



ICEG EUROPEAN CENTER

NEWS OF THE MONTH

on EU-10 and CIS



No.
47

May-June
2012

NEWS OF THE MONTH, ON EU-10 AND CIS

The ICEG European Center issues its monthly publication, which includes 2-4 brief analyses on macroeconomic and microeconomic issues. The publication focuses on two groups of countries: **Commonwealth of Independent States - CIS** (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan) and the ten post-soviet New Member States of the European Union – **EU-10** (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia).

Editor

Olivér Kovács okovacs@icegec.hu

About us

ICEG European Center is an independent economic research institute based in Budapest, Hungary. The Center was founded by Dr. Pál Gáspár in 2001.

Contact information

ICEG European Center, 5/B Királyhago Street Budapest, 1126 Hungary.

Phone: (+36) 1 248 1160. Fax: (+36) 1 319 0628 E-mail: office@icegec.hu. Webpage: www.icegec.org

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ISSN 1789-1515

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The appreciating role of public sector in Central and Eastern Europe in a turbulent era

Olivér Kovács

With the financial and economic crisis, which erupted in 2007 by triggering the feeling of ‘this time is different’, the role of the state is heavily appreciating again. Behind the curtain of the unpredictable and encoded characters of the recent crisis is to a large extent the fact that economists encounter limited capability to predict appropriately because they are dealing with complex, open and dynamic system. What is more, the used methods and econometric models were based on wrong assumptions without taking into account the world’s complexity and nuances.

Modern financial system is nothing, but complex. Complexity means that it is the result of human actions, but not that of human deliberations. Consequently, the old assumption that we can do the surveillance, the monitoring, the correction and the refinement of the global financial system very easily is now completely obsolete.¹ The evolved system can be treated – from the aspect of those wanted to control it as precisely as possible – as ‘madness’.

One strand of economic literature suggests that problem that occurs in a complex system is also complex, and should therefore be solved only in a complex way. Nevertheless, one of the most insightful handicaps of this line of economic thinking that aims at achieving the ‘controlled-madness’ is that there would not be any international organisation who could monitor and regulate the global financial system by its own in a complex way.

The history of financial crisis, which was lately deciphered and presented in a completely compelling way by Carmen Reinhart and Kenneth Rogoff on an alarming day 11 September, 2009;² teaches us that collapses and accidents will always occur because of the complicated and uncontrollable, hence unpredictable development of the global financial system.

Let us argue this by alluding to the fact that technological development carries risks for accidents *per se* as it was crystal-clearly illustrated by Perrow (1999). The story of technology-related catastrophes (e.g. the nuclear core meltdown in Pennsylvania in 1979) calls our attention to the fact that when it comes to adding complex and comprehensive safety-mechanisms to a basically complex system engenders new categories of risks and hence accidents.

¹ Among others, Meyer (2012) also stated that existing control mechanism over the global financial system has lost its effectiveness and efficiency by becoming not enough, like when skin proved to be too narrow any more.

² Reinhart and Rogoff (2009): *This Time Is Different: Eight Centuries of Financial Folly*. Princeton University Press; 1st Edition edition (September 11, 2009)

One of the most insightful observations of Perrow was that safety systems themselves create unintended consequences.³ Bearing in mind this message, one potential conclusion that can be drawn is that if we want to avoid increasing and uncontrollable complexity, policymakers should not pursue complex solutions, but foster simple ones in the spirit of “less is more”.

On the two aspects of ‘less is more’

From the perspective of a complex global financial system, it seems that the principle of ‘less is more’ should be the first and foremost buzzword when it comes to regulatory answers.⁴ The term ‘less is more’ has at least two aspects with respect to our topic.

First, ‘less is more’ also holds in terms of indebtedness, i.e. the level of fiscal deficits and public debts. It is of incredible importance since eurozone crisis is primarily a debt crisis *per se*. As Ferguson (2008:176) stated “the most basic financial impulse of all is to save for the future, because the future is so unpredictable”. States also have to save money for the future, because huge deficits and mushrooming debt levels are heavily endangering not only the prospects of the future generation, but maybe and also that of the present generation.

Second, ‘less is more’ may also refer to the need for fiscal governance that remains a priority at national level. More and more European countries faced serious liquidity problem (e.g. Hungary, Latvia and Romania in 2008) and even the threats of sovereign debt crisis (Italy, Spain, Ireland, Greece and Portugal in 2010).

