

# ENHANCING EFFECTIVENESS OF THE GOVERNMENT: THINK-TANKS IN DECISION – MAKING ARENA

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**Key words: good governance, politics, policy, think-tanks**

## **Executive Summary:**

This policy paper was written as a response to policy outcomes in various countries that resembled the same situation with the transitional countries, including Azerbaijan. These similarities include monopoly on the public sector management and government intervention. In the past, it has been considered that there is a positive relationship between big government and public sector outcome. However, with the reforms on public sector management and utilization of limited public resources, the above mentioned relationship became null and void. It should be also mentioned that in transitional countries, for solution of problems, there is a strong reliance to government; even though there is an existence of strong moral hazard effect and low trust to the public sector. Due to this dichotomy and misunderstanding, it is important to deal with actors involved to the decision-making procedure.

Based on the arguments above, the focus of the policy paper is to find the best possible public sector structure where decision-making will not be monopolized by a government. Experience of other countries shows that under the properly designed government structure, policy-making will be more sustainable. Even more, non-monopolized decision-making procedure is strongly considered to bring positive spillover effects; it is not only about pluralism and bringing policy ideas/ alternatives outside of the government, but also application of good governance principles in the public sector management.

The paper is divided into three parts. Firstly, the problem statement is elaborated. Following, two alternative policies or scenarios are indicated in order to overcome the status-quo/ problem. At the end recommendation points for the attention of government are indicated for the application of the best possible policy option.

The problem part reveals the structure of public sector in Azerbaijan and actors involved to the decision-making procedure. Soviet type of bureaucracy is claimed to be irrelevant with the 21<sup>st</sup> century of governance tools and mechanisms, since there is always monopoly and politics-policy overlapping. At the same time, this system works against plurality, brings corrupt activities, information asymmetry for the society, no accountability and, at the end, elements of good governance become trampled.

In order to overcome this challenge, two alternative scenarios have been indicated. The first one deals with the establishment of corporate governance and the second one bringing think-tanks to the decision-making procedure. They are evaluated and assessed on the bases of three indicators: (1) fiscal policy and sustainability, (2) capacity for idea generation and (3) current strengths and feasibility.

The corporate governance mechanism is basically application of entrepreneurial elements to the public sector. Lessons learned from the private sector show that with use of few resources it is possible to create better outcome. Furthermore, problems of the traditional bureaucracy are also eliminated. From the fiscal policy and sustainability point of view, this policy is considered to be expensive for outsourcing and privatization of public services, even though there is an increase on outcome at the end. Importantly enough, with application of this policy, there will be no change on the type of additional actors involved to the decision-making procedure. At the same time, idea generation capacity is quite low and needs strong legislative and practical background to support corporate governance mechanism in Azerbaijan. As a consequence, even though this alternative policy is more output oriented, it does not respond for the change on the decision-making level.

Bringing think-tanks to the decision-making procedure is a response to the rise of various actors outside of the government sector in Azerbaijan. Application of this policy will have an impact on

decreasing burden for the fiscal economy. Commitment, specialization and skills of think-tanks to generate policy ideas are also strong assets of this sector for the involvement at the decision-making level. At the same time, consolidated strengths and legitimacy in society should put additional fuel to fire for revealing their importance. Thus, bringing think-tanks to the decision-making procedure is an optimal scenario in Azerbaijan.

In order to implement this policy there are various points that the government should bear in mind: initiate legislative basis, changes on the competition law, transparency of the agenda of the government and advice of non-state actors.

### **Problem statement: what is wrong with the current decision-making structure?**

Size and structure of government in transitional countries are considered to be one of the crucial issues. The reason for this importance is to initiate pillars of sustainable decision making structure that will lead to economic development. Thanks to the Soviet dynasty, including monopolization and centralization of decision-making arena, the shape of public sector remained vertical and highly bureaucratic. From that period, absence of market principles brought the ‘full employment’ phenomenon that was not really correlated with the output of the public sector. With the 21<sup>st</sup> century dynamics, the relationship is considered to be null and void. Even more, during the ‘rise of all’ (or diverse actors in a society), the government of transitional countries should become open for reforms on the policy making platform. Thus, there should be modification for involvement of different players’, their rights and responsibilities should be taken into consideration during the reform pace in transitional countries.

