

In 1999, SigmaBleyzer initiated the International Private Capital Task Force (IPCTF) in Ukraine. Its objective was to benchmark transition economies to identify best practices in government policies that improve the investment climate and attract private capital. An Action Plan was developed and presented to the Ukrainian government which identified the economic policy actions necessary to improve the investment and business climate in Ukraine, attract additional flows of private capital to the country; support economic growth, and improve the quality of life for their citizens. In 2001, this effort was expanded to all countries of the FSU, and IPCTF ratings for all 15 countries of the FSU were developed. They are available from SigmaBleyzer and The Bleyzer Foundation.

The Bleyzer Foundation was established in 2001 in order to promote the IPCTF framework and help countries implement the policies necessary to successfully complete transitions to market economy.

The Foundation's Managing Director is Mr. Victor Gekker, who is supported by a team of economists and business analysts. The Advisory Board of The Bleyzer Foundation is chaired by Dr. Edilberto Segura and provides advice and guidance to the activities of the Foundation.

UKRAINE — Modernization of its Public Administration

**Edilberto Segura, Iryna Piontkivska,
and David Bleyzer**

Ukraine's current government structure retains many of the problems inherited from the former Soviet Union. A legacy of the communist past, it is plagued with corruption, bureaucracy, and vested interests. Decision-making is quite cumbersome, with unclear responsibilities among government agencies. Even minor decisions require a large number of consultations and approvals. Due to low salaries, public servants are faced with the difficult choice between doing their job impartially and surviving on rather low official salaries, or engaging in corrupt activities. The public sector has now become a bottleneck to the country's development, particularly by interfering with private sector activities and by delaying the implementation of economic reforms.

The reform of public administration is the key reform that is needed to facilitate and make possible the implementation of all other economic and social reforms needed in the country. If well done, this reform will put the country on a different path, on an accelerated course to faster development and growth. Without it, implementation of economic reforms will continue to suffer. The objective of public administration reform should be to redefine the role of the government to support the private sector, secure the provision of sound and efficient government services without corruption, and effectively implement economic measures and reforms to deal with emerging economic problems.

Although Ukraine has made some progress towards the development of a better public administration system, the agenda for public administration reform is still large. In fact, during the last few years, Ukraine has made progress 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 require 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. According to the European Commission's annual study of civil service capacities in various states, with continuous progress, it will take Ukraine several years to meet European standards in public administration.

The most successful countries implemented major public administration reforms as a preamble to economic reforms. New Zealand carried out comprehensive public administration reform to support its economic policy measures. The reforms consolidated a number of agencies and ministries to create a "core" state, transferred many services to semi-autonomous and independent agencies, and reorganized government entities to promote efficiency through competition and contestability, providing clear performance goals to measure and reward good performance. Box 1 at the end of this report explains some of the highlights of the reform in New Zealand. Box 2 describes the public sector experience of Canada, which was undertaken following a comprehensive "audit" of government functions. Canada found that only through a comprehensive public administration reform, fiscal budget deficits were brought under control. In fact, for 10 years, from 1985 to 1995, Canada had tried to reduce fiscal deficits by adding some taxes and making budget cuts to individual ministries. But this just produced general unhappiness as the ministries had to provide the same function just with less money. The answer was in actually eliminating from the government a large number of unnecessary functions and transferring to the private sector or local authorities other functions. The government became smaller but stronger and more efficient in the areas that mattered most. Box 3 discusses the public administration reforms in Ireland, under which Ireland became one of the most successful countries in the EU. Box 4 presents the experience of Poland, with its main emphasis on decentralization.

Box 5 presents a summary of the main lessons from the above international experiences that are relevant to Ukraine. These lessons are reflected in the recommendations below.

Implementation of Public Administration Reform.

In Ukraine, the size of the Central Government is small in terms of numbers of people. But there are an excessive number of central public agencies with unclear roles and overlapping responsibilities. The existence of all these bodies of executive power — ministries and autonomous 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.

There is therefore a need to define clearly the role of the Government at all levels. This role should change from excessive intervention in productive and semi-commercial activities to a role compatible with a market economy, particularly improving the environment for private sector investors and producers.