Importantly, Reinhart and Rogoff (2011:4) already considers the period 2007-2018 as a decade of debt. As a corollary, the question of fiscal institutions tailored towards fiscal sustainability is still relevant in the European Union where the Stability and Growth Pact has not been able to promote fiscal discipline throughout the Member States.

The inefficiency of the Stability and Growth Pact (SGP) was manifested already in its lenient manner concerning the sanctions on non-complying countries such as Germany and France. Still, aiming at strengthening the SGP suffers from the lack of empirical evidence collected by many conveying the message that the internal fiscal commitment is more likely to be effective than the external anchoring role of the EU.

³ It was also the case in the financial crisis, when the safety system (packed sub-prime loans and credit default swaps) proved to be futile and they explained primarily the eruption of the crisis.

⁴ It was also ascertained by Haldane (2012). Available: <http://www.bankofengland.co.uk/publications/Documents/speeches/2012/speech596.pdf> Accessed on: 31.08.2012

It seems that SGP with an extended authority (e.g. with explicit debt rule) would have a deleterious effect on the democratic system if it wants to directly influence the given taxation and spending constellation of a country. Some voices argued that SGP, which has an avowedly weak external enforcement character (Wyplosz, 2006), does not need any further reforms, but EU needs more fiscal federalism in supporting the harmonisation of national fiscal policies.

Nevertheless, Csaba (2012) sensitively indicates that fiscal union is neither necessary nor possible if we take into account the empirical experiences of fiscal unions, the unique political and legal nature of the EU, as well as the special institutional construction of the EMU.

The history of EU and EMU conveys that member states are inclined to preserve their sovereignty and they require a solution which bolsters the fiscal discipline without endangering the transfer of sovereignty. *As a consequence, due fiscal governance remains a priority at national level* (Csaba, 2012; Di Fabio, 2011:464).

As a consequence, indebted countries should curb their debt-accumulation through a series of fiscal consolidations by complementing them with the establishment of mechanisms that are more likely to stand sentinel (i.e. by diminishing the deficit bias) over prudent fiscal governance in the future.

Trends in fiscal performances – Rambling and/or Gambling?

The fiscal laxity, which was a predominant feature in the peripheral countries like Greece and Portugal, can be seen *as a manifestation of a fiscal rambling when certain countries were not concerned about their budgetary development as one would have previously expected on the basis of external coercive power like the Stability and Growth Pact*. This behaviour was built upon the empirical evidence that non-compliance does not necessarily entail significant punishments.

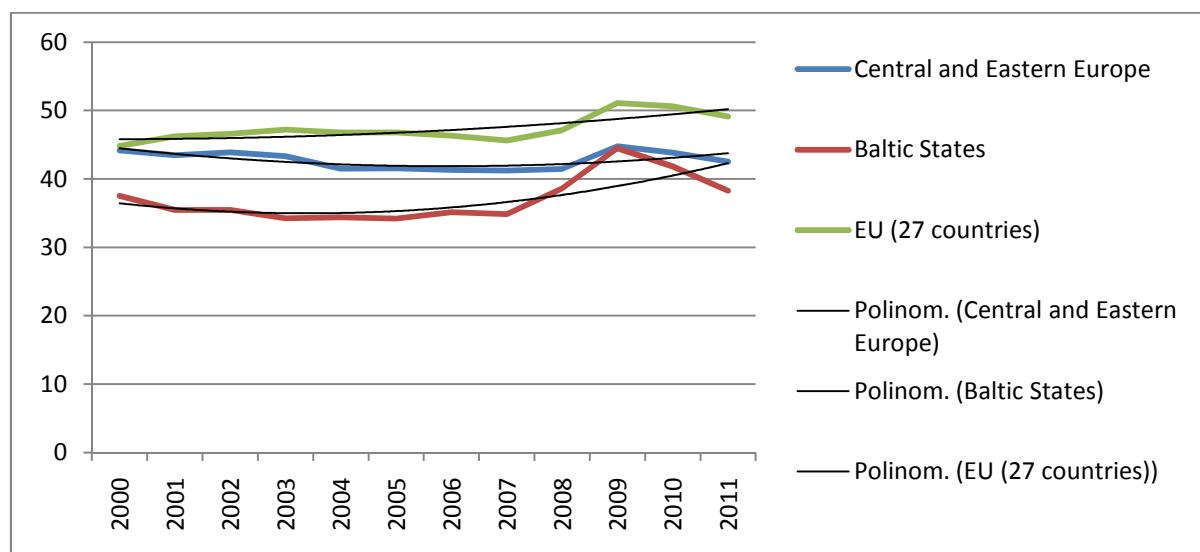
As we argued in our other paper (Kovács, 2012), apart from the fact that softening the SGP was equal with the worsening credibility, particularly by the early 2000s when two non-complying countries (Germany, France) were not sanctioned, we argue that this framework acted as a mechanism which was on the one hand benefiting for core-countries like Germany and France, and it was counter-incentive for such countries like Portugal in implementing necessary fiscal adjustments and structural reforms. Since the indebtedness in southern Europe, helped by Germany and France, fostered their imports, a contrario, it also triggered the German exports; and thus this system appeared to be a desirable one. Nonetheless, the surplus cash stemming from the strengthening exports was being to a large extent re-allocated into the southern countries in form of loans.