Herein, the compelling issue is inadequate circumstance in the decision making arena. In Azerbaijan, based on deep and wide challenges, the (negative) impact of political discourses and ‘party politics’ for power over the policy-making arena should be decreased. In other words, since politics is on top of policy, the overall impact should be minimized for the best of effectiveness. Otherwise, all policies would remain politicized. On the other hand, it is important to decrease the impact, so that predictable and sustainable policy dynamics could be established. It means that there is a strong need for consensus in policy-making, in order to preserve sustainability. This can only be feasible while the shape of public sector would shift from the monopoly orbit of the government.

It is stated that public sector monopoly over the decision-making procedure creates negative spillover effects. Firstly, opportunities to generate alternative policies (or policy choices) on the government level become weak. This decreases capacity of the government to work mission-oriented and meet the strategic pillars in merit. Secondly, flow of information is limited. Under the monopolized system, non-state organs (including individual voters) have less access to information and command and control moves vertically from top to bottom. It means that higher level policy makers (most of the time politicians) make a decision by having less understanding from the ground. At the same time, there is an increase on the level of corruption and misuse of limited public resources. As a consequence, people become the victim of the system and less effective policy making procedure leads to absence of accountability and legitimacy of the government.

Currently, big government understanding is obviously vivid on the shape of bureaucracy. The government structure is represented by 18 Ministries, 15 State Committees and Agencies, 8 State Departments, 9 Public Corporations and 22 other State Organizations. At the same time, out of 4 million labor force, 1,38 million are only employed on a full time basis: 800,000 work in the public sector (1/3 administrative) and the rest in the private sector.<sup>1</sup> The statistics allow us to state that there is an existence of concentration of decision making by the government monopoly, inefficient expenses and high transaction cost. Based on successful scenarios, there are various forms supporting non-monopolized decision-making structure, where higher level civil servants would not seek legitimacy to the upper level, but rather work towards fulfilling the mission and goals. Thus, properly designed size and structure of the government are highly important to bring positive impact for decision-making arena.

Bearing this in mind, the research question is following: *What is the best feasible scenario for enhancing effectiveness of government in policy making (decision-making) procedure?*

In order to keep the reader focused and on the road, it is important to indicate the limitation of this paper. The paper is focused on *eliminating monopoly on the decision making procedure and structure*. Conceptually, it is opposite to the area of centralization of decision-making that is more

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<sup>1</sup> State Statistics Committee of Azerbaijan Republic, Labor Force  
[www.azstat.org](http://www.azstat.org);

Report of Cabinet of Ministers, Implementation of fiscal year budget in 2009. Baku, 2010

related to the absence of governance layers and the subsidiary principle of EU. However, it is not the area of discussion in this paper; rather the paper covers *players* involved at the decision-making level.

Generally, it is assumed that bigger governments are less effective, yet costly enough. As it was mentioned above, there is no direct positive relationship between bigger governments and better output. In addition, big governments do not respond for individual needs, moves against the principles of the market economy and by hurting the transitional process obstructs the pace of reforms. The post financial crisis period and strong intention to decrease the burden on the fiscal economy should give high stimulus and incentives for the changes on the structure of decision-making of public sector.

**Determining alternatives; bearing in mind the rise of all.**

Taking into consideration the above mentioned problem on the decision-making structure of public sector in transitional countries, including Azerbaijan, this policy paper will reveal two applicable scenarios. Under this consideration, corporate governance mechanism and bringing additional players to the decision-making procedure are two alternative policies. In order to evaluate and compare the mentioned policies with each-other, fiscal policy and sustainability, capacity for idea generation and current strengths and feasibility are used as indicators.

In order to visualize the structures, below mentioned matrix 1 is given for more clarification. On the vertical axis, the indicated two alternative decision-making structures are shown. They are analyzed and compared on the basis of indicators that are plotted on the horizontal axis. Application of the indicators to the alternative policies should reveal the ‘best possible’ scenario to select and manage the public sector. It is important to have a solid analysis so that application of good governance principles would also be achieved.

**Matrix 1: Policy alternatives and indicators**

	<b>Capacity for idea generation</b>	<b>Fiscal policy and sustainability</b>	<b>Current strengths and feasibility</b>
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<b>Corporate governance mechanism</b>			
<b>New players to the decision making procedure</b>			

### **Scenario 1: Relevance of corporate governance**

Traditionally, corporate governance mechanism was more relevant to management of private sector. This model has been on the attention of various international and donor organizations not only to implement at the business sector for capacity building reasons (in transitional countries), but also for the public sector management. From the first hand, it is possible to state that corporate governance mechanism is built on consensus and compromise among the internal players (management and supervisory board) and shareholders, which (try to) attract investment in the mid and long terms. In addition, due to transparency and information flow within the mechanism, decision-making creates predictable, accountable, effective and efficient outcome within the industry. Thus, application of corporate governance tools to the public sector management intends to provide better services with limited resources.

