BUILDING A CAPABLE STATE: Ukraine Reforms Architecture (URA)

Francis Malige, Bojana Reiner
EBRD
The thorny journey to building a capable state in Ukraine

1. Ukraine emerged from turmoil and faced unprecedented challenges

2. International community joined forces to help Ukraine address its reform catch-22

3. A new approach to building state capacity was born

4. Initial successes in turbulent political waters

5. Is the URA model replicable beyond Ukraine?
Ukraine post-Maidan: A Catch 22

Ukraine faced unprecedented challenges and an urgent need to reform...

- A popular uprising, setting Ukraine on a clear path of European integration
- Unprecedented military, economic and hybrid pressure from Russia
- Deep economic crisis and recession
- Unusual volume of reform commitments assumed through AA-DCFTA and IMF programme

...but it lacked the needed capacity to reform

All reformers faced one common challenge: lack of administrative and policy-making capacity.

And time was of the essence.
A dramatic conundrum soon emerged

“We can’t reform a country which is fighting a war”

“But one cannot win a war with a failed state”
State building is fraught with difficulties

- Civil servants “playing for time”, outlasting the ministers
- “Flying experts” won’t do
- Too many strategies, too little implementation
- Insufficient capacity to coordinate support actions

A new approach was needed
An iterative process

Revolution of Dignity

- President Poroshenko elected
- EU Association Agreement signed
  - Jun 2014
- Parliamentary elections
  - Oct 2014

Groysman government formed
  - Apr 2016

Presidential elections
  - Mar 2019
- Parliamentary elections
  - Oct 2019

2014
- NRC established
  - Jul 2014
- MDA set up
  - Dec 2014

2015
- URA launched
  - Oct 2016

2016

2017

2018

2019

2020

URA 2.0?
URA was built around 5 core premises

1. A deep and holistic approach…
   - Three mutually-reinforcing components
   - Targeting focal points to maximize impact

2. …and supporting reform champions in the government
   - With clear targets and deliverables agreed with the government

3. …led by Ukrainian reform entrepreneurs…
   - Only Ukrainians can truly reform Ukraine
   - Attract and mobilise local reform pioneers
   - Embed in the administration to root best practices

4. …leading by example…
   - Ensure transparent and merit-based selection
   - Transform the ministries, reform the economy

5. …by building continuity, not providing temporary fixes
   - On a pay scale that allows reform talent to stay
Transforming Ukraine in a deep and holistic way from the focal points, to maximise impact

Close to 200 reformers are supporting reform delivery and PAR implementation

National Reforms Council (NRC)
- Prime Minister
- President
- Speaker of Parliament

NRC Executive Committee
- NRC Support Team

Cabinet of Ministers of Ukraine

Reforms Delivery Office

High-level advice on reforms

Ministry of Agrarian Policy and Food
- Reform Support Team (RST)

Ministry of Infrastructure
- RST

Ministry of Finance
- RST

Ministry of Economy
- RST

Ministry of Regional Development...
- RST

Ministry of Environment and Natural Resources
- RST

State Road Agency
- RST

Other RSTs to follow...
- MinEdu

EU Technical Assistance

Funded through the Ukraine Multi-Donor Account (MDA)
Local Ukrainian reform pioneers were selected...

...via a transparent and merit-based selection process
…on a pay scale that fosters sustainability

Average monthly salary, €

Current civil service
- Unsustainable
- Breeds corruption

RST/New civil service
- Aligned with “new” EU member states
- Consistent with state budget constraints
- Designed to enable a decent living standard

International experts
- Essential for advice quality
- Ill-suited to implementation

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<tr>
<th>Salary Range</th>
<th>Junior</th>
<th>Senior</th>
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<td>€100 - 150</td>
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<td>€200 - 400</td>
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<td>€800 - 1,450</td>
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<td>€1,200 - 1,900</td>
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<td>€13,000 - 17,000</td>
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<td>~ €25,000</td>
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Transform the ministries; reform the economy