To facilitate the execution of public administration reform in Ukraine, the government should have unit staffed by a group of capable and experienced individuals who will be responsible for it. This unit (Public Administration Reform Unit — PAR Unit) should have direct access to the President and the Prime Minister. For implementation purposed, this PAR Unit would work under the umbrella of an inter-ministerial committee.

In order to provide support top the PAR Unit and take into account international experience, it is proposed that official bilateral contacts should be used to identify the possibility that those former government officials in countries such as Canada and New Zealand could be seconded to the Ukrainian government to provide guidance and experience in reforming the state administration (the former head of the Public Administration Reform in Canada is now a Professor in a major Canadian university.) Financing for this technical support could be provided by the European Commission, USAID, SIDA, or the World Bank.

The reform agenda should include the following components:

1. Redefine the Role of the Government to Support Private Sector Activities.

The government should approve a plan of action for the implementation of the concept of administrative reform. This plan of action should be prepared on the premise that a drastic and comprehensive reform program will be less painful than an incremental and gradual approach. The plan of action should be endorsed at the highest levels in government.

The plan of action should start with a clear definition of the role of the government under which it is limited to non-commercial activities, the provision of necessary "public" goods (goods that would not normally be undertaken by the private sector due to externalities), and the provision of market oriented policies and regulatory services. The main objective of the government is to support private-sector led growth, not compete with the private sector.

The plan of action should include a detail on the activities to be carried out under the reform program, including timing, deadlines, and responsibilities. The main activities are described below.

2. Undertake Functional Reviews

The functional reviews will aim to redefine the roles and functions of key government agencies, with a view to eliminate un-necessary functions, outsourcing others, and transferring others to local authorities. Following the successful experience of Canada (Box 2), it is proposed the initial step should be to carry out a complete "audit"

of all public sector functions and activities. Its objective would be to identify the central government's core roles and responsibilities and allocate resources to priority areas in order to provide effective, affordable, government. To guide the process, the PAR Unit should prepare a Questionnaire with a limited number of questions, which would be sent to all government departments and agencies. They would be instructed to review their functions against six questions: (1) Is a public interest involved in this particular function? (2) Is this function something that the central government should be doing? (3) Can this be transferred to the provinces? (4) Could this be done by the private sector? (5) Can this be made more efficient? How? (6) Is this affordable? The interministerial committee would review and decide on the proposals of each department. This would be followed by a review of the Cabinet of Ministers (COM) chaired by the Prime Minister.

The review of functions will cover the following:

- Review the structure of the Secretariat to the 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.
- 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 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.
- In carrying out the above organizational reform, care should be taken that the individual departments and agencies have clear objectives with measurably performance goals.
- Ministries should be organized along "functional" lines rather than by branch or sector.
- 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 section 5 below).
- Continue the government's practice of open public consultations on issues critical to the business environment.

3. 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.
- 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.
- Open and transparent processes should be developed to define agency performance, outputs and costs, and to measure, monitor and publish them widely.
- 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. For this purpose, legislation and clear procedures should be established to improve transparency of government information to the public, making any non-national security information freely available to the public.
- Continue improving procurement procedures to make them more competitive and transparent.

4. 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:

- Reduce the number of civil servants while increasing the salaries of the remaining staff

- To quickly improve middle-level management, 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.
- Introduce a system of incentives for civil servants to encourage sound job performance, hiring, promotion and separation of employees.
- In particular, to motivate job performance, a key measure would be to link a part of the employee compensation to the achievement of measurable objectives.
- 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.
- 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.
- 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.
- Delegate authority to managers to empower them to act effectively
- Introduce effective training programs in order to increase civil servants' qualifications to EU standards
- 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.

5. Decentralization to Local Authorities

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 following principles should apply:

- 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.
- 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 receive the delegated functions.
 - The mechanisms to provide adequate financing, technical assistance, and management training to enable local agencies to assume effectively their new responsibilities.