*Fiscal policy and sustainability:* To determine budget section of the corporate governance mechanism is, in fact, a challenging issue. From one side, there is devolution of the service provision to the non-state actor, and from the other side government it requires making payments for provision of public services, since the system is built on entrepreneurship and has a business focus. Based on additional or extra funds allocated for a particular service, fiscal year budget of the economy would not be benefited from this policy.

From the point of sustainability, the impact of corporate governance mechanism will not be strong enough. The objective of this mechanism is more related to enhancing output and outcome of the process with concentration of profit making elements, including a drive for maximum effectiveness. However, modification on the decision-making level bears in mind the beginning of a policy-cycle, which aims to bring diverse voices to the decision-making procedure. Thus, corporate governance

system will not be able to create a positive impact for decreasing burden on fiscal budget and making the system more sustainable.

*Capacity for idea generation:* Herein, it is possible to consider corporate governance framework close to New Public Management (NPM) type of administration that is based on contracting out, deregulation and privatization of a public sector. Given autonomy to independent agencies for managing the activities, budget and resource limitations enhance effectiveness and efficiency of policies in comparison with the government-run body. At the same time, it overcomes principle-agent problem that is one of the crucial issues on the public sector. However, bearing in mind focus of the policy paper, in order to overcome the challenge (*monopoly in the decision-making procedure*), corporate governance mechanism is actually limited enough: top-down command and control system, information asymmetry for people and importantly enough all decisions are based on a monopolistic control – of contractor (over the service provider, corporation). Obviously, generation of ideas or policies becomes under the domination of a government. Thus, chances for diversification of ‘panel of thinkers’ and bringing external view and opinion to the decision-making procedure are kept aside.

*Current strengths and feasibility:* Based on a previous research of the EBRD, corporate governance law in Azerbaijan is quite weak (2004). We can state this on the basis of comparison with neighboring countries and scores on the graph below. Herein, rights of shareholders, responsibilities of the board, disclosure and transparency, equitable treatment of shareholders and the role of shareholders in corporate governance are considered the determinants of the corporate governance mechanism.

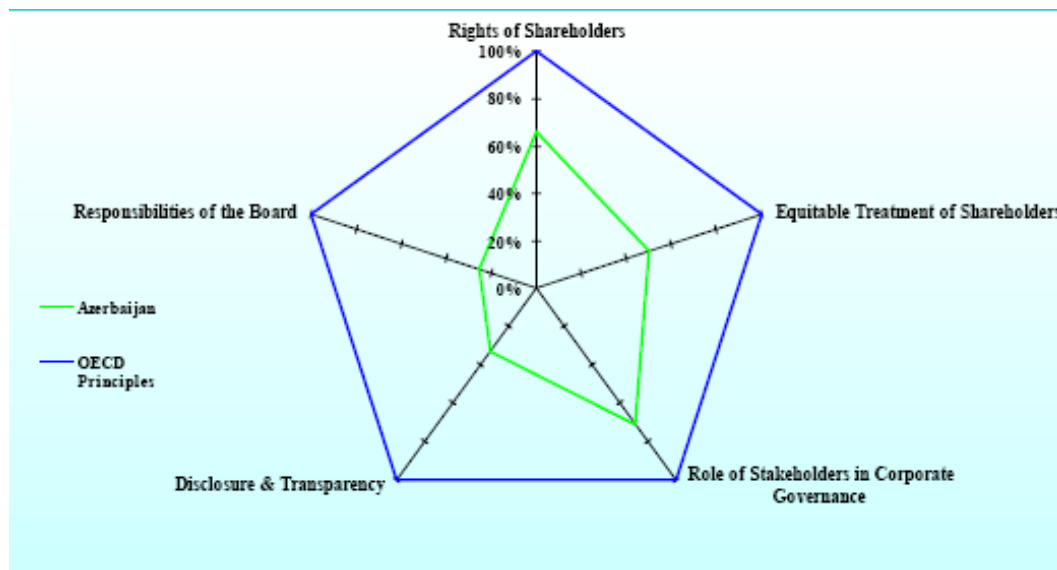
### **Graph 1: EBRD, Corporate Governance Legal Assessment, Azerbaijan<sup>2</sup>**

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<sup>2</sup> EBRD, Corporate Governance Law: Assessment Projects, “Report on the Quality of Corporate Governance: Legal Regimes in Early Transition Countries”, 2004, p.3.

