

ICPS newsletter

Will the new government change the way it works?

In Ukraine, the newly formed executive government is initiating the development of an action program. The International Centre for Policy Studies has submitted a briefing to the government, offering its own analysis of the reasons for the failures of previous programs to help new governments avoid committing the blunders of their predecessors. ICPS experts believe that this government will also encounter difficulties in accomplishing its goals without having a well-formed strategy, grounded on a quantitative assessment of available resources and setting criteria for monitoring change, as well as taking into account of the behaviour of various stakeholders. For your consideration, the key statements of the ICPS briefing are set forth below

Every Ukrainian government has faced the choice between working according to the entrenched command-administrative procedures or creating a democratic system of management. Preserving the old procedures has resulted in some part of decisions never being performed, and another part being performed but without the corresponding effects being assessed; hence, the strong possibility remained of repeated promulgation of ineffective decisions.

The executive governments worked in a "fire-fighting" regime which resulted in "manual management" of the budget, under conditions of un-coordinated declared measures and budget resources. The trust of the public declined, and political opponents could easily accuse the government of ineffectiveness and demand its resignation.

The success of reforms relies on error-free, timely decision making and the introduction of long-term strategic programs. As an example, over the past decade India has advanced dramatically in the sector of software applications thanks only to the government having developed and consistently implemented a long-term development program for this sector. As a result of the implementation of this program, by the YE'00 results India's software exports brought 8.26 billion USD in revenues.

The new executive government of Ukraine faces supremely challenging objectives:

- to manifest political willpower and gain public support for the implementation of urgent decisions;
- to approve and implement decisions whose positive effect will become evident only with time.

In addressing these challenges, the new government will benefit from the following advantages:

- The Prime Minister is experienced in management and problem resolution for a large region, which will be of use in administrative reforms in the government;
- The government is changing at a time when it is still possible to influence the budget adoption in order to ensure that financial resources are properly allocated for the execution of the government's programs. The new government can avoid the inconsistency between program measures and budget resources, because all participants in the political process anticipate the adoption of a strategic, development-oriented budget;
- It is a coalition government, which gives reason to expect fruitful cooperation between the two arms of government.

An important factor in the successful application of these advantages would be the development of an executive government strategy, grounded upon a qualitative assessment of available resources and comprising criteria to assess the accomplishment of goals. The strategy should link each government decision to the institutional and legislative changes required, along with a specification of budget resources to be allocated.

Why have government programs not been executed in Ukraine?

None of Ukraine's governments can boast that it had executed its program in full scope. We believe that the following reasons have been behind the failure to execute government programs:

- **Government programs were statements of intent, not strategies.** The former describe a desired status, but do not describe the

measures needed to achieve this condition. Meanwhile, strategies include a goal, given in concrete figures, and quantitative criteria used to keep track of its implementation. The government assumes responsibility for accomplishing this goal.

- **Government programs did not take into account the existence of different stakeholders.** Struggles between different interest groups (particularly regional, finance-and-trade, sectoral, and professional groups) are a legitimate reality. Nevertheless, when devising programs, Ukrainian governments have disregarded the influence and actions of different stakeholders, while simultaneously citing the national interest. Consequently, there were gaps between the declared national interest and reality, with the latter including interests not accounted for in government programs. Without the open consideration of the interests of different interest groups during government debates, any public hearings simply become parallel monologues.

- **Government programs did not take into account that budget resources are limited.** The government adopted countless programs beyond the capacity of budget resources, and hence they were not executed due to the lack of funds. This depreciated the value of government decisions and sapped the public trust in the government. The number of government "priorities" constantly mushroomed, with no regard for the scarcity of resources. Statements of intent did not entail any obligation to reject non-priority measures. On the other hand, a strategy based on a quantitative assessment of available financial resources would require the giving up of non-priority and unjustified decisions.