Box 1. Public Administration Reform in New Zealand

In the second half of the 1980s, New Zealand undertook a comprehensive and radical reform of its public sector structure and processes. No aspect of the public sector remained untouched. The immediate trigger for reform was a constitutional crisis in 1984 created by high unemployment, high inflation, worsening living standards, and high public debt, all coupled with a foreign exchange crisis. The Government realized that major changes in economic policies were needed to liberalize the economy and make it more competitive. Reform of the public administration took place within this wider context of economic reforms, and aimed at making the government apparatus consistent with an overall trend towards a liberalized economy and a greatly reduced core government sector. Furthermore, the public administration reform aimed at increasing government's effectiveness, efficiency, accountability, transparency and consistency.

The public administration reform strategy in New Zealand 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); (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) delineating the "Core State" (central executive bodies) and the "Non-core State" (semi-autonomous entities and regional authorities) to promote more effective management and allocation of public resources.

The key elements of the public administration reform process in New Zealand were:

- *The privatization or corporatization of government enterprises.* The fully commercial activities of the state were transferred either to private sector, or to state enterprises under the governance of boards of directors, paying taxes and dividends, without interference from government authorities.
- *Restructuring of Ministries and their Departments to rationalize their functions and established a "core" government.* Ministries were consolidated and some functions were transferred either to semi-autonomous entities or to independent agencies, to create Core ministries. Within each Core ministry, different Departments were created to separate the functions of (i) policy advice, (ii) service delivery, and (iii) regulatory functions. This reorganization separated the government's roles of policy adviser (e.g., analysis of required reforms), service provider (e.g., security, defense, diplomatic services) and regulator (e.g., regulation of utility prices).
- *Semi-Autonomous Entities.* These semi-autonomous entities (e.g., driving licensing agencies, internal auditing, land titling, etc) functioned under decentralized management: their Chief Executives were fully responsible for decision-making with respect to the hiring, promotion and firing of human resources and the selection and purchase of inputs. During the course of public governance reform the shift from centralized to decentralized management made government activities more business-like, more attentive to government objectives and more responsive to their clients.
- *Independent Entities.* Some of the service delivery functions were moved to a group of independent agencies known as "crown entities" (e.g., port services, customs administration, cultural activities, sports, environmental assessments, etc). These agencies operated under appointed or elected boards. Other services were subcontracted to private or voluntary sector non-commercial suppliers. Most of these service providers were subject to some form of competition.
- *An Increased use of Performance Agreements and Contracts.* The performances of Core Departments, semi-autonomous agencies and independent entities were evaluated on the bases of mutually accepted "Performance Agreements" with quantifiable targets based on government objectives. Compensation of staff was closely linked to the achievements of the performance contracts. The resources for "incentive" payments were obtained by guaranteeing employees only about 80% of the prior take-home salaries. The remaining 20% was distributed according to performance. In addition to performance agreements between Ministers and chief executives, other contracts were developed for other government activities. For example, purchase agreements were entered between the Treasury and Ministries and entities for the provision of specific goods and services, and other contracts between Ministries and entities and other outside providers. For example, a minister "purchases" outputs from their departments through formal contracts. Chief executives of departments and agencies in turn purchase outputs from other public sector bodies or private sector providers. The language of contracting pervaded the entire

public sector, and much of the reorganization was driven by the need to split large departments and ministries into separate purchaser and provider units so that a formal contract could be established between them.

- *A change in the basis of public sector financial management* through the introduction of accrual accounting.

The reforms in New Zealand were introduced via legislation supporting administrative change. The effect of passing legislation was to make clear the purpose and philosophy of the changes, as well as the technicalities. This clarity emphasized the fact that the Government was committed to radical changes in the public sector management. There were four pieces of legislation developed and adopted in corresponding years including the State Owned Enterprises Act, the State Sector Act, the Public Finance Act, and the Fiscal Responsibility Act.

In particular, the State Sector Act provided for the creation of a Senior Executive Service, which members were to be transferred around ministries, departments and entities, and trained for senior management positions. One of the unique features of the most recent reforms in New Zealand were to abolish legislation that provides civil servant status for public employees as is the case in many countries. Public employees in New Zealand are now covered by the general labor law.

