

ICPS newsletter

Public sector reform in Ukraine: On the path of transformation

There is a general consensus among both the government of Ukraine and foreign donors that the existing machinery of government is not able to deliver policy design and implementation needed to achieve the government's objectives. Recent attempts at administrative reform have generated some improvements, but the government still lacks effective levers to achieve the successful transition of the Ukrainian economy and society. An assessment of government administration in Ukraine was offered by Alex Sundakov, Director of the New Zealand Institute of Economic Research (NZIER) during a workshop held at the International Centre for Policy Studies last week. The meeting was organised with the support of the Canadian Bureau for International Education

The main reason for reform is to achieve a transition from the Soviet-style government, whose overriding role was to control and allocate resources, to a government whose key function is to provide an environment for individual initiative. The existing procedures and structures of public administration in Ukraine are no longer able to deliver an effective government. The purpose of public sector reform is to create procedures and structures which would support the new role of government.

Government administration reform in Ukraine has achieved some progress in the following areas:

- Improved definition of the functions of various ministries and government agencies has reduced duplication somewhat. A reduction in the number of agencies has contributed to improved co-ordination.
- The new decision-making structure at the Cabinet of Ministers has enabled the government to claim more control over the decision-making process.
- The introduction of new procedural rules of the Cabinet of Ministers (the *Reglament*) has extended room for policy analysis.
- The new "filtering" role of Government Committees has appeared to work well as a preventive mechanism, with the government now issuing fewer contradictory decisions.

While there has been considerable debate about the allocation of existing functions (and resources) between ministries, at a bureaucratic level functions are still being allocated without considering the government's policy objectives. There is still no effective mechanism to consider alternative policy solutions within the overall

strategic context. Moreover, little attention is being paid to effective implementation.

As a result, ministries' activities continue to be determined by their traditional functions rather than by any strategic view of what needs to be done, to ensure that the machinery of government can deliver in a democratic, market-oriented society.

Functional allocation within the government

It is critically important for the government to consider what it needs to do to achieve its objectives, and to allocate the responsibilities for these functions among the ministers. Overall, the allocation of functions must be driven by policy needs and priorities, rather than by the organisational structure of the government.

If ministers are truly to become political players rather than senior bureaucrats, they must primarily be responsible for delivering on the government's policy objectives, rather than for being the administrative heads of their ministries. Ministries and their staff should be considered as the means for achieving policy objectives—these agencies and their officials should not be separately responsible for interpreting their functions or defining their core activities.

Decision-making process

The decision-making process remains the top development priority for the government. It requires additional steps to be implemented effectively.

It is necessary to introduce a requirement for open and public consultation on draft decisions of the Ukrainian government (other than on emergency and national security

issues). The advantage of public consultation is that the government will avoid being surprised by the effects of its policies. While this will slow decision making, it will make decisions better and more sustainable and improve the government's effectiveness.

A procedure for drafting decisions should be developed that enables the examination of alternative policy solutions and purposeful problem discussion. This procedure should envision clearly determined responsibility for policy analysis and drafting alternative decisions on every issue.

It is critically important for the government to shift control from organisational detail to holding civil servants and organisations responsible for meeting performance targets. This means delegating responsibilities, but in exchange for clear performance targets and their monitoring.

Policy implementation

Implementation of decisions and policies is the weakest aspect of government administration in Ukraine. The one overriding consideration is that the government should resist pressure to implement complex decisions quickly.

Every draft decision of any complexity presented to a government committee or the Cabinet of Ministers should be accompanied by an implementation plan. This should be made a formal procedural requirement (in the *Reglament*).

Every significant decision should include a formal review process. For example, after six months, a ministry may be required to collect submissions from those affected by the decision on the effects it is having, and to report to the government with an analysis of these submissions.

Internal communication

Across the civil service, more emphasis should be put by ministers and senior civil servants on requiring staff to put their thinking on paper and circulate it for comments. Today, instead of preparing reports and analytical papers—which allow people to test each other's thinking—most civil servants in Ukraine are still operating on an intuitive level.

The government should promote better information flows between civil servants, and the exchange of knowledge and experience. This can be done by promoting professional networks among civil servants, i.e., civil service associations, or any other professional body dedicated to improving the skills of civil servants.

Donor activity

Until now, donors have been reluctant to consider the government processes within which their assistance and advice were to be used. The emphasis has been on providing advice, which can only be used once the government is ready for reform.

