

THE IMPACT OF THE SOVIET LEGACY ON REFORMS IN UKRAINE

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Ten years ago, businesses all over the world looked with enthusiasm towards the opening up of the Soviet Union, envisaging unprecedented market opportunities. Today there is a general sense of frustration that these expectations have not been fulfilled. What should we think about this? Are the FSU countries doomed to failure, or have reforms been ill advised?

Economic Decline in Ukraine

Ukraine is a country of great potential. It is blessed with well-educated people, abundant natural resources, and a predominance of industry and agriculture in the national economy. Its geographical location in the heart of Europe leaves Ukraine in a favourable position to benefit from world trade.

At the time of gaining independence in December 1991, Ukraine was widely considered to have excellent prospects. Instead, it has endured one of the world's worst depressions in modern history, lasting for nearly nine years, with GDP reduced by over 60%. Even among the countries of the former Soviet Union, Ukraine stands out as having one of the longest and deepest periods of economic decline.

The impact of the decline on the people of Ukraine has been acute. They must now live on less than half the income they had only a few years ago. At least 30%, and perhaps up to 75%, 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.

Why has Ukraine not been able to take advantage of its great potential?

Government Grappling with a New Role

Economic stagnation in Ukraine is exacerbated by poor policy decisions and the lack of a farsseeing economic strategy. Ukraine has not developed overall objectives and is bogged down in "fire-fighting". While the President and government have articulated a clear medium-term economic policy direction,

policy implementation bears little resemblance to that vision. As a result, Ukraine has stumbled from one crisis to another.

In Ukraine, as in all transition countries, the transformation process is dependent not only on the capacity of the internal forces of government and society but also on the power of technical assistance. One of the singular benefits of technical assistance in Ukraine is that it has provided invaluable opportunities to develop concepts, mechanisms, and solutions regarding reform.

After long years of intellectual isolation, Ukrainians were eagerly looking for Western experience. For their part, donors believed that:

- the post-Soviet Ukrainian government had both the mandate and the capacity to make reform decisions - upon being given the right recommendations;
- civil society in Ukraine would automatically become active and independent when total state control was removed;
- Ukrainian business would work with foreign investors according to generally accepted business rules.

Given these assumptions, donors saw their role as advising the government of Ukraine on reforms whilst financially supporting the transition. By providing technical assistance to the government, donors believed that it would take the lead in reforming economic and social institutions.

The international community tends to see the cause of inadequate reforms and economic strategy in Ukraine as exclusively due to a lack of political will by the President and government of Ukraine. We argue that reforms in Ukraine have also not worked because of gaps between the design of technical assistance programmes and institutional reality in the former Soviet Union.

The Ukrainian government lacks the skills needed to fulfil its new role in a market economy. Up to eight years ago, the Ukrainian government had an absolutely different objective, role and function. It did not have any real governing responsibilities as one of the Soviet Socialist Republics, rather it was fully engaged in the distribution of resources and direct management of a huge, country-sized production line. No policy formulation was involved, as all policy decisions were made by the Central Committee of the Communist Party. The government was there just to execute orders.

Old Government Machinery is Incompatible with New Challenges

After the collapse of the totalitarian regime, the Soviet-style government machine proved unable to cope with the new challenges of transformation, both substantively (what to do?) and managerially (how to make it happen?). In terms of the economic substance of reform, the government was at least receiving abundant recommendations, whereas in getting the reforms implemented, it has been left alone with its incompetency.

Moreover, reform measures entail both government and parliamentary decisions, which inevitably change the status quo of society. These changes are bound to affect the interests of some societal groups and to provoke the active opposition of others. Well-organised opposition groups usually attract financial resources rather quickly, and in an effort to retain social support they use familiar communist slogans which have been long instilled in people's minds.

Reformists, however, do not have the necessary skills, experience, or resources to defend their course. In addition, they have had to deal with the challenges of early democratisation, including a recalcitrant parliament, political parties in their infancy, and shaky support for freedom of speech.

In order to function properly in the new democratic arena, it is extremely important for the government to institute the development and implementation of state policy, and to do it despite the opposition. It is no longer possible just to make decisions, knowing that they will be fulfilled without question. It is necessary to justify these decisions, prove why they are better than the alternatives, and show what consequences they will have compared to other decisions. Moreover, analytical and political justifications must be presented in order to win the support of the public.