Of the core executive agencies the Treasury was a key driver of the reform process and played a leading role in the reform process thanks to its strong institutional capacity to do so. At the time of the reform the Treasury was the government's principal financial and economic advisor.

As the New Zealand economy has recovered, and the initial burst of radical reform has been completed, reform has tended to be at a slower pace and of an evolutionary nature. Three key lessons from New Zealand's reform experience arose:

1. There must be acceptance that public sector needs change (internal and external demand).
2. Political will/commitment is vital at key points.
3. Leadership from chief executives of government departments is essential.

Source: Based on Scott, C. G. Government Reform in New Zealand. Occasional Paper No. 140, IMF October 1996; and OECD Government Reform: Of Roles and Functions of Public Administration. New Zealand-Country Paper, OECD, 1999.

Summary of Public Administration Reform in New Zealand

Context/Triggers of Reform	Approaches and Actions	Major Outcomes
<ul style="list-style-type: none"> • In 1984 the economy was stagnant, public debt was very high. • The country experienced foreign exchange crisis as the national currency devalued by 20%. • Shrinking trade turnover with the UK • High inflation (13% in 1985) • Rapid growth of unemployment level (from 5% in 1984 to 10% in 1993) • Worsening living standards in terms of GNP per capita between 1985 and 1992 • Public concern was more about the economy rather than the public governance 	<ul style="list-style-type: none"> • Comprehensive public management reform began in 1984 and lasted for about a decade • Reform strategy was based on coherent ideology and solid theoretical foundation based on elements of public choice, managerialism, transaction costs theory • Political and bureaucratic elite with shared values and interests was driving force of the reform (top-down approach) • Extensive use of contracting arrangements, decentralization of personnel management to agency line managers by performance contracts • Introduction of system of incentives of civil servants (revising of civil service pay and benefits) • Public Finance Act (1989) envisaged the move to accruals accounting and focus on outputs and outcomes • Extensive use of management consultants and foreign experts (foreigners were allowed to work in government agencies) • Vigorous and harsh implementation of reforms 	<ul style="list-style-type: none"> • Public sector employment fell from 88,000 to 37,000 during 1988-1994 (many transferred to crown entities or state-owned enterprises) • Major productivity and efficiency gains and cost reductions were achieved • Broadened range of policy advice available to ministers • Operational managers gained more flexibility to manage, and wield really decentralized powers • Public received greater amount of public sector performance information • The reform initiatives were costly. • There were difficulties to monitor crown entities (unclear accountability) because of failure to complete reforms in this area

Box 2. Public Administration reform in Canada

Between the mid-1960s and the early 1970s, the public sector grew in response to the desire to create a welfare state. During this period, major social programs were established and government involvement in the economy increased. However, by the mid-1980s, pressures to curtail public sector growth increased, but few concrete actions were taken. The "1985 Nielson Task Force," drawn primarily from the private sector, recommended the elimination of more than 1,000 government programs, but few recommendations were ever implemented. In 1989, "Public Service 2000" was launched to renew the public service, but again the initiative yielded very modest changes. Real restructuring did not begin until 1994 with the launch of "Program Review."

Unlike its predecessors, this reform initiative produced significant changes in the role and size of the public sector. The government realized that incremental steps encourage resistance: "major surgery" was needed. The key was that, in the public's mind, future prosperity was linked to the restoration of fiscal responsibility.

In order to launch the reform, the initial step was to carry out a complete "audit" of all public sector activities. Its objective was to identify the central government's core roles and responsibilities and allocate resources to priority areas in order to provide effective, affordable, government. To guide the process, departments were instructed to review their operations against six questions: (1) Is a public interest involved? (2) Is this something the central government should be doing? (3) Can this be transferred to the provinces? (4) Could this be done by the private sector? (5) Can this be made more efficient? (6) Is this affordable? A committee chaired by the Cabinet Secretary reviewed proposals to meet the target with each department. This was followed by a cabinet committee review and then a review by the full cabinet.