In designing assistance projects, donors should take into account how that assistance would be integrated into the Ukrainian government's processes. A foreign

consultant may write an excellent policy paper, but if that advice is not part of Ukraine's internal policy development process, it will be treated as a piece of academic research, and will have little effect. Another aspect of the same issue is that often foreign advice tends to be focused on what to **do** (e.g. what policy to adopt), rather than on **how** to reach a rational decision. Typically, foreign advisors provide Ukrainian officials with "ready-made" policy advice. However, such an approach is not helpful to Ukraine's transition, and tends to reduce the effectiveness of foreign assistance.

Another success factor is that advice and training must become part of the institutional memory. The best way to achieve this is to ensure that advice and training provided to an individual are passed

on to others in the relevant government institutions. Provision of advice should always be integrated with a training process which combines learning with the ongoing work responsibilities of involved officials, and should include arrangements for those involved in a program to pass their knowledge onto others.

Ukrainian officials should be integrated into international networks of civil servants and policy advisors. This will lead them out of extreme intellectual isolation and provide an opportunity to become part of an international civil service reference group, to test ideas and to become acculturated to new ways of doing things. ■

The seminar on "Public Sector Reform in Ukraine: On the Path of Transformation" was held at ICPS on 12 February, 2001.

World Bank's loan products require more effective management

Participants of the second seminar on "World Bank Projects in Ukraine: Problems and Perspectives", which was held at the International Centre for Policy Studies last week, discussed the effectiveness of utilisation of loans extended to Ukraine by the World Bank

The objective of the seminar was to discuss the utilisation of loans extended by international financial institutions and to suggest recommendations regarding their effective allocation.

During the meeting, representatives of the Accounting Chamber of Ukraine presented the results of their analysis of utilisation of loans extended by the International Bank for Reconstruction and Development. According to the analysis findings, the IBRD loan funds are managed ineffectively. The Accounting Chamber experts noted that in the case of most completed or nearly completed projects, the original objective was not attained. Seminar participants concluded that problems of non-payment and of low or insufficient effectiveness of loan utilisation are caused by the faulty process of managing WB project development and implementation in Ukraine.

According to Mr. Luca Barbone, Director of the WB Department for Ukraine and Belarus, who took part in the seminar, the conclusions made by the Accounting Chamber of Ukraine will definitely be taken into consideration. Mr. Barbone noted that above all the accurate implementation of imposed rules and procedures should be guaranteed, and if that is unrealisable task, these rules should be changed. "We should be very serious about proper fund management. We are interested in the degree of financial

accountability for fund utilisation," said the WB Director for Ukraine.

Discussion participants developed draft recommendations regarding procedures for loan management. A brief description is presented below.

Loan strategy

- Loan strategy should be developed as long- or medium-term program. The strategy should be based on already-approved state programs of social and economic development of Ukraine, which foresee sound attraction of external resources.
- The strategy should contain determined goals of resource attraction, sectors, regions, types of production and organisations receiving credits, kinds of projects, and criteria for their evaluation.
- The strategy should play the role of a foundation for programs of cooperation with international financial institutions and principles of building a project portfolio. The structure of the portfolio should be determined by the Ministry of Economy.

Stages of project development and implementation

- Questions regarding including projects in the portfolio are examined at the stage of research, which is conducted prior to the project beginning, simultaneously with preparation and appraisal of the project concept.

- The stage of feasibility studies (or business planning) starts only when the project concept coordinated with the creditor is approved by the Ukrainian partner.
- On the basis of feasibility study results, the negotiators make decisions on the expediency of project financing and sign proper loan agreements.

Normative regulation

In order to increase the effectiveness of loan utilisation, the set of relevant normative documents should be more detailed. The documents should regulate the following issues:

- procedures for decision making at the level of state agencies;
- methods and criteria for project selection;
- format for of planning and report documents;
- requirements for hired experts and managers;
- sources of financing project development and appraisal. ■

The seminar on "World Bank Projects in Ukraine: Problems and Perspectives" was held at the International Centre for Policy Studies on 13 February, 2001. The seminar was organised by RAND Europe, ICPS, and the Accounting Chamber of Ukraine under the program "Developing Civil Society through Civic Education: Training for the Ukrainian Accounting Chamber".

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