The reason why the EMU did not serve completely as an external enforcement framework is the fact that the German and French governments would have blocked the flow of increasingly risky loans to the peripheral countries like Portugal, but their interest groups would not have left it without a word because this would have led to additional economic slowdown determined by a decline in demand and workforce layoffs. For this reason, the creditor countries were not interested in breaking up this *status quo* and therefore closed one of their eyes to the fiscal indiscipline of Portugal. *Therefore, the budgetary developments in the periphery evolved along a unique gambling from the side of the European core countries on which the European growth performance rests to a very large extent.*

While this type of rambling/gambling game continued, the fiscal performances of Central and Eastern European countries did not remain untouched either by these developments. However, there were countries having traditionally much more disciplinarian public finance than others, of course.

As it is discernible on *Chart 1* that the degree of centralisation, which is often called the redistribution rate in percentage of the GDP, was placed onto an upward trend right after the eruption of the financial and economic crisis. Let us underline that the rising centralisation *per se* must not be interpreted without taking into account the recessionary effect of the global financial and economic meltdown that weakened the growth potential of certain countries. As real GDP growths slowed down, the redistribution rate grew or at least remained at a higher level conveying the message that the gargantuan tasks of significant and comprehensive structural changes as well as fiscal consolidations have not been yet fully accomplished.

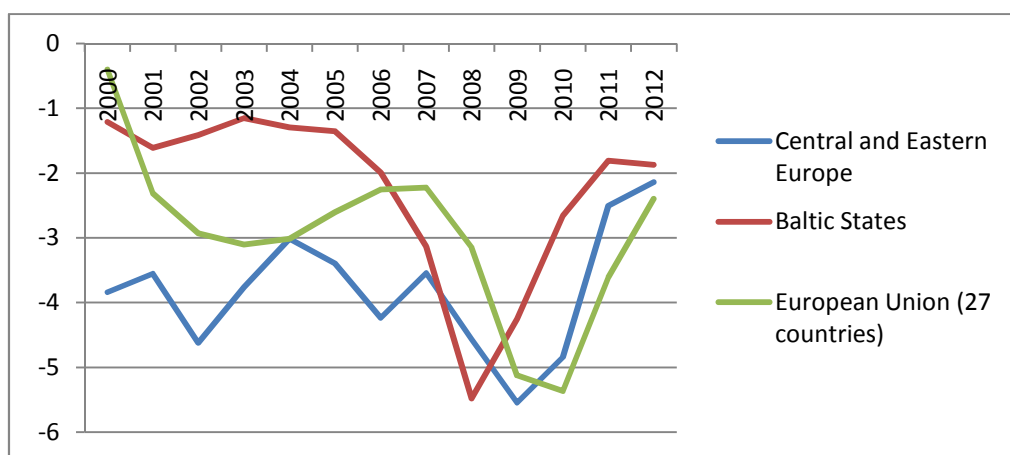
Chart 1. The degree of centralisation (public expenditures in % of GDP)



Source: Eurostat

Of course, and in parallel, deficit and public debt levels also bore the stamp of the slump observable in real GDP development. Nonetheless, if we take a mere glimpse into the trajectory of cyclically adjusted budgetary balance, one can lead to the conclusion that Central and Eastern European countries have not pursuing accurately the sustainable path of public finance since more or less the mid-2000s. Their deficits were above that of the 3% threshold stipulated in the Maastricht Treaty and preferred by the SGP.