The reform measures included cutting civil service jobs, reducing provincial government transfers, 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. By using fiscal urgency as a backdrop, public support for the cuts and restructuring was maintained. A further reform effort, "La Releve," was initiated in 1997 and dealt with attracting and retaining skilled public servants. Increasing emphasis was also placed on e-government.

While reforming the organizational structure of government, the general trend was to introduce greater management flexibility coupled with a strong results-based framework. Greater emphasis was put on the scrutiny of the achieved results and less so on the inputs utilized. A prime example of an area where flexibility and accountability are intertwined is in the creation of the "special operating agencies". These agencies are exempt from certain bureaucratic requirements in exchange for clear demonstration of results. As a result of much similar restructuring, many traditional agencies have been reformed or eliminated entirely. Simultaneously, new agencies were created under agreements of self-financing. Furthermore, privatization of some activities has long been a focus of Canadian decentralization.

Along the topic of decentralization, a noticeable trend towards increased provincial power occurred all through the nineties, resulting in the rolling back of federal programs. As a result of the large budget deficit and high public debt, the government was encouraged to transfer many of its fiscal responsibilities to the various provinces. Sweeping civil service and personnel reforms were put into place. 40,000 or roughly 18 percent of Canada's public servants were eliminated as a part of the restructuring; allowing for significant reductions in budget expenditures. From a fiscal perspective, the results of the reform activities were highly successful. By 1997-98, the budget was in surplus. For 1999-2000, the budget surplus rose to CAD12.3 billion, and program spending accounted for only 11.5 percent of GDP, the lowest level in 50 years.

Significant improvement in communication arose as a consequence of the reforms. For instance, development of e-government system in Ontario allowed the express registration of new businesses in real time, and currently, more than 70% of all new businesses occur in electronic format. The service goes as far as to allow for a centrally located electronic kiosk, from which one may obtain drivers' licenses, pay parking tickets, purchase hunting and fishing permits, submit change of address forms for a plethora of incidences including health cards, and many other vital government services. Increased scrutiny in the scope of fiscal expenditure planning and accountability has been embraced as systemic requirement for successful future

allocation of funds to priority areas. Furthermore, measures to ensure transparency have been implemented in the form of improved reporting to Parliament on the successes and failures of various budget initiatives. Full accrual accounting was introduced in 2001 as a part of the broader financial strategy; the two initiatives are intended to ensure that modern financial practices are standard policy framework at all levels of the public sector. As a consequence of government services outsourcing, the management of contractual relationships has moved to the top of the administrative agenda.

Source: Johns, C. M. et al. Intergovernmental Innovation and the Administrative State in Canada. Paper presented to Governance: An International Journal of Policy, Administration and Institutions. July, 2004; and Manning, N. and N. Parison. International Public Administration Reform. Implications for the Russian Federation. World Bank, 2004.

Summary of Public Administration Reform in Canada

Context/Triggers of Reform	Approaches and Actions	Major Outcomes
<ul style="list-style-type: none"> • Weak economic performance throughout the 1980s • Poor fiscal discipline: spending targets not achieved • Rapid growth of public debt (from CAD168 billion to CAD546 billion — 73% of GDP — between 1984 and 1994) • Federal budget deficit reached 6% of GDP in 1994 • Internal public demand for greater government accountability 	<ul style="list-style-type: none"> • Focus on long-term alignment of expenditures and revenues • Dispersed central agency authority • Structural reforms were incremental • Preference was given to private sector management approaches but to a lesser extent than in new Zealand • Special Operating Agency Program (1989) provided for limited autonomy for new governmental bodies and wide experimentation and diversification in organizational forms • Explicit attempt of central government to build partnerships with individual provinces • Civil service review and downsizing have been taken place since 1994 • Attempt to rebuild and revitalize elements of public service management after years of downsizing through La Releve (1997) • Commitment to full accruals accounting and results statements for all departments • Improved reporting to parliament (1996) 	<ul style="list-style-type: none"> • Balanced budget achieved in 1997-98 for the first time in 30 years • The central government reduced from 35 to 23 units • During 1984-93 some 15,000 employees lost civil service status; about half of them were transferred to provincial governments or quasi-government bodies. • Over the last four years, the public sector was further reduced by 17.4% (about 40,000 employees) via transfers to other parts of the system, alternative service delivery, and cuts in civilian defense employees) • Activity performance measures for civil servants were introduced but the success was uneven • Special operating departments turned out to be not sufficiently different from ministerial departments • Contracting out public service delivery produced concerns over management of these contracts