RST reform roadmap

- Policy Area
  - Privatization
  - SOE reform
  - Business climate
  - Decentralization
  - Customs and tax reform
  - Healthcare
  - Education
  - Infrastructure
  - E-governance
  - Labour market reform
  - Pension reform

RSTs as change agents and incubators of a new generation of civil servants
Supporting the political reform champions to deliver for citizens

- Efficient and effective implementation of key priorities
- Overcoming resistance from civil servants
- Breaking down institutional and sectoral silos
- Engaging key Ukrainian stakeholders and donors more substantially in the reforms process
- Enhancing the credibility and attractiveness of public administration
- Communicating the benefits of reforms to the wider public
Reform successes

Improved reform planning

**Adoption of key strategic documents:** Mid-term Government Action Plan 2020, SME Development Strategy 2020, Energy Strategy 2035

Development and adoption of reform legislation

**Critical legislation adopted:** privatization law, law on corporate governance, package of deregulation legislation, anticorruption legislation

Reform implementation

**Pension reform:** increase of pensions for over 9 million people

**Privatization and SOE reform:** 430 successful auctions in small privatization, 5 independent Supervisory Boards in key SOEs, open recruitment of SOE CEOs

**Public Administration reform:** 58 Policy Directorates in 13 institutions, 600 new civil servants recruited, 38% outsiders, -21% of civil servants since 2015

**Other:** 30 million medicine prescriptions financed through Affordable Medicines Programme, e-Health System, e-Governance, Energy Efficiency Fund, new VAT-refund system
Reform Story: Affordable Medicines Programme

Pre-reform situation:

- Drug prices in Ukraine were often higher than in neighbouring countries
- Currency devaluation made drug prices prohibitive for people with chronic disease
- No healthcare insurance or drug reimbursement system

After 2 failures to launch the programme via usual processes, the Government asked for RDO’s support → programme was launched within 2 months

RDO input:

- Project planning and management
- Organisation and facilitation of stakeholder negotiations
- Development of a robust reimbursement model
- Facilitation of a fast legislative process

Average reduction of medicine prices (through competitive bidding):
-30%

In state-refunded prescriptions:
1 bn UAH

Pharmacies voluntarily joined the programme:
1/3
URA was rapidly deployed thanks to a flexible multi-donor fund

- The **Ukraine multi-donor fund** was created in 2014, with a fast decision-making process to deliver an urgently needed crisis response
- 13 donors committed to support key reforms

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What future for URA?

Many developing countries in the EBRD region suffer from weak capacity to meet major reform commitments.

How will URA withstand the election cycle in Ukraine?

Where in the world would a similar response be needed/appropriate?

What conditions should be in place to provide URA-like support?
Thank you!

Ukraine Reforms Architecture (URA)

#MakingReformsHappen
The Law on Civil Service came into force in May 2016 and the rollout of PAR is underway.

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<th>Phase</th>
<th>Year</th>
<th>Details</th>
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<td>Phase I</td>
<td>2018</td>
<td>Concept of New Civil Service launched – new policy directorates and Reform Staff Positions set up in 13 pilot government bodies</td>
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<td>Phase II</td>
<td>2019-2020</td>
<td>Roll out of the revised civil service structure across the government based on pilot experience</td>
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<td>Phase III</td>
<td>2021</td>
<td>Creation of an effective system of central executive bodies and completion of its optimization</td>
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UA PAR approach to manage change:

- Improved policy-making: creation of policy-design functions and strengthening of implementation capacity
- Open, merit-based and transparent recruitment
- Increase trust to civil service and improve the image of civil service
- Political independence
- Competitive compensation
Civil service transformation 2016-2020 (2)

Past

30%

Future

70%

Bonuses and “incentives”
variable

Official salary
fixed

70%+

30%

58
Directorates set up in 13 pilot institutions

1325
RSPs positions created

-21%
Reduction of the number of civil servants since 2015

UAH 1.2 bn
Dedicated PAR budget in 2019

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