## Contents

*List of Tables and Figures*  
vi

*Preface*  
xi

1. Why Policy Analysis?  
   
2. The Policy Analysis Model  
   11
3. Stakeholder Analysis  
   37
4. Data Collection and Analysis  
   55

**Part 1  The Basic Tools**

5. Allocating Government Resources  
   85
6. Assigning Government Responsibilities  
   121
7. Implementing Government Programs  
   153
8. Outsourcing Public Services  
   169

**Part 2  Designing and Implementing Policies and Programs**

9. Program Monitoring  
   191
10. Performance Management  
    235
11. Program Evaluation  
    265
CONTENTS

12  Impact Evaluation 293
13  Benefit-Cost Evaluation 317

Part 4  Preparing Policy Recommendations
14  Writing and Presenting Policy Recommendations 353

Appendix: Policy Case Studies 379
Notes 419
Bibliography 427
Index 433
About the Book 441
This book aims to improve the quality of public decisionmaking and service delivery. Governments everywhere are under pressure to do better with fewer resources. In transition countries these pressures are even more acute, as they are accompanied by the need to develop the legal and regulatory framework for a market economy, design more efficient ways to conduct the remaining government tasks, and reinvent a social safety net to protect vulnerable citizens from poverty. Added to these overarching tasks is an organizational shift from central planning and management to local government responsibility for the delivery of many public services. Amid these challenges, governments do what they can to maintain current programs, address pressing problems, and implement new initiatives and reforms. Some accomplish this better than others.

This transition is occurring on an uneven playing field. The countries in the region are vastly different in terms of the pace of reform and other attributes. These differences have, in part, affected the countries’ reform policies. Table 1.1 groups European transition countries according to their overall transition progress, as assessed by the European Bank for Reconstruction and Development (EBRD).¹ The EBRD defines the main tasks of transition as the following:

- Macroeconomic stabilization.
- Price and trade liberalization.
- Privatization of state assets.
- Institutional reforms to support the development of market finance, to commercialize public infrastructure, and to strengthen public administration.

The literature is divided on whether initial conditions or policy decisions have played a larger role in the shifting economic status of these nations. Influential initial conditions include income, proximity to other markets, natural resources,
industrial concentration, and war. For example, central and southeastern European and Baltic countries benefited from proximity to European markets, market memory, and relatively high incomes (compared to other transition states). Russia benefited from its natural resources, yet struggled with cities concentrated on failing industries and limited public support for reform. Several of the central Asian countries began the transition with weak infrastructure and rampant industrial failure. Bloody conflicts in Armenia, Azerbaijan, Bosnia, Georgia, and Tajikistan absorbed resources, thwarted transition, and blocked economic growth.

A recent World Bank report found that initial conditions explained considerably more of the variation in performance than did policy decisions in the early transition period. These conditions, however, had less of an impact when looked at over the entire decade of transition. Others have found that differences in the pursued policies had a larger impact on outcomes than initial conditions.²

East Germany, for example, started the transition with several significant advantages, yet today its feeble growth and rampant unemployment put it in a class with some of the most disadvantaged and least reformed nations in the region.³ It quickly solved the challenge of developing a legal framework by adopting the laws and government structures of West Germany. It had ample resources to fund private sector investment, generous social protection programs, and other public expenditures through transfers from West Germany. From 1991 to 1997, these

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<th>High Level of Reform</th>
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<td>Bosnia and Herzegovina</td>
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<td>Tajikistan</td>
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<tr>
<td>Lithuania</td>
<td>Georgia</td>
<td>Turkmenistan</td>
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*Source: European Bank for Reconstruction and Development (EBRD), Transition Impact Retrospective (London: EBRD, 2001).*
transfers amounted to 40 to 60 percent of East Germany’s gross domestic product (GDP) and dwarfed Western governments’ aid to the entire region. Finally, with German unification, East Germany became an instant member of the European Union (EU), gaining favorable access to European markets years before the central European and Baltic states.

East Germany made a bad turn at the outset, however. Two economic policy choices set a course for disaster. First, in response to political pressures, East German marks were grossly overvalued in the conversion to a single currency, making East Germans quickly—but temporarily—flush. Second, because of a policy to create wage parity between the East and West, East German wages grew unrelated to workers’ productivity. This rendered many East German firms unable to compete and workers were knocked out of jobs that might otherwise have been retained as the economy restructured. These policies resulted in high unemployment and obstructed new enterprise growth. This dismal economic scene is somewhat mitigated by massive social protection spending supported by West Germany, which itself suffers from low growth and a rising deficit.

It is easy to imagine the political pressures that contributed to these policy decisions. German policymakers may have also miscalculated that the advantages enjoyed by East Germany at the start of the process would offset some of the economic and political compromises made along the way. After the fact, it is easy to identify poor decisions. But the complexity of these issues makes formulating effective public policy a challenge even for those with the best intentions and training.