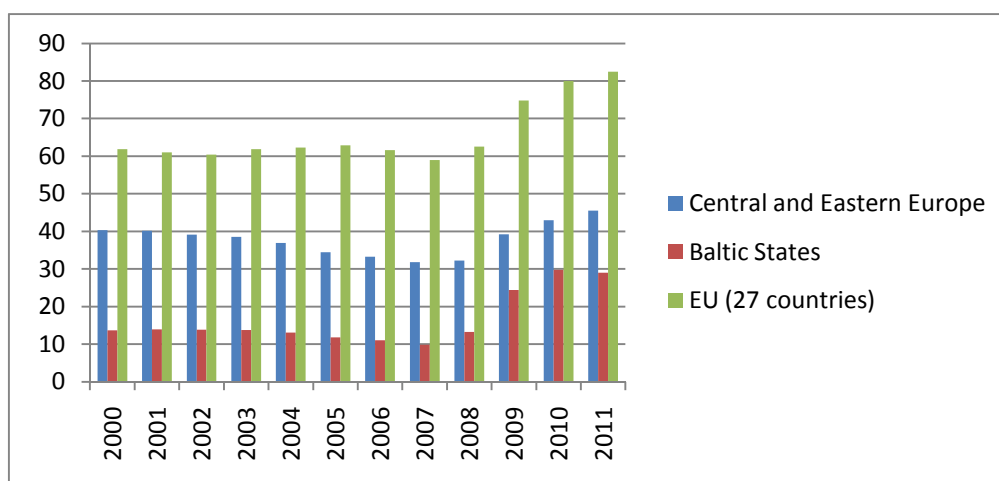
Chart 2. Trajectory of cyclically adjusted budgetary balance (% of GDP)



Source: AMECO

What is perhaps equally important is the two 'fiscal-mindset' observable in Central and Eastern European countries and in the Baltic States. The latter ones have been pursuing traditionally strict and more disciplinarian fiscal policy due to their monetary strait jacket, the Currency Board. Let us add immediately that it also holds in case of Bulgaria.

Chart 3. Trends of public debt (% of GDP)



Source: Eurostat

Even though the level of indebtedness - in aggregated terms and on average - is much lower in the CEE and Baltic countries compared to the volume of the EU27 (*Chart 3*), they are illustrating a growing trend and the increasing debt levels will certainly need to be addressed by fiscal policy.

As we mentioned earlier, in this regard, the internal commitment to fiscal prudence is of key importance, especially if we also consider the potential effects of the so-called 'hedonic editing' phenomenon, which is well known among psychologists. Hedonic editing refers to a situation when people are to convince themselves about that the failure they committed earlier is irrelevant and does not really matter.

By bearing in mind the consequences of non-compliance (e.g. let us recall to the cases of Germany and France) which can easily direct toward the misguided feeling that non-complying the external rules does not really matter and thus fiscal deficit can soar as long as we want it, so, this hedonic editing phenomenon is also on the card by serving as a counter-incentive to be committed to stringent fiscal consolidations and structural reforms.

The increasing importance of public sector – 'More for less' through innovation

Internal commitment to fiscal consolidation aiming at reaching sustainable public debt levels is of particular importance. It implies expenditure cuts that can even threaten the quality and accessibility of public services to which the public has become accustomed.

At this point, the essential role of public sector and its policies are showing up in a more vigorous way. The topic of policies fostering public sector innovation has perhaps never been of such great importance like today. By now, the fact that many European countries are facing severe challenges such as climate change, demographic problems became truism. Moreover, the tightening fiscal latitudes as a result of the recent financial and economic crisis and its ensuing sovereign debt crisis are also forming an additional fundamental challenge for most European public sectors.

This even bleaker situation scrolls many obstacles against maintaining and improving the governmental function to fulfil development goals – which often have expenditure-side consequences – as well as to enhance the quality of public services within a more efficient public sector becomes even harder.

With a view to Europe where the public sector represents approx. 45% as a share of EU's GDP, recent Innobarometer 2010 conducted by the European Commission, Directorate General Enterprise and Industry, conveyed the message that innovation in the public sector has a great potential in pursuing efficiency gains through improved service quality and user's satisfaction.