<http://www.ebrd.com/country/sector/law/etc/etccg.pdf>

For an updated research of the EBRD (with no graph and those indicators), you can refer to footnote N 2.



Interestingly enough, based on the above graph, even though there is less information disseminated to the public, the role of stakeholders are considered to be strong in corporate governance. Simultaneously, board responsibility is also formally weak. However, interestingly enough, shareholder rights and their treatment are on the average level. Thus, legislative basis mostly puts an emphasis to the protection of shareholder rights; but there is an existence of contradictions on the other determinants of the corporate governance elements in Azerbaijan.

The recent research by the World Bank Group claims for changes on the institutional level; enforcement and implementation of corporate governance principles in Azerbaijan has begun to improve in the last one decade. However, most of the principles are partially enforced or even not implemented (pp.14-15). It means that division of responsibility in this sector should be clarified and determined firmly; rules and regulations should be enforced and corporate information should be disseminated to the public.<sup>3</sup> These will have an impact for application of corporate governance elements to the public sector management, especially the ones related to division of labor and responsibilities within the agency and importantly enough the role of each agency in the entire decision-making arena of a particular policy.

<sup>3</sup> World Bank, Report on the Observance of Standards and Codes (ROSC), Corporate Governance, Country Assessment, "Azerbaijan", 2009.

[http://www.worldbank.org/ifa/rosc\\_cg\\_aze\\_eng\\_09.pdf](http://www.worldbank.org/ifa/rosc_cg_aze_eng_09.pdf)

Overall, bearing in mind the skeleton of this model and goal of the policy paper (*overcoming monopoly in decision-making procedure*), corporate governance mechanism is more about creating changes in the process – for more predictability, enhancing outcome and output, but no change occurs on the types of players involved to the decision-making procedure. There is no model applying this mechanism from this region and among the transitional countries to the public sector management. Thus, supporting this alternative policy with the intended purpose would not be a success story to deal with elimination of government monopoly over the decision making procedure.

## **Scenario 2: Think tanks for decision-making procedure**

The second scenario supports bringing think-tanks to the decision-making procedure of public sector in Azerbaijan. This neo-managerial structure is currently followed by various countries. Importantly enough, it can only be achieved with the willingness of central government to cooperate with non-state actors (i.e., think-tanks) that seek for contribution. As an outcome, decision-making at the public sector becomes more diverse due to various voices from different levels, the outcome brings effectiveness and responds for the good governance principles. As it was mentioned above, author evaluates this scenario with the following indicators – fiscal policy and sustainability, capacity for idea generation and current strengths and feasibility:

*Fiscal policy and sustainability:* Fiscal policy and sustainability refers to budgetary dimension of the process. It firmly asserts that involvement of think-tanks to the decision-making procedure will decrease fiscal burden of the government, which is mostly related to salaries and other expenditure items allocating for running the public sector. Currently, in Azerbaijan, 2.2 mln AZN is spent for salaries and wages of public servants only (pp. 21-22).<sup>4</sup> In comparison with previous years, the expenditure has increased more than the number of new public jobs. At this point, it should be mentioned that fiscal year budget is ‘subsidized’ with the transfers from the State Oil Fund. Existence of additional hydrocarbon resource Fund makes the fiscal year budget dependent and may lead to moral hazard effects. From the statistics it is possible to mention that around 50% of the fiscal year budget is transfers from the Oil Fund; at the same time, more than 90% of the Fund expenditures are transfers to the government annual budget in order to cover costs on various lines.

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<sup>4</sup> Report of Cabinet of Ministers, Implementation of fiscal year budget in 2009. Baku, 2010

While a platform consisting of think-tanks and government representatives will be initiated, fiscal burden and higher spending for the public sector management will be decreased.

From the sustainability point of view, involvement of non-state actors carries positive impact. Primarily, it is commitment by non-state actors to deal with policy relevant issues on the ground and determine potential outcome in a responsible manner. By carrying cost and benefit, this means that think-tank representatives will produce an output with a precise relevance for the case study and current dynamics. In addition, there will be an increase of legitimacy to the government, since decision-making will be based on plurality of view and voice. As a consequence, initiated policies based on consensus, will be consolidated and will have less chances to be abandoned in the near future.