Public policy has the potential to dramatically improve people’s lives and to achieve multiple social, economic, and political objectives. For example, in fall 1992, Russia needed to quickly relocate and retire about 5,000 military officers stationed in the Baltics. These countries had just won their independence and were less than welcoming toward Russia’s continued military presence. At the same time, the officers had served with merit and deserved appropriate housing in Russia. However, Russia suffered from its own housing shortage and hard budget constraints. Waiting lists for newly constructed housing were already many years long—and even a new program to build necessary units for the officers would take years to complete.

The US government stepped in to fund housing for these officers and relieve the tense situation. While the first impulse was to construct new units, a team of US and Russian policymakers developed a different scheme that granted eligible officers and their families vouchers to purchase housing in several Russian cities. Vouchers were set at local market prices and users could contribute their own funds if they wanted larger accommodations or particular amenities. Officers could use the vouchers to purchase new units from the government or private builders or units in the secondary market (existing housing). In addition to relocating the offi-
cers in a timely manner to housing that met their needs, the vouchers also served a secondary objective of helping to stimulate private construction and the market for existing housing.

When the program was implemented, Russia’s housing market was still in its infancy and it was unclear whether the officers would find enough public or private owners to accept their vouchers. The program proved a success, with 2,700 officers relocated in 1993–1994 using vouchers (the others waited longer, some much longer, for newly constructed units to be completed).4

The voucher program is a good example of the creativity involved in policy-making. Because speed was such an important criterion in this case, policymakers were willing to risk a new approach that, if successful, would lead to quicker relocations.

There is a desperate need for creative and effective policymakers. Decentralization from central planning has dramatically expanded the number of policy players in regional and local government. These players, along with NGOs, contribute to defining public problems and pursuing more efficient solutions. Effective policymakers and analysts are those who approach each new problem with critical thinking—that is, they are able to conduct rigorous analyses, generate creative solutions, and bring experience as well as good judgment to decisionmaking. This book encourages critical thinking, teaches effective analytical techniques, and offers practical examples to help readers apply new ideas and skills to real world problems.

Organization of the Book

This book is written for policymakers and students interested in transition countries and development issues. We selected topics based on their immediacy to the policy challenges and political context of transition countries. These topics arise frequently in actual policy development and are those where officials and analysts often lack a solid grounding. The book is in keeping with the basic discipline of policy training as taught in North American universities (see Box 1.1), with a heavy emphasis on international best practices and case studies from the region.5

We focus on key policy skills, including analytical decisionmaking and how to monitor and evaluate programs. The book also covers major concepts in policy-making such as the following:

- Considering the distributional aspects of policies (who benefits/pays).
- Developing explicit decisionmaking criteria.
- Balancing political and technical factors.
- Defining public goods and services.
- Improving public services by fostering competition and utilizing the private sector.
The book draws on examples of policies, social and economic problems, and current practice to make the material practical and engaging.

In each chapter, students have the opportunity to use exercises or assignments to apply the concepts and skills from the text to practical policy problems. For example, after a description of how to conduct policy analysis, there is an exercise on how a city might reduce its traffic congestion problems. Similarly, following the text on using the private sector to improve the delivery of public services, there is an exercise on how to contract out social services on a competitive basis. These and other exercises are based on contemporary economic and social problems and make the study of public policy a lively and relevant process. The exercises are

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**Box 1.1 The Study of Public Policy**

The field of public policy includes the ideas and actions of government and other players in response to societal problems. A wide variety of actors put problems on the agenda and undertake actions both within and outside government. Furthermore, policy studies address not only laws and regulations, but also how they are implemented and what effect their results have on the population and on the perception of the problem.

The formal study of public policy emerged over the past century as an outgrowth of US political science and an evolution of public management programs. Early in the twentieth century, political science was a discipline focused on how the state and formal government institutions were organized. As early as the 1920s, critics advocated that the discipline expand its study to include the dynamic processes of government actions. It was not until the 1950s, however, that several movements in political science advanced the study of policy. The first such movement to emerge was behavioralism, which sought to establish scientific methods of quantifying the development of laws and predicting or describing political behavior. Another significant movement called for a more multidisciplinary approach to policy studies that would draw from legal studies, economics, sociology, and problem solving, with an emphasis on rational decisionmaking. By the 1960s and 1970s the field further expanded to include more analysis on how groups of citizens and other external factors influence policymaking.

Public administration programs trained public servants to implement and administer government programs. These programs eventually expanded their scope to include public policy, and many universities began to offer public affairs programs. By the 1960s and 1970s, economists and others had developed techniques for analyzing public problems, which prompted more formal policy programs to become popular. Today, public policy is taught in countless universities throughout the world and programs vary from those with a heavy emphasis on public administration to those with a more analytical approach.

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fully described at the end of each chapter, and the opportunity for an exercise is called out at the relevant location in the text. If you are using this book as part of a class, your instructor may assign these exercises as group activities to be completed and presented during the class period.

At the end of many of the chapters is a reference to a supplemental reading that provides additional information or a new viewpoint on a particular topic. These readings ensure that interested students have an opportunity to expand their understanding of a topic in some depth. Many of these readings are available online. Examples of readings include an assessment of social safety net programs in the region, experiences with contracting out for public services in India and Ghana, and an evaluation of administrative reforms in Russia.

