individuals). It was further envisaged to reduce the mandatory rate for state payments from fourteen percent to ten percent, thus to the same level as employers pay. The system was expected to become rationalized through the provision of HC in the form of daily diagnosis and therapy, which was expected to shorten the average time of attendance; through reducing the numbers of acute care beds in stationary health-service institutions to the European average (5 per 1,000 individuals; in the SR there are 6 acute care beds per 1,000, Bratislava has even 11.2); devolution of competencies in the area of health services and goods price regulation to MH SR; reduction of consumption of medicines through guiding doctors to make more efficient decisions on drug expenditures.

Although welcoming the draft concept of health sector reform, experts kept stressing that all previous governments had declared the intention of reforming the health sector but did not start acting by adopting specific steps leading to recovery. As also evidenced by the developments during the last four years, transformation of the health sector remains an intention that cannot be achieved unless there is real political will to pursue this agenda. Partial non-systemic measures were adopted instead of reforms, which were expected to mitigate problems in the health sector temporarily, but postponing the real solution to them. Consequences rather than reasons for the bad condition of the health sector were addressed. Such attitudes intensified the indebtedness of the sector or simply shifted the burden to other health care providers. As examples may be mentioned the inadequate payment by State on behalf of its insured, inadequate coverage of price measures concerning maximum and minimum prices for health-service institutions, ban on execution of health insurance funds, as well as inadequate coverage of salary raises of health professionals.

Minister of Health suggested that there be a sole, state determined health insurance company (HIC) to collect basic obligatory insurance premium as soon as the current health insurance system is changed; when it comes to additional insurance covering some higher standard, the insured would pay to a non-state HIC at their own choice. Minister claims that the registration of the insured with a single HIC would enable more efficient management of expenditures, and provision of all information needed for analytical and control processes. Experts viewed the suggestion to monopolize basic health insurance as a measure

[51] Source: Ministry of Health of the SR; WHO; Pažitný, P. - Zajac, R.: Strategy of the Health Sector Reform – a Real Reform for the Citizen, M.E.S.A. 10, Bratislava 2001; Zajac, R. - Pažitný, P.: The Health Sector, in: Slovakia 2001 – Summary Report on the Status of the Society, IVO, Bratislava 2001; Pažitný, P.: Health Sector Reform for the Citizen, SME 11 Oct. 2002

that will not help resolve problems of the health care system. By abolishing plurality, stability of the health insurance system could be undermined. What is needed is to eliminate State as monopolistic purchaser that dictates the scope of health care services and the prices it pays as this – under the current conditions – causes a permanent growth of the HC system deficit. Health insurance companies should be instead transformed from mere redistributors of state funds into business entities providing standard coverage of health risks to the population. The system of the single HIF to organize basic insurance was envisaged to start towards the end of 2001, but did not occur and was rejected.

The price decree for the health sector of December 2001 prompted dissatisfaction of private doctors who requested an improved compensation of their work; the decree enabled per capita payments (regular payments per every patient recorded) could be both increased and decreased (because of non-rational prescription of medicines). In the opinion of the observers, the price measure suggested the desirable direction towards performance-based compensation of health professionals, being however but a cosmetic ad hoc regulation.

Another measure that aimed at transiently stop the outflow of funds intended for regular operation of health-service institutions was ban on execution of health insurance companies and health care facilities. The measures eliminated consequences while not attempting to resolve the reasons for the bad condition of Slovakia's health system. The aim of the first amendment to the Rules of Execution of July 2001 was to exclude, for a period of six months, assets of health-service institutions and health insurance companies from execution, thus gain time to raise SKK 9.5 bn from privatization for the health sector. Another amendment followed in December, 2001 which extended the ban on execution in the health sector through the end of 2002, thus preventing creditors of health insurance companies and health care providers to collect their receivables through court executors. The amendment to the Executors Act was born mainly because of the state-owned Všeobecná zdravotná poisťovňa (General Health Insurance Company, VšZP), which owed pharmacies in excess of SKK 6 bn for medicines, and the volume of its liabilities vis-à-vis doctors and hospitals exceeded SKK 1 billion. The measure disfavored one group of creditors, thus establishing inequality of contracting parties. The inability of creditors to collect their receivables represents a distortion of the economic environment and does not provide any incentives to debtors to manage rationally and efficiently (so-called moral hazard). Extension of the ban on execution of health insurance funds will result in intensified corruption.

A new price measure issued by Ministry of Health introduced a new system of payments for health care provided, effective April 2002; payments will be based on interventions contracted between health insurance companies and hospitals. Health insurance companies will be ordering with hospitals interventions for a period of three months in advance, which the funds are able and willing to finance in the given health-service institution. If the hospital exceeds the contracted limits for specific services, it will receive no payment for them from the health insurance fund. In the opinion of experts, the problem of contracts resides in the fact that such contracts arose virtually without any economic calculations and contractual freedom, as the majority of the hospitals still remain in state hands and their existence is directly dependent on financial transfers of the largest health insurance company, Všeobecná zdravotná poisťovňa (VšZP), whose solvency is being guaranteed by State. Hospital expenditures should rather be controlled by private insurance funds operating in a competitive environment. The change of the payment mechanism was just a way out of troubles of Slovakia's health sector, which lives beyond its means, failing to account for the current performance of the economy. As a result, only numbers of patients should be attended, which can be covered by public resources; this is expected to exert pressure upon hospitals to make their activities more efficient. The measure can be perceived as a suggestion to resolve problems of Slovakia's health sector, but it still remains an isolated attempt to cut the costs of health care. Partial steps will not resolve the essence of the problem, which is the so-called free-of-charge health system; they merely delay the bankruptcy of the system.

One method how to contribute to a more significant elimination of State's influence on the health sector is to privatize health-service institutions. This is one of the prerequisites for an actual transformation of the health sector. Medical centers and outpatient departments now have real owners who will be responsible to manage their resources and their own property. As a disadvantage of the process, everything was running in a non-functional and non-reformed environment. Overall, 169 health-service institutions had to be released from state hands. Another form of denationalization of health-service institutions was their free-of-charge transfer to towns and villages. According to the initial idea, State should have transferred health-service institutions to local governments free of debt, the government however subsequently decided that they are to be transferred together with their liabilities. Under the public service decentralization program, some independent offices, nursing homes for the chronically ill, hospices, psychiatric institutions, outpatient departments and stationary establishments, type I and II hospitals should go over under the administration of local municipalities and higher-tier territorial units (VÚCs) as of January 2003. Ministry of Health reserves the right to audit the denationalized health-service institutions. Probably, it is the new government that will complete the privatization in the health sector.