According to Oslo Manual, “an innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations” (p. 46). In the context of the public sector, the minimum requirement for an innovation is that it must be new to or significantly improved to the public sector at different institutional levels (central- federal (or regional), and local levels).

Innovation thus has become a means of effecting changes that are needed to meet the new strategic challenges (Schumpeter 1934; Damanpour – Schnieder, 2006). Bearing in mind the increasing tension directing EU Member States towards a more disciplined public finance, it is also worth emphasising that innovation in the case of public sector – where riskier innovation is often financed by public money – cannot be interpreted merely as something new, rather something better in terms of service quality/accessibility and cost-effectiveness.

On 1-2 March 2012, the European leaders endorsed the five priorities set out in the last Commission's Annual Growth Survey for action taken at the EU and National level, one of them being modernisation of public administration and reduction of administrative and regulatory burden.

Conclusion

In time of turbulence, when European core and peripheral countries are also suffering from the negative repercussions of the sovereign debt crisis, when the trust in the future of the eurozone has started to show some kind of evaporation, when series of painful measures are required to cope at least with fiscal challenges, the role of the state has been heavily appreciating.

The European public sector (including that of the CEE and Baltis States) has a great potential to demonstrate its ability to mitigate and eliminate the danger of fiscal unsustainability through fiscal consolidations, structural reforms as well as more innovation activity within the public sector to have ‘more for less’, i.e. increased or at least the same service quality of public service provision with improved accessibility. In this way the public sector may act as a trust-builder who is to strengthen the confidence level of citizens which is inevitable in time when painful measures are needed.

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Policies supporting innovation in public service provision – A workshop experience⁵

Olivér Kovács

Background

This workshop was linked with an INNO-Grips Policy Brief which analyses issues of public sector innovation. The workshop was attended by 35 experts, including representatives from the European Commission, national ministries and governmental agencies, as well as economists, consultants and representatives from business and business associations. Participation was upon invitation only.

Objectives and summary

The topic of policies fostering public sector innovation has perhaps never been of such great importance as today. By now, the fact that many European countries are facing severe challenges – such as climate change, demographic problems – became evident. Moreover, the tightening fiscal latitudes as a result of the recent financial and economic crisis and its ensuing sovereign debt crisis are also forming an additional fundamental challenge for most European public sectors. This even bleaker situation scrolls many obstacles against maintaining and improving the governmental function to fulfil development goals – which often have expenditure-side consequences – as well as to enhance the quality of public services within a more efficient public sector becomes even harder.

The internal results of the study for the Policy Brief were presented at the workshop as a basis for the discussion. The main objective of the workshop was therefore to offer an opportunity to exchange opinions and knowledge with special attention to the issue of public sector innovation and to the role of the government in supporting that.

The event addressed the following fundamental questions in order to contribute to the better understanding of the relevance of policies aiming at fostering innovation within the public sector:

- What are the main drivers and barriers of innovations in the public service provision?
- What were the main targeted fields in public sector innovation during the last three years?
- How to make collaborative efforts with the aim of increasing the perceived quality of public services by fostering joint policy learning?
- How more efficient and reflexive public service provisions can be achievable via various types of innovation and how these processes can be sustainable?

⁵ The workshop took place on 19 June 2012, in Vienna, Austria.

The workshop put special emphasis on policy related issues in three different sectors: (1) general administration (including public finance), (2) health and social protection and (3) environmental protection which are of paramount interest in the context of Europe.

Main points discussed

Session 1: INNO-Grips findings on public sector innovation

The workshop started with a short introduction part in which **Tomasz Jerzyniak**, Policy Officer at European Commission DG Enterprise and Industry and Principal Co-ordinator of the INNO-Grips project, and **Renata Anna Jaksa**, Director, ICEG European Center, emphasised the importance of context-related evidence based policymaking and the questions that are worth to be considered when it comes to innovation in public sector.