Part 1: The Basic Tools. Chapter 2 presents an analytical decisionmaking method that is the cornerstone of public policy teaching. This method, sometimes called the rational model, describes the policy process as a series of steps that range from defining the problem, to weighing policy options against established criteria, to selecting the best alternative. This method encourages policymakers and students to move beyond rote methods of problem solving to using real analytical decision-making methods. This chapter introduces some key concepts that are important themes throughout the book. Many of the other chapters present tools, such as stakeholder analysis, data analysis, monitoring and evaluation, and benefit-cost evaluation, that can be used to enrich the basic policy model.

Chapter 3 focuses on understanding the interests and influence of various parties on public policy. In defining a problem, the first step in policy analysis, it is crucial to identify who is affected by it and who stands to gain or lose by implementing a proposed solution. Identifying and taking proper account of incentives to stakeholders is a key determinant of success in policy and program design. This chapter provides instructions for how to conduct an analysis that identifies key stakeholders, quantifies their interests/influence, and maps strategies of how to properly engage them.

Chapter 4 focuses on using data to inform decisionmaking and monitor program performance. Often public managers fail to consult data that would help them to better understand the problems they face or evaluate the impact of public policies and programs. This chapter discusses how to use data, including how to critically examine data in tables, how to organize effective data collection, and how to analyze data using quantitative and qualitative methods.

Part 2: Designing and Implementing Policies and Programs. Chapter 5 discusses how government resources are allocated, using the strategies of targeting and subsidies. Targeting assistance to those most in need has emerged in transition economies as a critical strategy for better meeting public needs and making more
efficient use of limited resources. The chapter focuses primarily on strategies to
target assistance to poor households. The subsidy and benefits sections present var-
ious types of subsidies and different designs for structuring public benefits.

Chapter 6 presents the roles and responsibilities of different levels of govern-
ment, focusing on the assignment of expenditure responsibility and revenue
authority among federal, regional, and local governments. The chapter presents
some basic economic theory and provides examples of how various countries have
divided these responsibilities.

Chapter 7 describes how competition and the private sector can be used to
improve the delivery of public services. Specific strategies for carrying out govern-
ment functions include direct provision, contracting out, leasing, concessions, and
privatization. The chapter outlines conditions under which each approach is most
likely to be successful.

Chapter 8 provides a hands-on description of how to design and implement
competitions for contracting out public services. Special attention is given to this
topic because of the need throughout the region to improve efficiency in service
delivery; contracting out is an attractive approach.

Part 3: Monitoring and Evaluating Programs. Monitoring is the routine meas-
urement and reporting of important indicators of program operations and results.
Chapter 9 provides the rationale for monitoring public programs and presents
examples of monitoring programs as well as instructions for developing a monitor-
ing system.

Performance measurement, discussed in Chapter 10, is a type of monitoring
that assesses public programs based on the results gained by the customers or citi-
zens served. Traditional measurements of government programs often track expen-
ditures (inputs) and number of persons served (outputs). Performance measurement
focuses outcomes (results) and uses performance indicators that are directly con-
nected to specific government goals. Performance measurement can provide deci-
sionmakers with useful information to improve public services, to improve
resource allocation and justify agency budgets, and finally to encourage accounta-
bility. Performance management is the practice of using performance measurement
to improve service delivery. Basic concepts and techniques are presented and read-
ers have the opportunity to develop performance indicators for specific social and
economic programs.

Chapter 11 presents the early history of program evaluation and defines the
different types of evaluation discussed in this book. The chapter then describes
process evaluations, which assess the extent to which a program has been imple-
mented as intended. Readers learn how to conduct evaluations and participate in an
exercise to design their own evaluations.

Chapter 12 introduces students to impact evaluation. This type of evaluation
attempts to better understand how much of the program’s outcome is due to pro-
gram activities (program impact) and how much may be the result of other factors. The standard practice of impact evaluations is to contrast the outcomes for an experimental group that receives a service with a control group that does not. This chapter presents basic concepts and examples of impact evaluations.

Chapter 13 reviews the procedures used to identify and place monetary values on costs and benefits of a program. The uses and limitations of benefit-cost evalua-
tion are explained. Also included are descriptions of cost-effectiveness analysis for program benefits when specific monetary values cannot be determined.

Part 4: Preparing Policy Recommendations. Policy analysts must be able to write clear and well-reasoned policy statements to convey their ideas to policy-
makers. Chapter 14 outlines strategies for writing effective policy statements. Readers review examples of effective policy briefs and complete exercises and case studies involving drafting policy memoranda on social and economic policy issues.

Appendix: Policy Case Studies. This section includes the case studies used for policy analysis and writing recommendations. Cases include, for example, propos-
als to reform inefficient social assistance departments, strategies for combating the spread of AIDS, and the challenge to improve municipal heating systems at reason-
able costs. The range of cases allows readers and instructors to select cases based on their interest in the topics or the particular policy skills required for each case.