Box 3. Public Administration Reform in Ireland

Regulatory reform in Ireland began in mid-1980s, and is still moving ahead. The public sector and its institutions have greatly changed in the past decade and half. The Irish approach to modernization of the public sector during the past decade was based on a continuous and consistent approach to change over time based on an original "blue print" and supported by a reform unit consisting of senior officials. A bottom-up approach was followed.

In 1985, the government published a White Paper "Serving the Country Better" that launched a reform program aimed at introducing new public management concepts and policy tools. It advocated greater decentralization, improved budgetary management and greater mobility across departments of top-level administrators. While the program permitted the introduction of some important changes, the economic crisis of 1987 led to a withdrawal of political support, and basic structural changes were not implemented.

The main vehicle for public administration improvements was the launching in 1994 of the "Strategic Management Initiative" (SMI). This was the third attempt to reform the Irish public administration. Earlier attempts to reform the public service were of value in diagnosing the problems of the public service and raising awareness about new management approaches and tools. Eight initiatives formed the core of SMI which were aimed at (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; (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.

To oversee the public sector reform process the government appointed nine top-level civil servants from different departments to serve on the steering group known as the Coordinating Group of Secretaries. 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. In 1997, a new group, the Implementation Group of Secretaries was given responsibility for implementing and monitoring enforcement of SMI and reporting progress across departments to the parliament.

One of the reasons for the success of the SMI is that it has had strong support, not only from senior civil servants, but also from three successive governments. Another reason is that many of its central policies were underpinned by legislation adopted in 1997 (the Public Service Management Act, the Freedom of Information Act, and the Committee of the Houses of the Parliament Act). In many ways, the laws provided formal structure and content to informal and heterogeneous procedures and practices.

The recently approved program, "Reducing Red Tape," was an important addition to an array of initiatives intended to increase efficiency, transparency and accountability of the Irish public administration. An important step towards efficiency of public administration was implementation of the e-government initiative. Ireland has invested in new information and communication technologies to improve transparency and delivery of government services. Earlier existing state agencies' office infrastructure was replaced with a countrywide virtual private network, which covers the entire government sector.

As a result of the implemented reforms, public administration has become much more efficient. State-market intervention in Ireland, formerly characterized by direct involvement in the economy through ownership of public monopolies and direct intervention, has changed to acceptance of free market forces and the development of pro-competitive policy regimes that support market forces. The fact that total employment in the public sector grew by only 5.1% in 1989-99 when the level of economic activity increased enormously provides indirect evidence of the increased efficiency of public administration in Ireland.

Source: OECD Reviews of Regulatory Reforms. Regulatory Reform in Ireland, OECD, 2001.

