

# UKRAINE - Modernization of its Public Administration

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# PA Reform as a Precondition for Reforms

- Although there is still an unfinished agenda, during the last few years, progress has been made in liberalizing the economy and creating an enabling business environment for the private sector – i.e., a framework that would yield "incentives" and "controls" for private businesses to operate efficiently in a free market economy.
- However, little progress has been made in creating a similar favorable enabling institutional environment for the public sector
- That is, little has been done to provide the "incentives" and "control" systems that would influence positively the behavior of government organizations to achieve a well-defined role for the government.
- Policy reforms requires a capable but small group of leaders to define the right policies and get them enacted. But their actual implementation will fail unless there is a strong (though smaller) government capable of following their implementation over time.

## .....PA Reform as a Precondition for Reforms

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- Upgrading the capacity of Government institutions, both at the central and local levels, is the key for the success of the implementation of other policies, programs and projects that the Government wishes to execute
- In fact, public administration reform is the reform that would facilitate the implementation of all other economic reforms.
- Given the inadequacy of current government institutions, there is the risk that economic policy reforms will be undermined over time. In fact, even if adequate policy reforms are enacted, there is a high risk of policy reversals if the government institutions are weak.

## .....Main Issues of Ukrainian PA

- At the Center, the key task is to improve decision-making capacity in Government by streamlining the central machinery for policy analysis, formulation and coordination, and for the provision of market-oriented public goods and regulatory services.
- The fragmentation at the Center needs to be addressed by consolidation, transfer, and/or elimination of entities. In addition, overlapping responsibilities need to be eliminated, decision-making processes simplified, and accountabilities clarified.
- Furthermore, in Ukraine, the reform of the state must be extended to the regional and local levels. In fact, many state employees are at located at local levels overlapping with local authorities.
- The small size of the central administration coupled with the large size of local administrations highlight the importance of further addressing the relationship between central and local government, including financial issues.

## .....Main Issues of Ukrainian PA

- Except for Defense, the majority of civil servants are in sectors where the Government has an obvious role to play, such as social protection, health and education.
- The challenge, therefore, is to adjust in public administration in a way that key social services are maintained. Decentralization should be key.
- In the social areas, the obvious avenue is to improve the efficiency of public administration is through better targeting of benefits and greater cost recovery.
- There is also a need to take a range of measures necessary to strengthen the Civil Service, which suffers from low salaries, lack of performance incentives, and unclear rules for civil service hiring, promotion and separation.
- Civil service reform should include a review of salary levels to make them compatible with the private sector, incentives linked to performance, civil service training programs, re-tooling, management reforms, and personnel management practices.

# International Experience: Canada

- From 1985 to 1994, Public Administration Reform in Canada was gradual, incremental and ineffective.
- It was also de-moralizing as the government tried to reduce its fiscal deficit gradually.
- In 1995, the new PM decided to do “major surgery” to carry out major changes in government’s role and size.
- A comprehensive “Audit” of all agencies was carried out: all agencies were instructed to review their operations based on a Questionnaire with six questions:
  - (1) Is this program of clear "public interest"?
  - (2) Is this something the government should be doing?
  - (3) Can this be done more effectively by the provinces?

## .....Canada

(4) Could this be done by the private sector?

(5) If maintained, how can it be made more efficient?

(6) Are there resources for this program and if not what to cut?

- Based on the responses from the agencies, the PM's Unit identified the government's "core" functions and allocated most resources to them.
- Other "non-core" functions were subcontracted, delegated to local governments, or privatized.
- The reform measures included
  - Cutting/transferring civil service jobs by 40,000 or by 18%,

## .....Canada

- eliminating 73 government boards,
- commercializing or restructuring 47 others,
- ending agricultural and transportation subsidies, and
- reducing state subsidization of the real sector by 60 percent.
- A further reform effort was initiated in 1997 to attract and retain skilled public servants.
- Increasing emphasis was also placed on:
  - strong results-based framework, with incentives based on measured performance
  - greater management flexibility
  - e-government, under which licenses, business registrations and similar tasks were done on-line.