In his presentation, **Olivér Kovács**, Research Fellow, ICEG European Center, as the principal author of the presented Policy Brief on “Policies Supporting Innovation in Public Service Provision” shed light on the crucial importance of institutional architecture of the state in which innovation also takes place. This Policy Brief argues that comprehensive policies supporting innovation in public service provision to be analysed are missing, or rather erratically prevailed ones either inside or outside Europe. As far as the issue of drivers and barriers is concerned, the basic prerequisites of business innovation were presented, pinpointing the differences in case of public sector innovation. The speaker then presented the empirical evidence deciphered from already existing case studies on the one hand; on the other hand, the results of case studies that have been conducted for this Policy Brief on public sector innovations.

Paul Windrum, Associate Professor in Strategy, University of Nottingham, the UK, provided a discussant statement by touching upon the content of the presented Policy Brief. The speaker’s presentation “The nature of innovation in public services and their measurement” raised the issue of dealing with public sector innovation on its own terms. It was also questioning through examples that the public sector would be much less innovative than the private sector. Paul Windrum also pointed out that policy for the knowledge society requires an understanding of the complementary relationship between innovation in public, private, and third sectors. Concerning the public service providers, the speaker also argued that they are also co-producers of innovations with private sector and third sector organisations; they are standard-setters who provide platforms for profit-making firms and third sector organisations; and last but not all least, they are lead users as well.

Mark Napier, Director, The Centre for Public Innovation, the UK, also offered a comprehensive discussant statement over the topic and the Policy Brief. Regarding the content of the Policy Brief,

the speaker welcomed its approach in which the patterns of initiatives (e.g. top-down, bottom-up) are observable in a more dedicated way (i.e. highly decentralised states or federal ones are more close to the enterprise sector and citizens which is helpful when it comes to prioritising and getting feedbacks with higher quality. The discussant also emphasised the role of co-creation and co-delivery which is of paramount importance if for no other reason than it can moderate the level of responsibility which is a great obstacle to innovation by maintaining the so-called risk aversion. Mark Napier also argued that the public's appetite for innovation differs across types of services.

Discussion

The presentations provided enough ammunition for lively discussion. It has been highlighted that there are lots of public sector activities without being immersed into effective service provisions, especially in the Central and Eastern European countries. The participant underlined the lack of result oriented attitude in the public sector organisations as well. The issue of transferability was also raised: to what extent can we translate public sector innovation practices deciphered in laboratories into another country?

The opinion of participants conveyed the message that if we want a pro-active and intensive innovative behaviour in the public sector, we must not forget that stability is highly required by people, by citizens and end users. The relevance of institutional architecture was raised, which was an integral part of the approach of the presented Policy Brief, by mentioning that public sector management at different levels of government should be harmonised, in other words, the real challenge is the synchronised harmonisation of decentralised decision making process. Much of the problem lies in the fact that decisions on different levels of government follow their own administrative, budgetary and political logic. Synchronizing decisions mainly helps to avoid friction and delays. The main task is to streamline the decisions of different political bodies (regional councils, community councils, national ministries) which follow their own political calendar and logic (e.g. A will not cooperate with B on issue C, as long as B does not support A in issue D) and to structure projects in a manner that allows all levels to take their [own] budgetary decisions appropriately while making their investment and the timing of their investment fit with the overriding planning and goal.

It has also been restated that public sector has to provide stability; therefore the public appetite for radical innovation-related changes is less than it is the case when it comes to appetite for radical innovations in the private sector. The participants also recalled to the issue of diffusion, the scale on which along a "best practice" can spread by emphasising the misleading feeling of comfort given by the "one size fits all" approaches.

Session 2: A Deeper Look at Public Sector Innovation

This session looked at how we understand the lifecycle of innovative policies looks like and how the "learning curve" works for innovative policies. The session consisted of three rounds of group-based discussion over three fundamental questions.

Round 1 – To what extent is PSI different from business sector innovation? How do drivers and what barriers in PSI differ from those in business sector innovation?

Although there was not crystal-clear what we should consensually mean by public sector innovation, and what is more, with what kind of purpose should public sector innovation be considered; participants were quite pro-active in favour of juxtaposing numerous factors that differentiate innovation in the public sector from private sector innovation. Public sector's aim is to produce and offer public goods; however, the whole process can be heavily influenced by (political) interest groups. There is a fundamental difference in terms of main drivers and barriers as well. In the private sector, pursuing profits and bigger market share can be seen as one of the most fundamental incentives for being innovative. In the public sector, on the contrary, there is no such an incentive; however, its main goal is to increase welfare, the well-being of people. Another important difference is the complexity of innovation related issues in the public sector where short term goals should be in line with longer term objectives without endangering each of them. In addition, the election-based thinking shortens the political timeframe for innovation as well. The political barriers are rather solid; but, as few of the participants mentioned, the crisis with its financial stress and budgetary constraints can be seen as a window because surpassing innovations were determined mainly by financially problematic situation. Participants also agreed that the lack of competition is a barrier; however, governments with their innovativeness can compete with each other on the European level.

