

ICPS newsletter[®]

Reforming the bureaucracy: will a new Government shelve the Bill “On the Civil Service”?

Just before a new Government that has not been formed yet begins to work, the issue of reforming public administration is becoming urgent and important again. No matter what coalition will be formed—Orange or grand—, new members of the Government, first of all, will have to face ineffective system of public administration. On the other hand, it seems impossible to fulfill election promises without quality changes in the public administration system

The issue of reforming public administration has always been urgent for the Ukrainian society. Imperfect system of government still continues to be the main hindrance to implementing social and economic transformations.

However, while the Government speaks about the need to implement administrative reform, it has always chosen old methods of centralized command-and-control government to which it is used to. A striking example of the reluctance among the powerful to change the situation for the better is how they ignore the Bill “On the Civil Service.” The document that was prepared by the Administration of the Civil Service a year ago fully tackles the problems of the civil service at the regulatory level. However, throughout the year in power, the Cabinet of Ministers has not submitted this bill to the Verkhovna Rada. The Government is actually ignoring this bill at the time when the civil service is one of the biggest Achilles’ heels in the public administration system. Structurally imperfect and cumbersome, the civil service continues to be isolated from the people and their actual needs, as well as corrupt and irresponsible.

Why has a professionally prepared bill that was developed in cooperation with the public failed to make it to the Verkhovna Rada? The reasons are evident. This new bill eliminates the “top-down” principle of government and launches transformations in the centralized command-and-control system.

Politicians who got used to governing the country with the help of authoritarian methods are not prepared for new conditions that, according to the bill, include:

- dividing political and administrative functions in the public administration system;

- establishing clear legislative instructions for the activities of civil servants;
- establishing professional requirements for civil servants with respect to the posts they take;
- supporting effective mechanisms for the responsibility of civil servants, their rights and social guarantees.

A new coalition Government must submit this bill—which is intended to resolve the main problems of the civil service—to the Verkhovna Rada as soon as possible.

Three major problems of the civil service

1. The Ukrainian civil service is not professional in a contemporary European meaning. Currently, civil servants frequently participate in the decision-making process. However, their main objective is to inform a politician about issues, positions of all stakeholders and possible impacts of decisions that should be identified in the process of consultations.

Offices of categories I and II, which means heads of executive bodies and their deputies, are distributed *hors concours*. In the overwhelming majority of instances, civil servants are appointed by politicians; therefore, activities of public officials directly depend on the political situation in the country.

This situation is very dangerous for the society, as: (1) changes in the political leadership immediately lead to automated adjustments in activities of civil servants; (2) civil servants are often guided by their private interests instead of public interests in the decision-making process; and (3) the weakness of the civil service creates

By the way...

- On 24 May 2006, two Green Papers—“Minimizing the Negative Impact of Natural Monopolies on the Development of Competitive Markets” prepared by the Anti-Monopoly Committee and “Problems and Prospects of Commercializing Space Technologies” developed by the National Space Agency—were discussed as part of the “Setting up Policy Analysis Groups in Central Executive Bodies” Project.
- A policy analysis group from the Ministry of Economy presented its Green Paper called “Improving the System of Strategic Program Documents as the Basis for Budget Planning” on 18 May 2006.
- On 16 May 2006, ICPS Director Vira Nanivska, who is a member of the National Council on Public Administration and Local Self-Governance, participated in a meeting of the working group to prepare a new version of the Civil Service Development Program for 2005–2010.
- Two Green Papers called “Improving the System of Strategic Program Documents as the Basis for Budget Planning” and “On government policy for safety on motor transport” were discussed on 12 May 2006. These Green Papers were prepared by policy analysis groups from the Ministry of Economy and the Ministry of Transport and Communication.
- ICPS specialist Ildar Gazizullin participated in a conference called “Political and Economic Challenges to Development Resulting from the Extraction of Natural Resources in Azerbaijan and Kazakhstan” that took place in Kiel, Germany, during 5–6 May 2006.

favorable conditions for the coalescence of government and business.

The new Bill “On the Civil Service” that is based on a new understanding of the professional civil service provides legal mechanisms for dividing political and administrative functions and carrying out a

competitive selection for all posts in the civil service.

2. The shape of relations between the state and civil servants fosters corruption and irresponsibility. At the moment, relations between the state and civil servants resemble a vicious circle. The state does not pay enough and does not provide adequate protection for civil servants. By not demanding maximum output from civil servants, the state creates a gap between powers and controls, and perverse incentives. This results in immunity and impunity of civil servants and stronger power of bureaucrats over the society and the citizens. Arbitrary administrative decision-making and opaque provision of administrative services create the halo of "mystery" around bureaucrats and do not allow the average Ukrainian citizen to understand the limits of bureaucrats' powers and the possibilities to exercise their

own rights. As a result, citizens become more and more depend on civil servants and get used to the need to give bribes. Therefore, corruption becomes a "collective guarantee" and a disease of the entire society.