# International Experience: New Zealand

- Before the mid-1980's New Zealand was overregulated and economically inefficient.
- In 1985, a reform of public administration was done to:
  - support a liberalized economy,
  - greatly reduced the core government sector, and
  - increase government's effectiveness, efficiency, accountability, transparency and consistency.
- The reform envisaged the following:
  - (i) a redefinition of the role of the State (the State should do or fund only those things relating to exercise of its constitutional and coercive powers and/or those things where it has a comparative advantage without duplicating or competing with the private sector);

## .....New Zealand

- (ii) clarification of its agencies' purposes (every State agency should have unambiguous and transparent purposes, while significant functional conflicts should be exposed and eliminated); and
  - (iii) to promote more effective management and allocation of public resources, delineating the “Core State” (central executive bodies) and the “Non-core State” (based on new independent agencies, semi-autonomous entities and regional authorities)
- Operational managers gained more flexibility to manage, and wield strong decentralized powers
  - Employment in the central government was reduced from 88,000 to 37,000 over five years (by transferring and retiring staff).

## .....New Zealand

- The restructuring of Core Ministries had the objective of forming departments whose functions could be quantitatively measured and its performance compensated based on agreed upon Performance Agreements.
- Accordingly, within each Core ministry, different Departments were created to separate the functions of
  - (i) policy advice (e.g., analysis of required reforms),
  - (ii) service delivery (e.g., security, defense, diplomatic services) and
  - (iii) regulatory functions (e.g., regulation of utility prices).

## .....New Zealand

- In defining and grouping the departments, some elements of competitions were introduced (e.g., two competing departments doing health meat inspections).
- Compensation to Departments and civil service staff was based on results as measured by Performance Agreements.
- The Civil Service was reformed with the creation of a Senior Executive Service, which members could be transferred around ministries, departments and entities, and trained for senior management positions.
- Legislations was passed to abolish civil servant status for public employees, who became covered by the general labor law.

# International Experience: Ireland

- After two failing public administration reforms, a third reform was introduced in 1994.
- Six initiatives formed the core of the 1994 reform:
  - (i) simplification of administrative processes and procedures by eliminating a large number of regulations and licenses;
  - (ii) improving quality of public services by giving more discretion and freedom to agencies to respond to public needs based on tradition while reducing the number of written rules;
  - (iii) introducing greater accountability by improving information, communications and transparency;

## .....Ireland

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- (iv) introducing new approaches to human resource management by developing better hiring, promotion and firing practices;
  - (v) introducing more effective financial management by setting clear accountability rules; and
  - (vi) better use of information technology to meet business and organizational needs.
- A new program, “Reducing Red Tape” aims at eliminating paper work and increase efficiency, transparency and accountability, based on internet e-government initiatives.

## .....Ireland

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- To oversee the reform process, the government appointed nine top-level civil servants from different departments to serve on the Steering Group.
- This group was itself supported by specialized working groups of senior officials and experts, from both the public and private sectors, focusing on particular actions or issues.
- A strong judicial review mechanism promoted reforms and quality of public governance

# International Experience: Poland

- As in Ukraine, until 1989 Polish public sector was characterized by centralized decision-making with direct central participation in deciding on a variety of issues at local levels.
- A broad range of regulations involved the central administration in supervision of private enterprises and direct management of public economic entities.
- The first wave of free market reforms implemented in early 1990s showed that such a centralized position was dysfunctional.

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## .....Poland

- The major problems that triggered Polish reform of public administration in 1998 were:
  - (1) highly centralized system of public finance that envisaged financing of all budget-funded entities out of state budget;
  - (2) unclear delineation of responsibilities between different levels of government; conflicting priorities of state administrations and local authorities;
  - (3) low public participation in the process of policy development and formulation and low accountability of public administration to the public;
  - (4) huge network of public administration bodies that sometimes contradicted the principles of territorial differentiation.