The Soviet government did not, and could not by its very nature, have procedures or institutional knowledge for these tasks. Soviet analytical departments were never assigned the tasks of justifying alternative decisions, measuring public costs, and weighing possible consequences; and state leaders never worried about justifying their decisions to the public. Suddenly, reforms were requiring the government to give up its ownership of and control over the economy, including the need to curb its previously unrestricted and non-transparent spending habits.

Liberalisation failed to create markets in place of state control, and instead strengthened the hold over Soviet shadow economy. Privatisation programmes did not affect the existing shadow economy and macroeconomic stabilisation failed to reduce the overall role of government in society.

Unfortunately, even during the present reform process, new capacities to fulfil policy analysis tasks have not been developed. Ideally, the institutional capacity of the Ukrainian government's mechanisms to carry out reforms should include:

- employing qualified experts for professional policy analysis, namely: research on the possible short- and long-term consequences of suggested decisions; evaluation of the public costs of not making those decisions and (especially in Ukraine) the costs of reinforcing them; and comparison of these decisions with defined goals;
- an institutional ability to manage change, including a department of reform management able to formulate reform strategy; differentiating process from substance; identifying driving forces and opponents of reform; developing action plans; and building political support throughout the country;

- putting organisational 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 fulfil the principle of government transparency for the public.

Unfortunately, technical assistance to date has not really helped to develop Ukraine's analytical competence within and outside the government. Groups of foreign experts that conduct their own research and offer recommendations to the government are an extremely interesting source of information, but they cannot be used directly to any great or lasting effect in the Ukrainian policy-making process.

Reforms have still not touched government institutions, and the Soviet-style government machine remains intact. It is engaged in a dual-track system of work, with new tasks being added to the unchanged old patterns. That is why policy **advice** provided through technical assistance programmes is not being implemented in Ukraine, because policy **analysis** - a requisite standard for any Western government - has not, in fact, been instituted.

Assuming even that the will is present, the government also lacks the skills to effectively communicate reform measures to the people of Ukraine. The simple basics of a market economy and the rationale for reforms have not been explained to the people, nor has future prosperity been linked to the success or failure of reforms in the people's eyes.

For example, voucher privatisation was promoted as a purely liberal-socialist equity measure aiming at "fair redistribution of state property", but at a fundamental level those who were not involved in private business (including public servants, teachers, doctors, pensioners, and soldiers) did not see how they could benefit from shops or factories changing ownership. Their lack of understanding prevented them from becoming allies of reforms and, in this case, pushing for transparent bankruptcy procedures.

Why was the Situation Different in Central European Countries?

In fact, there have been two different approaches to technical assistance - one applying to countries of Central Europe and another to those of the former Soviet Union:

- In Central Europe the focus has been on European integration. Institutions were developed to allow integration into the EU. Government officials of Central European countries worked to adjust their institutions to EU standards, including in the framework of technical assistance projects with their counterparts in Western European governments.
- In the former Soviet Union, technical assistance has been aimed at consulting, advice, and information sharing, with no institution building. The first project

on public administration reform in Ukraine started in late 1997, compared to 1991 in Poland.

The Changing Role of Technical Assistance

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

In this context, it is unfortunate that technical assistance in Ukraine has been focused on **giving advice** rather than on **teaching Ukrainians to develop and formulate policy advice**. As a result, the government of Ukraine has been unable to evaluate foreign advice or implement it.

Furthermore, it is necessary to distinguish between technical aid to the government and independent policy research by international experts. The latter is very interesting and valuable, both for Ukrainians and donor countries, but there is no way it can replace technical assistance for the government to do similar research. Technical aid has to be aimed at helping Ukrainian institutions to ask the proper questions, find the answers, and thus support the decision-making process.

In fact, it often happens that foreign consultants do not promote the transfer of knowledge at all, because they are expected to produce their **own** work in the form of advice, as opposed to guiding, consulting, and supervising Ukrainians doing that work. Ultimately, all parties are frustrated - the international side because Ukrainians do not follow their advice and the Ukrainian side because they were not helped to deal with their problems. It is no wonder, really. People are not ready to pick up advice until they themselves have gone through, or have at least started, a comparable intellectual process of policy-oriented thinking. What is more, existing Ukrainian institutional mandates, organisational structures, job descriptions, and much of the normative and legal foundation conspire to foil the work of the modern democratic policy process. Meanwhile, donors expect government recipients to set things right overnight.