Thus, involvement of think-tanks to the decision-making procedure will definitely decrease the fiscal burden of the government budget and enable initiated policies sustainable.

*Capacity for idea generation:* Think-tanks and other types of NGOs in Azerbaijan have strong intellectual capacity for idea (or *public-policy alternative*) generation. This shows comparative advantage of organizations on research and writing. In order to utilize from this expertise and professionalism outside of the government, it would be rational step to cooperate with non-state actors. Currently, activities of non-state actors are mostly limited to increase of public discourses on the national/ local level and conduct publications on relevant issues. However, most the time, the policy outcomes and alternatives are not communicated with the specific government officials on the ad-hoc committee level. In an optimal situation, limited non-profit organization can advocate their proposed policy by meeting with respectable government officials for a single time. As a sum, it is considered to be very limited that obstruct the role of non-state actors. Based on this scenario, the author supports bringing non-state actors to the decision-making procedure in a formal manner, since they have higher capacity for generating ideas and policies.

From the stance of government, involvement of (additional and) external partners to the decision-making procedure will enable decision-making to meet the mission and strategic plan more effectively. This is more related with the output side of the coin, since new ideas outside of kitchen-cabinet will get in. At the same time, government will be able to decrease its sole responsibility in

front of the citizens/ voters. Of course, the process itself is not based on spontaneous involvement of non-state actors. International experience gives various ways of dealing with the scenario: existence of competition among the non-state organization for an access to the decision-making procedure/ platform (mostly related to ongoing policies and debate); involvement of non-state actors on the basis of new proposals and suggestions (mostly related to a particular issues or policy that is absent) and others.

Hence, in order to enhance the outcome, representative and responsibility in the decision-making procedure, professional and result based research enable non-state actors to be a crucial actor on the policy arena.

*Current strengths and feasibility:* Traditionally, decision-making in this region is almost always developed by the government monopoly. Thanks to the Soviet legacy with vertically shaped bureaucracy and decision-making structure, there were various obstacles for the development of public-policy field by non-state actors. In Azerbaijan, non-profit sector started to emerge from the mid of 1990s, but development of the third sector can be considered from the beginning of the 21<sup>st</sup> century. With the change of time and enhanced capacity, various non-profit organizations consolidated their expertise and currently in a limited manner lobby the government. However, lobbying and advocacy is quite limited for having an impact on the decision-making level. Bearing in mind current strengths and capacity of non-state actors' for involvement to the decision-making procedure, it is highly expected to bring potential positive impact.

When it comes to feasibility of think-tank involvement for the decision-making procedure, it starts from the willingness of the government to cooperate and put the initial steps towards this mechanism. For outcome based effective public policies, it is a required element to engage with non-state actors. It is strongly believed that diversity of actors will create seeds for development on the policy arena. Hence, with change of time and professional capacity of think-tanks, the status-quo signals for collaboration in between of non-state actors and government level.

To cut a long story short, decision making procedure and output are public goods; because, all the people in a society become stakeholders and get affected from the consequences either directly or indirectly. The comparison in between of the first and the second scenarios above claim that in

Azerbaijan involvement of think-tanks to the decision making procedure is considered to be more relevant and effective vis-à-vis corporate governance mechanism. It was assessed on the basis of following indicators: by (1) fiscal policy and sustainability, (2) capacity for idea generation, (3) current strengths and feasibility. In order to implement this policy, the government should bear in mind the below mentioned policy recommendations.

### **Policy recommendations:**

1. *Legislative basis* to bring non-state actors to the decision-making procedure should be development. This should initiate fundamentals of non-state actors on their status, roles and responsibilities in the decision-making procedure.
2. Based on the *competition law*, there should be additional part related to non-state actors' involvement at the decision-making procedure. It should draw a line between private sector and think tanks as well.
3. During this procedure, *agenda of the government and potential policies* should be transparent. Preferable, published on formal web-sites or at national papers. This means civil society should have awareness from the dynamics within the government.
4. *Advice of non-state actors* should be seriously considered by the government and they should be brought to the same platform on decision-making procedure. This means working habit among the parties should be changed! Thus, collaboration on the same platform and the mission based activity should be on top of the agenda.