- **Resources are scattered.** Due to the absence of a strategy and a lack of coordination between government bodies, budget resources are needlessly spent on parallel or contradictory tasks; as a result, budget expenditures are duplicated and resources are inefficiently employed. For example, the Ministry of Education spends money to educate more graduates of vocational institutions, while the Ministry of Labour then spends money on re-training and re-qualification of unemployed graduates of these educational

establishments. Another problem is that at least three departments are in charge of healthcare funding. Only one-tenth of the money allocated for computerisation is allocated under the framework of the National Computerisation Program, while the remainder is allotted among hundreds of ministries and departments, which do not coordinate their activity. Such a dispersion of resources creates the illusion of a lack of resources, which serves as justification of the failure to execute decisions. In the meantime, there are sufficient resources, it is only a matter of allocating them effectively.

• **There is no coherent system for planning, coordination, monitoring, assessment, and reporting on government decisions.** The Soviet management system was focused on the execution of top-down directives, not on problem analysis and the preparation of proposals and decisions at different levels of management. The lack of a system of information and analytical support for policy decision-making and implementation process has led to the adoption of controversial decisions. The lack of assessment of the implications of adopted government decisions has prevented the possibility of enhancing their quality.

• **The responsibilities of central and local government are not delineated.** The reform of the budget system was not accompanied by decentralization of the administrative system. Such inconsistency between responsibility and received resources leads to the failure to execute decisions at regional and local levels, and, hence, the ineffectiveness of state and local government.

• **The government does not possess comprehensive information on conditions in Ukraine.** There are no procedures for information exchange between ministries and departments, or between central and regional government bodies. Certain government bodies regard information as their own property and are not inclined to share it with others. Accordingly, the central government does not have a complete picture about national development, nor does it have information to assess the implications of adopted decisions. In

Ukraine, there is no established system of acquisition and calculation for most of the indicators used to assess the development of European Union and other countries. The absence of realistic information about different aspects of the country's life has led to biased assessments of Ukraine in international ratings.

• **Irresponsible decisions that are not backed by resources sap trust in the government and undermine executive discipline.** When only 2 of 22 state healthcare programs are financed (and only partially), for example, and the General Prosecutor's office demands that culprits for the failure to execute the programs be punished, cynicism is the only way for civil servants to survive.

The new government must change the system of incentives in the economy

The majority of government programs in Ukraine are socially oriented. The President of Ukraine has declared combating poverty to be a priority activity for government institutions. Poverty can be overcome only by boosting national welfare, which can be achieved with the following actions:

- developing entrepreneurial initiative;
- effective usage of available state resources to help vulnerable societal groups and for development programs.

Nowadays, neither of these mechanisms works. Presently, it is more profitable to redistribute public resources than to work in legal business and create new resources. Such a situation stalls the development of both the middle class, where entrepreneurial initiative is concentrated, and big business that would be capable of competing in international markets.

Only if a strategy is devised and consistently implemented will the government be able to change the system of economic incentives. If the limitation of resources is acknowledged and the effectiveness of public resource usage is painstakingly evaluated, it will become unprofitable to make money from their redistribution. Instead, it will become profitable to run a business independent of the government.

Then, under such favourable conditions, entrepreneurial initiative will flourish.

Where to begin?

Out of the great number of tasks, the priorities for the government should be the following:

- to devise a unified long-term national development strategy, keeping in mind the blunders committed by previous governments;
- to identify the priorities of government work and support them with resources;
- to abandon the development of government programs beyond the capacity of budget and other financing;
- to subordinate each government decision to this single strategy;
- to implement intermediate-range budget planning, in order to have an opportunity to assess the financial resources required to execute medium-term development programs;
- to embark on work jointly with the Verkhovna Rada on designing the next year's budget as soon as the previous budget has been adopted;
- to create a working group comprising representatives from the Verkhovna Rada and the executive government that will make sure proposed decisions are provided with financial resources;
- to commence regular reporting of the executive government to the Verkhovna Rada and the public-at-large, in line with the agreed criteria for government program execution. ■

ICPS Newsletter is a weekly publication of the International Centre for Policy Studies delivered by electronic mail. To be included in the distribution list mail to: marketing@icps.kiev.ua.
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