Round 2 – What is the relation between and the importance of "innovative public sector initiatives" and "policies on public sector innovation"?

The differentiation between "policies on public sector innovation" (big, overarching policies that target the innovativeness of the public sector in general, often connected to a policy on modernisation of the public sector/public administration) and "innovative public sector initiatives" (specific, very innovative and creative policies related to a given branch activity type in the public sector, like an innovative action in health management or in public transportation or in any other specific domain) has been made already in the Policy Brief and its presentation. Now the question targets these two main types of relevant policy levels and asks where to focus (with European policies) and how to tackle the arising challenges.

It has been agreed that initiatives are more likely to be bottom-up, while big overarching policies are classic top down policies, and both types are important in a healthy policy environment. The overarching policies on innovativeness of the public sector should create the framework conditions for specific innovative initiatives to be formulated. This should work as a “licence”: “actors are enabled and entitled to innovate within this space”. Others argued that it is an old concept of the public sector where actors shall ask “permission to innovate”: rather, actors should be pushing innovation.

Typical topics for overarching policies on public sector innovation could be: i.) general staff incentives for people working in the public sector, ii.) performance evaluation systems valuing innovativeness, iii.) budgetary issues – innovative ways of saving money shall not result in loosing from budget lines, iv.) defining the framework of cooperation among different levels of government, etc.

One of the most important tasks of overarching policies on public sector innovation is to set up a legal framework that is adaptive. New initiatives often need (relative) fast legal changes, and the framework should be able to aid in this, without leading to hasty and abrupt lawmaking.

The group agreed that in case of innovative initiatives, there is no need for major harmonisation, it is more important that the given initiative fits well into the given domain (health, education, transport, etc). The question aroused: are initiatives more process-driven and process-oriented than top-down, overarching policies? If so, how can they be supported?

Round 3 – How can public sector innovation work in a multi-actor/multi-agent framework? What can collaboration look like and evolve?

The first question regarding the last round of debate targeted the multi-actor/multi-agent framework, claiming that the expression on “multi-agent” is more expressive as it refers not only to the nodes/vertices of a network but also to the edges/links, therefore suggesting this framework to be open, all actors/agents bringing into the collaboration their own full network and social capital.

Speakers also discussed the tensions in these multi-actor frameworks: different actors have different expectations, targets and these are in conflict (see: public sector – not interested in commercialisation but in large scale output, motivated within the hierarchy, influenced by elections, etc., the business sector – motivated by profit, gaining new markets, etc.)

Others have mentioned that while this conflict exists on the level of institutions, it may not be so tangent on the level of actors – as most people are not naturally born public servants or entrepreneurs or civil activists, rather, talented and creative people often switch jobs/positions

among the different sectors, and by moving around they learn to understand the viewpoint of different institutions.

It is important to see that multi-actor/agent framework does not only mean grouping actors from different sectors. The group can be composed of actors from different public sector organisations and/or from different regions; furthermore, the cooperation scheme of them is also crucial to understand.

Session 3: The apple of public sector's eye – Innovation for efficiency gains and cost savings especially for the public sector

The session was built on actual case studies of how public sector innovation works in real life, in given entities of the public sector (and related stakeholders). The session started with the presentation of **Ina Homeier Mendes**, Vienna City Urban Development and Planning: Smart City Wien, Austria, who described the stakeholder process behind the “Smart City Wien”, built on a smart energy vision (a strategic roadmap until 2050) and its Action Plan 2012-2015. **Christina Pop**, Ministry of Administration and Domestic Affairs Central Unit for Reform in Public Administration, Modernisation of public administration, Romania presented the modernisation plan for the public sector of Romania, and how innovation is of key importance for that. Finally, **Richard Ruijtenbeek**, Innovation Manager of the Municipality of Rotterdam, from the Netherlands displayed the specific triple helix built in the port of Rotterdam. The RDM Campus was built on an old harbour part, and offers an “innovation street” where small companies can introduce their good ideas and the university presents the opportunity to test them.