## .....Poland

- The major public administration reform was decentralization, e.g. re-establishment of territorial self-government.
- A bipolar model replaced a monolithic structure of the state administration: separation of local and regional affairs from affairs of “countrywide character” was a basis of such system.
- The main principle of decentralization was that the resolution of all social problems should be done in historical communities founded on natural territorial, cultural and economic ties.
- The people should solve their everyday problems themselves, relying upon their nearest social environment and the government must intervene only in situations when the problem can not be solved in the community, due to the problem of scale or problem of coordination with other communities or the requirement of the adjustment to the broader entities.

## .....Poland

- The outcome of decentralization was a public administration sector that looks like a classical pyramid: the elementary tiers are in charge of everyday matters focusing their activity on the delivery of basic social services to the public; and the top tiers of administration are concentrated on policy, strategic, and general problems of country's development.
- Local affairs were entrusted to “Gminas”, the basic and the most important level of public administration.
- It is here that the most important collective needs of local communities were met: Gminas were heavily engaged in provision of public services, in particular, they run nurseries, kindergartens, schools, libraries, and cultural centers; they also maintain local roads.

## .....Poland

- More than 2.5 thousands Gminas were established in Poland.
- Each Gmina was run by democratically elected councils which established management boards with executive powers.
- Regional affairs were entrusted to “Wojewodztwa”, the largest administrative unit in the sub-national organization of the state.
- Executive bodies of Wojewodztwa took responsibility to maintain public order and environmental protection within their jurisdiction.
- Responsibilities to decide on strategic matters and to develop national policies were left to central government.
- The Act on Branches of the Government Administration of 1999 made clear that ministers would be responsible for policy and strategy in particular branches.

# Lessons for Ukraine

- The following international lessons are pertinent for Ukraine:
  - An incremental gradual public administration reform is more painful than a more comprehensive and drastic one.
  - It may be useful for each government agency and department to make a self-analysis of its functions based on a clear Questionnaire prepared centrally (as in Canada)
  - The reform should include the development of "incentives" and "control mechanisms" to encourage the public sector to operate effectively
  - In carrying out the organizational reform, care should be taken that the individual departments and agencies have clear objectives with measurably performance goals.
  - Incentives and controls should encourage sound job, performance, hiring, promotion and separation of employees.

## .....Lessons for Ukraine

- In particular, to motivate performance, a key measure is to link a substantial part of the compensation (about 20%-30% for most staff) to the achievement of measurable objectives. This will require defining, measuring, and monitoring performance indicators.
- The merits of a Senior Executive Corps, modeled after the US Government's SES or the New Zealand's Senior Executive Service, should be considered as a short term solution; under this approach in return for higher salaries, job security is given up.
- Non-monetary incentives should also be enhanced; in particular, the perceived stature and professionalism of Government employment should be strengthened by involving employees in setting objectives and work programs, and by providing them with sufficient autonomy and accountability to produce the expected outcomes.

## .....Lessons for Ukraine

- Greater competition in the provision of government services should be sought, for example, by permitting open enrollment in schools or health clinics; or by establishing more than one Government agency providing a service in competition among them.
- Measures are needed to improve information for accountability. In the absence of a market test, transparency and openness of information and public processes are the best ways to ensure accountability for performance.
- Open and transparent processes should be developed to define agency performance, outputs and costs, and to measure, monitor and publish them widely.
- Agency management would be held accountable through "open files" involving the publication and monitoring of such information. Lack of performance should be meaningfully penalized, including dismissal of those responsible.