Moreover, these circumstances do not make it possible to renew and to "enliven" the bureaucracy. The main burden of the civil service continues to lie on people who were brought up during the soviet epoch. At the same time, young people, even if they are prepared to invest their efforts in the development and future of the nation, do not have the opportunity to implement their intentions.

3. The civil service is not adequately managed by the state. Ukraine does not have single standards for managing the civil service. The state does not evaluate professional abilities of and its disciplinary

influence on civil servants. Each civil servant actually can have their own "domain" in the civil service system where they establish their own rules at their own discretion.

For the society, it is overly expensive to support the civil service that is uncontrollable in terms of its limits, powers and privileges. The new Bill "On the Civil Service" creates a transparent and accountable system for managing the civil service.

However, it also makes sense to remember that the legislative base alone is not enough to achieve the maximum results. To enact this law in practice, the country will need the will and efforts of all stakeholders—a future coalition, civil servants and the public. ■

For additional information, please contact Ihor Shevliakov by telephone at (380-44) 484-4400 or via e-mail at ishevliakov@icps.kiev.ua.

Insidious cheapness

On 1 May 2006, residential rates for gas and electricity grew 25%—to UAH 220–240 per 1,000 cu m of gas and to UAH 0.195 per 1 kWh. To review rates for residential services, as before, the Government is guided by social considerations instead of the need for effective distribution of resources, says economist Ildar Gazizullin from the International Centre for Policy Studies. In an article for Expert, a Ukrainian business journal, the ICPS economist and Expert's Editor Andriy Blinov explain the reasons for and the impacts of rate hikes

No sponsors any more

The main reason behind rate hikes is a steep growth of prices for imported gas. Although gas recovered domestically that the government has channeled to residential consumers is cheaper than imported gas, its production cost has also grown over the last five years. Over these last five years, the Government kept regulated rates for residential consumers unchanged by way of cross-subsidies. Currently, gas and electricity rates for industrial consumers are two–three times higher than the residential rates. Because of gas price hikes for industrial consumers (to US \$120–135 per 1,000 cu m), cancelled exemptions and deteriorating external situation, it became impossible to go on with the practice of cross-subsidies.

It is also impossible to postpone the decision to raise the residential rate any more due to the poor financial standing of energy companies. According to calculations of the National Energy Regulatory Commission, NAK NaftoGaz Ukrainy subsidies for residential consumers lead to annual losses of UAH 4bn. Similar situation can be observed in the energy sector: last year,

subsidies to residential consumers were approximately UAH 3.6bn, while this figure can grow to UAH 6bn in 2006. This will mean a steep reduction of investment in the infrastructure and geological prospecting, and growing costs of servicing loans.

Political mythologization of poverty serves the rich, not the poor. Low rates complicate the establishment of social justice. State subsidies in the form of understated rates are provided to both a pensioner and a millionaire. A millionaire consumes much more gas and electricity; therefore, the government spends more on a millionaire. The majority of energy resources are transportable goods and services; therefore, they must be sold at a market price. It is more profitable to sell them to residential consumers or to export them at a real price, while increased tax revenues collected from energy companies must be spent on providing targeted assistance to vulnerable population groups.

Rates will grow

During 2006, there will be another rate hike—ranging from 25% to 100%.

According to the NERC calculations of production costs of providing services this year, gas and electricity rates for residential consumers must triple over two years. This will lead to growing rates for other residential services, primarily for heating and water. Given that the next election will be held only in late 2009, the government will not be holding rate hikes in check any more.

The authors argue that energy resources will be consumed in a more saving way. Gas and electricity rates for residential consumers will continue to be lower than rates for industrial consumers. In developed economies, the situation is quite the contrary: residential rates are 20% higher than rates for other consumers. Although higher rates will provide incentives for the population to consume resources more economically, energy consumption will not shrink. Improved well-being of the population will lead to an automatic increase in purchases of additional household appliances.

The main energy-saving potential is in the energy inefficient industries, energy and residential services sectors. Therefore, the Government needs to provide well-reasoned explanations to the population what will happen if rates remain unchanged. ■

Full version of this article can be found in the Expert journal #20 (70), 20 May 2006, or online at: <http://www.expert.ua/articles/9/0/2015/> (in Russian).

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 your request to: marketing@icps.kiev.ua.

icps newsletter editor: Olha Lvova (olvova@icps.kiev.ua)
Phone: (380-44) 484-4400. Fax: (380-44) 484-4402.

Articles may be reprinted with ICPS consent.

The International Centre for Policy Studies is an independent research organization whose mandate is to promote the introduction of public policy concepts and practices in Ukraine. This is achieved by increasing the know-how of key government officials for policy choices, formulation and debate, and the awareness of the public-at-large of the benefits of policy.

Address: vul. Pymonenka 13A, Kyiv, Ukraine 04050
Web-site: <http://www.icps.com.ua/eng/>