Discussion

Marta Georgijew, Senior Specialist, Innovation and Industry Department, Ministry of Economy, Poland commented on the examples provided above, highlighting the question: what is the role of the central government in picking up local initiatives? How the different levels of public sector shall act when it comes to public sector innovation? **Michael Kallinger** from the Federal Chancellery of Austria highlighted that the public servant can be, and should be a driver for public sector innovation.

Participants also discussed that yet there is a missing link in the policy cycle for measuring efficiency gains from these policies, and in most cases the sum up of costs can be available but methodology of measurement is often missing.

Session 4: Public sector innovation affecting businesses and the role of the third sector

The last panel was dealing with innovation in the public sector that targets direct benefits for the private sector (business and citizens as well), often co-created by individuals or organisations with non-public background. The nature of these multi-stakeholder relationships in innovation were presented in more than one ways. The session started with the presentation of **Laura Massoli**, Head of Unit, Public Administration Department, Ministry for Public Administration and Innovation, Italy. She presented a case on the role of the third sector in policy evaluation. The lessons learnt from the experience were: i.) a need to create a framework for sustainable improvement in policies, ii.) the citizens' participation should and could be further increased, iii.) transparency is crucial for success, iv.) transferability is needed in order to realise benefits on a larger scale, v.) political commitment is a cornerstone, vi.) methodology must be defined and elaborated.

The second speaker was **Anett Hodosi**, commercial director of UNIMEDIC Ltd., United Kingdom. She discussed the case of procuring innovative tools for the health sector, where a mismatch between the implementing level of the public sector and the funding-decision level can lead to serious delays in applying up-to-date technology for the benefit of patients. Furthermore, procuring innovative goods and services for the health sector is particularly associated with institutional rigidities that are mainly due to the highly decentralised health care system in the UK. Among other things, the speaker emphasised the following factors: highly decentralised structure; decision of implementation and funding at different levels; large number of public institutions with similar responsibilities and aims; difficulties with understanding science by decision-makers; resistance to learning new methods. To this end, a smart procurement in which the focus is placed onto the value of innovative technology and service and where sufficient funding is allocated to such incentives is of paramount importance.

The last speaker of the session was **Wouter Stolwijk**, Director of PIANOo, a Dutch Public Procurement Expertise Centre. He emphasized the need to create and maintain forum for discussion regarding the public procurement procedures, furthermore these should include not only virtual discussions but regular personal meetings of the relevant stakeholders. He emphasized the need to modernise public procurement by introducing more open forms for communication between the procurer and the potential contractors. Public actors sometimes know little about the market where they are about to procure innovation and this often leads to sub-optimal procurement decisions.

Discussion

Paul Windrum, Associate Professor in Strategy, The University of Nottingham provided a commentary for the whole session. He draw attention to that although the panel often used the

“third sector” as a representative of citizens, in real life third sector organisations are independent actors with their own agenda. They can be seen as “honest brokers” but should not be identified with citizens rather should be dealt with as separate group of actors in the multi-stakeholder map of innovation.

Participants also mentioned that when talking about reforming public procurement and making it more innovative, the legal approaches should be separated from economic approaches. Economic soundness and rationality, optimal use of public funds should come as main priority and coded legally, just as much as really necessary, from a judicial point of view.

The discussion has also included the future of more participatory, citizen-involved decision procedures (as information is more and more decentralised, citizens can be better informed and good ideas from citizens should be channelled into the decision making process) while also drawing attention to the weaknesses of the method: in cases where centralised, focused actions must be taken, the multitude of suggestions and ideas should be filtered strongly and decision shall avoid disorientation.

Session 5: Concluding remarks and outlook

The workshop was closed by remarks from **Tomasz Jerzyniak**, Policy Officer at European Commission DG Enterprise and Industry and Principal Co-ordinator of the INNO-Grips project. He highlighted the need to present in more details policy options on several, but most importantly, on European level: the collected intelligence should feed into the design of appropriate pan-European policies in order to yield the benefits of public sector innovation. **Renata Anna Jaks**, director of ICEG European Center, closed the meeting and thanked all participants for their excellent inputs, expertise and suggestions for the Policy Brief on Policies Supporting Innovation in Public Service Provision.