## .....Lessons for Ukraine

- Use of other competition surrogates -- particularly "voice" (the active participation of clients, users and beneficiaries in agency's activities) and market contestability should be encouraged.
- Emphasis should also be given to enhanced accounting and auditing processes in the public sector through changes in laws and procedures.
- Improving information transparency and openness will also be an important weapon to combat corruption, which is a major cause of distortions in public sector behavior.
- Information disclosure should also aim at building popular support -- among businesses, unions, students, the press, the civil service -- for policy reform and for the role of the Government.
- Decentralization of key social services (health, education, housing, etc) should be a fundamental aspect of the reform as the proximity of authority to service delivery will improve accountability and transparency.

# A PA Reform Action Plan for Ukraine

- The government should approve a Plan of Action for the implementation of the concept of administrative reform.
- The Plan of Action should recognize the experience of other countries that shows that the reform of public administration should not be piecemeal or incremental.
- In fact, piecemeal strengthening of individual agencies will just be a painful process and would demoralize the organization.
- Furthermore, attempts to strengthen individual institutions in a given sector either fail in the short run -- because of factors such as low civil service pay scales that go beyond the particular sector -- or they fail in the long run when the ad hoc arrangements expire.
- On the other hand, experience shows that a comprehensive and drastic reform of public administration has a better chance of succeeding.

## .....A PA Reform Action Plan for Ukraine

- A Reform Action Plan for Ukraine would contain the following elements and should state specific timing to complete the Reform steps:
  - A. Redefinition of the Role of the Government
  - B. Undertake Functional Reviews
  - C. Undertake Operational Reviews
  - D. Carry out a Civil Service Review
- To get political support, this Action Plan should be approved by the Rada.

## A. Redefine the Role of the Government

- In Ukraine, the size of the Central Government is small in terms of numbers of people.
- But there is an excessive number of central public agencies with unclear roles, overlapping responsibilities, and excessive intervention in productive and semi-commercial activities.
- The Action Plan should start with a clear definition of the role of the government such as the following:
  - Its role should be compatible with a market economy: limited to non-commercial activities and the provision of necessary “public” goods (goods that would not normally be undertaken by the private sector due to externalities) and market-oriented regulatory services.
  - The main objective of the government is to support private-sector led growth, not compete with the private sector.

## B. Undertake Functional Reviews

- The existence of a large number of bodies of executive power -- ministries and agencies -- has leads to coordination problems and cumbersome decision-making, with multiple consultations.
- This has also led to the “capture” of the State by private vested interests, breeding administrative corruption.
- Based on a clear definition of roles, the Functional Reviews will aim at re-defining the roles of individual agencies and departments.
- They will also aim at consolidating the number of separate agencies into “core agencies” and non-core agencies”.
- “Core” agencies will remain.
- The non-core agencies should be transferred, privatized or eliminated.

## .....Undertake Functional Reviews

The Initial analysis of functions should be done by each agency, on the basis of a centrally-prepared questionnaire, with the following questions:

- (1) Define clearly the main role/function and output of your department?
- (2) Is this program of clear "public interest"? How?
- (3) Is this something the government should be doing? Why?
- (4) Can this be done more effectively by local administrations?
- (5) Could this be done by the private sector?
- (6) If maintained in the government, how can it be made more efficient?
- (7) Are there enough resources for this program and if not what needs to be cut?

## .....Undertake Functional Reviews

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The following reviews should be done:

- Review the role and functions of the President's Administration to convert it into a small Secretariat for the President. The reform should devolve functions to the line ministries such as issuance of Presidential Decrees on economic regulations and organization of agencies. It should also transfer reporting of most Central Committees to line ministries.
- Review the structure of the Secretariat to the Cabinet of Ministers (COM), to change its role and structure and facilitate decision-making by the Prime Minister. The role of the Secretariat of the COM should be limited to its original purpose of being a Secretariat to the Prime Minister.

