
What Went Wrong with Foreign Advice in Ukraine?

by Vira Nanivska

Reform in Ukraine has been greatly hampered by its government's lack of institutional capacity for policymaking. The reform process was conceived, designed, and guided by donors. So what went wrong? Somehow the political will to go the "Western way" did not manifest itself in concrete policy decisions. The government lacked the institutional capacity to make radical political choices. To fix what has already gone wrong, Western technical assistance must be reassessed and shifted to enable Ukrainians to initiate their own institutional capacity building.

After Ukraine gained independence in December 1991, the general view was that it had great economic potential. Already blessed with well-educated people, abundant natural resources, relatively well-developed industry and agriculture, Ukraine's geographical location in the heart of Europe was also advantageous for world trade.

Lowering High Expectations

Instead of reaching this great potential, however, Ukraine endured one of the world's worst depressions in modern history. Even among the struggling countries of the former Soviet Union, Ukraine stands out as having one of the longest and deepest periods of economic decline—one lasting for nearly nine years and with a contraction in GDP of more than 60 percent.

The effect of this economic downturn on the people has been severe. Most Ukrainians live on less than half the income of a few years ago. At least 30 percent—and perhaps up to 75 percent—of families now live below the poverty line. Sickness from preventable causes is rising, death rates are climbing, life expectancy is falling, and the population is shrinking.

Poor policy decisions and the lack of a sound economic strategy have exacerbated the economic decline in Ukraine. While the president and government have articulated a clear, medium-term economic policy, its implementation bears little resemblance to its vision. As a result, Ukraine has stumbled from one crisis to

another, and the government has been bogged down in putting out fires.

While reformists did not have the necessary skills, experience, or resources to defend their course, well-organized opposition groups rapidly attracted financial resources and retained social support by successfully using familiar Communist slogans.

Burden of the Soviet Legacy

The international community tends to believe that lack of political will by Ukraine's president and government is the unique cause of the inadequate reforms and economic strategy. This ignores the other reason: the gap between the design of foreign technical assistance programs and the institutional reality in countries of the former Soviet Union.

For a long time international donors believed that the post-Soviet Ukrainian government had both the mandate and the capacity to make reform decisions. Donors believed that once the Ukrainian government was advised it would take the lead in reforming economic and social institutions. They further believed that once state control was removed and Ukraine had been given the right recommendations, civil society would automatically become active and independent, and enterprises would cooperate with foreign investors following generally accepted business rules. Given these assumptions, donors saw their role solely as advising the government on reforms and supporting the transition financially. However, the government lacked the skills needed to fulfill its new role in a market economy.

During the Soviet period the Ukrainian government did not have any real governing responsibilities; rather, it was fully engaged in the distribution of resources and the direct management of a huge, country-sized production line. No policy formulation was necessary—all decisions were made by the Central Committee of the Communist Party. The Ukrainian government's role was to execute those orders.

But after the collapse of the totalitarian regime—and in order to function properly in the new democratic arena—the Post-Soviet Ukrainian government was expected to justify its decisions, predict their consequences, and prove why they were better than the alternatives. Analytical and political justifications should have been presented to win public support. But the government machine was unable to cope with the challenges of transformation—neither substantively (what to do?) nor managerially (how to make it happen?). Even during the present reform process, no new capacities to fulfill such tasks have been developed.

The government also lacks the ability to effectively communicate reform to the Ukrainian people. The basic principles of a market economy and the rationale for reforms have yet to be explained, nor has any future prosperity been linked to the success or failure of these reforms. Voucher privatization, for example, was promoted as a liberal-socialist equity measure aiming at the "fair redistribution of state property." However, those not involved in private business—including public servants, teachers, doctors, pensioners, and sol-

diers—did not see the benefit from the changing ownership of shops and factories and thereby did not become allies of reform. Thus there was no public pressure to introduce transparent bankruptcy procedures.

Ideally, the institutional mechanism of the Ukrainian government to carry out reforms should include:

- Employing qualified experts for professional policy analysis, especially research on the possible short- and long-term consequences of suggested decisions.
- Evaluating the public costs of ignoring those decisions and of reinforcing them, and comparing these decisions with defined goals.
- Managing change by establishing a department of reform management that is able to formulate reform strategy, differentiate process from substance, identify driving forces and opponents of reform, develop action plans, and build political support throughout the country.
- Putting organizational procedures in place to provide extensive support for government reform policies, including an officially structured system of communication with the Parliament, as well as procedures and documents that fulfill the principle of government transparency for the public.

Donors' Miscalculations

Foreign technical assistance to date has not helped to develop Ukraine's analytic competence inside and outside the government. Recommendations offered to the government by groups of foreign experts who conduct their own research cannot directly be used with any great or lasting effect on Ukrainian policymaking.

Why was the approach more successful in the Central European countries than in Ukraine? In Central Europe the focus has

been on European integration. In these countries institutions were developed to allow integration into the European Union (EU). Together with their Western counterparts, government officials in Central Europe adjust their institutions to EU standards, which is stipulated in technical assistance projects.

In the former Soviet Union technical assistance has aimed at consulting, advising, and sharing information, not institution building. The first project of public administration reform in Ukraine started in late 1997—compared to 1991 in Poland.

Considering the overall high level of education, the Ukrainian government has few specialists with the knowledge and expertise necessary for government work in a democratic, open, and transparent society. Most public servants lack the skills needed to give strategic advice to the government.

Technical assistance in Ukraine has focused on advice rather than on teaching Ukrainians to develop and formulate policy advice. Frequently, foreign consultants do not promote the transfer of knowledge because they are expected to provide advisory service. Thus they are opposed to guiding, consulting, and supervising Ukrainians to do the same. As a result, all parties are frustrated—the foreign advisors because Ukrainians do not follow their advice, the Ukrainians because they were not helped to deal with their problems. Ultimately, the government is unable to evaluate foreign advice—let alone implement it. Like the fictional character Baron Munchausen, the Ukrainian government is expected to drag itself by its own hair into a new role.

More Training, Less Advising

On the contrary, Ukraine has paid a high price for early democratization, which has not been matched by the government's institutional capacity to take reform deci-

sions in the presence of opposition and freedom of speech. Market forces, embedded in people's vested interests, thrive in Ukraine. Private initiative is far ahead of regulatory framework, and a "shadow economy" makes up 60 percent of GDP. The problem lies in the reform design. This design did not account for the Soviet institutional legacy and for the market behavior of people who instinctively make money wherever possible and who are unwilling to wait for the proper and correct legislation or procedures to be in place.

Ukraine, therefore, needs to build on existing societal forces instead of fighting them. The international development community needs to advise on the reform process as a special policy craft, both in concept and implementation. Projects should be designed to facilitate new government functions.

Training programs must also be restructured so that Ukrainians can initiate their own development. Ukrainian participants need substantive training, including continuing study programs after returning from abroad. For now these overseas programs do little more than provide sightseeing tours. Technical aid also needs to be aimed at helping Ukrainian institutions to ask the proper questions, find the answers, and thus be self-supportive in the decisionmaking process.

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