Actually, nowhere in the world do public servants go to their workplace and start a revolution every day. As a rule, they merely join an existing system in order to fulfil assigned functions and tasks. However, the Ukrainian government, like Baron Munchausen, is expected to drag itself by its own hair into a new role. Ukraine, unlike the Baltic and CEE states, does not have specially designed TA-supported programmes to establish a new institutional capacity for future democratic government. Quite the opposite, resources are often spent on quasi-government formations which cannot change or replace unreformed government institutions and do not build foundations for the required future government structure.

In order to help establish a new government institutional capacity, which is imperative for leading the reform process, existing government institutional capacity has to be engaged in developing and implementing special retraining programmes which focus on policy skills. Then, all those who participate in the programmes - both at the individual and the departmental level - will change. Technical aid must be targeted not at temporary or “transitional” agencies, but at those government departments which are an indispensable part of the future government - and they must not delay restructuring any further.

The work of implementing reforms can only be done by government institutions that are fundamentally different from the Soviet type. In order to restructure government institutions, however, it is essential to develop targeted technical aid projects, because **the government will not be able to restructure itself** without these programmes.

Technical assistance programmes can play a key role in reforms, and if we want to facilitate the reform process, we have to revise the mechanism and procedures for TA programmes. In addition to designing projects which facilitate the development of new government functions and support its new role, we must also completely restructure the training programmes which do little more for Ukrainian participants than provide sightseeing tours overseas; they need substantive training, including continuing study programmes upon return.

At ICPS, two such programmes have been geared specifically toward revising mechanisms and procedures - the World Bank’s Country Economic Memorandum (CEM) and USAID’s Centres of Policy Excellence (CoPE). The CEM was designed as a way to transfer analytical methods used in the World Bank to the Ukrainian executive branch of government, including commenting, reviewing, and discussion methods. Much writing was done by the Ukrainian side during their training, organised as carefully designed home assignments in policy analysis, while the international consultants were free to enjoy their proper and unquestionably appreciated role of commenting, consulting, advising, and guiding. The resulting economic reports covering eight sectors of the economy have been published by the World Bank.

The primary component of the CoPE programmes on budget and regulatory reform policy is the fellowship programmes. A working group of government officials, assigned by their respective ministries, is completing a set of capacity-building exercises that are designed to improve their ability to support the budget policy process in Ukraine. Proposed and vetted by the Ministries of Finance, Economy, and the National Bank of Ukraine, the fellows attend weekly seminars, undertake individual projects designed to address issues of direct importance to their professional responsibilities, and participate in a regular review of their progress and performance within the programmes.

Besides the Country Economic Memorandum (CEM) and the Centres of Policy Excellence (COPE), there appear to be no economic policy projects in Ukraine that require the systematic, coherent, and carefully planned involvement

of government officials, whose project work is included in the objectives of the institution where these public servants are employed.

Conclusions

Ukraine cannot be said to have failed in making the transition from a totalitarian regime to a democratic market society. On the contrary, market forces, naturally embedded in people's vested interests, are thriving in Ukraine. Private initiative is far ahead of the regulatory framework, with 60% of the economy working in the grey market. Moreover, Ukrainians are highly educated people, with 100% literacy and more universities and PhDs per capita than in any developed country, giving them a great capacity to learn.

We believe that at the moment of independence there was full political will in Ukraine to go the Western way. However, this will did not manifest itself in concrete policy decisions because there was no institutional capacity in the government to deal with the challenge of making radical political choices in a fledgling democratic environment. Ukraine has paid a high price for early democratisation, which was not matched in the government by an institutional capacity to make difficult reform decisions in the face of old-guard opposition - and of freedom of speech. Ukraine still has to learn to build on existing societal forces instead of fighting them.

The progress of reform in Ukraine has been grossly hampered by the lack of government capacity for policy-making. The reform design did not take into account the Soviet institutional legacy and the market behaviour of people who have the instinctive drive to make money wherever possible and who are not willing to wait until the proper legislation or procedures are in place. The onus and responsibility for the failures of some reform support and guidance programmes in Ukraine lies also with the donors, because a large part of the reform process was conceived, designed, and guided by donors. Without donor involvement, reform in the post-Soviet countries would have taken a drastically different turn.

Today, technical assistance formats must be reassessed and shifted from consultancy resulting in **advice** to consultancy resulting in **institutional capacity building**. The business of development needs to present the reform process as a special policy craft, both in concept and implementation, bringing policy analysis into the everyday life of every institution. In doing so, the international donor community can expect to achieve a much higher success rate with lasting and productive results.