## .....Undertake Functional Reviews

- Review the structure and decision making of the Cabinet of Ministers. This would be accomplished by eliminating the current overlap of responsibilities between the COM as a whole and individual line ministries, and by devolving functions (including policy administration and implementation) to the line ministries.
- The current collective process for decision making (requiring multiple signatures for most matters) should be streamlined by transferring most decision making power to single line ministries. The Cabinet of Ministers structure, a legacy from the Soviet times, is a bottleneck for strengthening the policy making in ministries.
- Consolidate and reduce the number of ministries and state agencies, which have grown over the last three years to over 60. The goal should be to minimize duplication, avoid overlapping responsibilities and introduce a system of clear accountability.
- Ministries should be organized along “functional” lines rather than by branch or sector, and in a way that would facilitate performance measurement and evaluation.

## .....Undertake Functional Reviews

- Eliminate conflicts of interest and consolidate the flow of funds from collecting agencies (State Tax Administration, Custom Service etc.) subordinating them to one governmental unit (the Ministry of Finance of Ukraine).
- Identify those public services that could be outsourced to the private sector or subcontracted (separate funding for purchasing and provision of those services and introduce competition between service providers together with quantifiable performance criteria).
- Define which functions could be transferred to the regional level (see decentralization).
- Continue the government's practice of open public consultations on issues critical to the business environment.

## C. Undertake Operational Reviews

- Once the functional reviews have been completed and new organizational set-ups established, operational reviews of all ministries and government agencies should be undertaken to simplify their *modus operandi*, including improvements in internal processes, practices and procedures. The review would eliminate un-necessary regulations and licenses of business activities.
- In order to increase the effectiveness of the government decision-making process, policy formulation and analysis should be separated from policy implementation.
- Legislation and clear procedures should be established to improve transparency of government information, making any non-national security information freely available to the public.
- Continue improving procurement procedures to make them more competitive and transparent.

## D. Carry out a Civil Service Review

- Civil service reform would aim to upgrade the quality of government staff, including a clear certification system for personnel hiring, payment and advancement linked to good performance and dismissal rules for civil servants. It would include the following:
  - Introduce system of incentives for civil servants (review system of benefits to link it to performance)
  - Reduce the number of civil servants while increasing the salaries of the remaining staff
  - Define roles and process for monitoring performance for each operational unit
  - Delegate authority to managers to empower them
  - Introduce effective training programs in order to increase civil servants' qualifications to EU standards

## .....Carry out a Civil Service Review

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- Adopt legal regulations and policy statements that deal with problematic issues in the management of enterprises in which the state is still a shareholder
- The above measures should permit a reduction in the number of civil servants. Together with increases in salaries and benefits packages, this should make civil servants less prone to rent-seeking (corrupt) behavior.

## E. Decentralization to Local Administrations

- The Functional Reviews of Central agencies should have identified those public goods and services that should be decentralized to the Regional, Oblast or Rayon levels.
- In Ukraine, decentralization of government services and resources to sub-national levels of government should be a key element in restructuring the public sector.
- The objective should be to bring decision-makers into closer contact with the intended beneficiaries (improving information and shortening the political feedback loop) who can exercise more direct control over performance.
- Decentralization would also increase opportunities for local initiatives, reduce internal communication and decision-making costs (reducing the time and money costs of consultations and approvals from the center).
- Decentralization of government services to the lowest levels that are economically feasible will also improve cost recovery.

## .....Decentralization to Local Administrations

- When the services are managed closest to the users, they will be more inclined to pay for the services. This is the case for most basic services, such as water, sanitation, education, health, etc.
- However, decentralization is one of the institutional reforms that may have the highest potential for failure, principally through conflicts among levels of responsibility, authority, and financing.
- Therefore, decentralization may be ill-advised and fail, if it is not carried out in a comprehensive manner. To be successful, decentralization should include:
  - A precise and clear definition of the functions, authorities and responsibilities transferred to local levels.
  - A clear identification of the local entities at the lowest possible level that would received the delegated functions.
  - The mechanisms to provide adequate financing, technical assistance, and management training to enable local agencies to assume effectively their new responsibilities.