Summary of Public Administration Reform in Ireland

Context/Triggers of Reform	Approaches and Actions	Major Outcomes
<ul style="list-style-type: none"> • The major concern was that in a rapidly growing economy (late 80s- early 90s) public administration had to meet new challenges to adapt to pro-market environment • Interventionist practices that reduce market efficiency lingered in the Irish public sector • Policy-making in Ireland confronted rent-seeking attitudes • Irish economy was characterized by large public sector including large state monopolies 	<ul style="list-style-type: none"> • Modernization of the public sector was based on prudence, pragmatism, and an incremental approach to change rather than the adoption of 'big projects' • Government White Paper - Serving the Country Better (1984): advocated greater decentralization, improved budgetary process • Strategic Management Initiative (1984): at the core of the reform program were eight separate initiatives aimed at improving customer service, simplification of administrative procedures, transparency of service delivery, effectiveness of public management policies and devolving authority and accountability • Government controls tend to be based on traditions rather than on written standards and consistent rules • Considerable discretion is left to ministers when making new rules. • Reform program was based mainly on a 'bottom-up' approach • Substantial investments were made in new information and communication technologies to improve transparency and delivery of government services • A strong judicial review mechanism promoted reforms and quality of public governance • Successive Irish governments based their efforts on building consensus through processes of national partnership • Public Service Management Act (1997): new management structure introduced • Reducing Red Tape (1999): an action program for continuation of regulatory reform 	<ul style="list-style-type: none"> • The public sector grew by only 5.1% in 1989-99 when GDP had been growing 9% per annum • Quality of government regulations improved • Citizens dealing with the social security and family affairs' agencies felt concrete improvements • Transparency and accountability have improved. However, reform outcomes only became tangible in 1999, five years after its launch • Efficient e-government system improved access of public to government services. An infrastructure exists that interconnects all agencies in central government.

Box 4. Public Administration Reform in Poland

Poland began transforming its public sector soon after 1989 when its political system changed. Until 1989 Polish public sector was characterized by centralized decision-making that meant direct participation of the highest administrative units in deciding on technical issues and about local-level affairs. Also, broad range of regulations existed at that time made for central administration to be heavily involved into supervision and direct management of economic entities. In fact, prior to public administration reform Polish central government played a role of a "director" in a big "quasi-company" - a unitary national economy. The first wave of free market reforms implemented in early 1990s showed that such a position of the administration turned out to be dysfunctional. The major problems that triggered Polish reform of public administration in 1998 were: (1) unclear delineation of responsibilities between different levels of government; conflicting priorities of state administrations and local authorities; (2) highly centralized system of public finance that envisaged financing of all budget-funded entities out of state budget; (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 to the principles of territorial differentiation.

The major step made within the course of public administration reform in Poland was decentralization, e.g. re-establishment of territorial self-government. A bipolar model replaced a monolithic structure of the state administration: government - territorial self-government. Separation of local and regional affairs from affairs of "countrywide character" was a basis of such system. The main principle of decentralization process was that the resolution of all social problems should be done in human communities created in the course of historical development and founded on naturally produced territorial, cultural and economic ties. The people should solve their everyday problems themselves, relying upon their nearest social environment. The government must occur only in the situation when the problem can not be solved in community by oneself due to the problem of scale or problem of coordination with other communities or the requirement of the adjustment to the broader entities. The outcome of decentralization is the shape of public administration sector that looks like classical pyramids: elementary tiers are occupied by broad scope of everyday matters; focusing their activity on the delivery of these basic social services to the public and top tiers of administration are concentrated on strategic, general problems of country's development.

In this way, local affairs were entrusted to "gminy" and "powiaty", the basic and the most important level of public administration. It is here that the most of important collective needs of local communities were met. Gminas are heavily engaged in provision of public services, in particular, they run nurseries, kindergartens, schools, libraries, and cultural centers; they also maintain local roads. More than 2.5 thousands gminas were established in Poland. Each gmina was run by democratically elected councils which establish management boards with executive powers. Regional affairs were entrusted to "województwa" (voivoids), the largest administrative unit in the sub-national organization of the state. Executive bodies of wojewodztwa take 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.

Box 5: International Lessons on PA Reform Pertinent to Ukraine

- An incremental gradual public administration reform is more painful than a more comprehensive and drastic one.
- A key element of the reform should be to identify the key "core" functions that the government should retain, those that should be eliminated, those that should be outsourced to the private sector, and those that should be transferred or decentralized to local authorities.
- In carrying out the organizational reform, care should be taken that the remaining individual departments and agencies have clear objectives with measurable performance goals.
- 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.
- Open and transparent processes should be developed to define agency performance, outputs and costs, and to measure, monitor and publish them widely.
- 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.
- The reform should include the development of "incentives" and "control mechanisms" to encourage the public sector to operate effectively
- Incentives and controls should encourage sound job, performance, hiring, promotion and separation of employees.
- 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.
- 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.
- 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.

