

# **Main Challenges facing Ukraine and Recommendations**

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# Ukraine's Main Challenges

- Ukraine is facing huge challenges that require international assistance, both in terms of financial resources and technical assistance.
- An overall program similar to a Marshall Plan will not be feasible, given likely resistance from donors due to past issues in Ukraine with lack of transparency and corruption.
- **Targeted Programs** for selected areas are more plausible, specially if these areas are well-defined and they are properly audited.
- Targeted programs are proposed in the following areas:
  1. Defense and Security
  2. Public Governance
  3. Social Matters
  4. The Economy
  5. Reconstruction of the East
  6. Country Image and Diplomacy
  7. Sector Support for Energy and Agriculture

# 1. Defense and Security

- Pacification of the East is a pre-condition for economic and social recovery as no private domestic and foreign investments will take place in Ukraine while hostilities supported by Russia are taking place.
- But as stated by President Poroshenko during Independence Day, a "constant military threat will hang over Ukraine for the foreseeable future".
- Ukraine must energetically suppress the rebels in the East and quickly succeed on pacification. For this purpose Ukraine must upgrade its military capabilities and will need to spend over \$3bn to re-equip the army in the next two years.
- Given the sums involved, in addition to any 'official' funds, the government should tap NGO and private sector funds.

# 1. Defense and Security (continuation)

- For this purpose an **Ukrainian International Security Fund**, audited by respected auditors, should be created to secure financial and technical aid from a number of sources, including:
  - the Ukrainian Diaspora in the USA, Canada, Australia, and other countries (as Israel has successfully done);
  - International companies, principally those working in Ukraine;
  - Ukrainian “oligarchs” and other rich individuals.
- To secure **official bilateral support**, Ukraine should retain a capable “agency” to lobby for training on urban warfare and military assistance from the USA (including the provision of drones), the EU and other countries, based on an agreed upon action plan.

## 2. Public Governance

- In Ukraine, public governance has been a deterrent for reforms, rather than a facilitator of reforms. International experience shows that without major improvements in Public Governance, economic reforms will not be implemented or will not be sustainable, as “vested interests” will derail any reform efforts.
- Two areas of reform of public governance are essential: reform of public administration, and reform of the legal/judicial/enforcement systems.
- The World Bank has accumulated substantial international experience in these two areas and the government should formally request **a large technical assistance loan** from the World Bank to develop and implement these reforms.
- Although implementation may take time, the initial decisions and measures should be taken quickly without delays to ensure their success and break resistance from vested-interest groups.

## 2. Public Governance (continuation)

- On **Public Administration Reform**, the work should start with a redefinition of the role and functions of the government (as that of providing essential public goods and supporting rather than competing with the private sector). Other roles should be eliminated or delegated. This functional review should lead to elimination of overlapping responsibilities, a major reduction of the number of ministries and agencies, a reduction in public personnel, the decentralization and transfer of government responsibilities to lower level of administration, simplification of government procedures, improvements in government employment practices and salaries, deregulation and lower corruption.
- On **Legal and Judicial reform**, progress has been made recently but it is still deficient. The emphasis should be to further improve predictability, responsibility and accountability. This should bring more transparency and honesty to the current system.

# 3. Social Matters

- After hostilities cease in the East, the priority should be to offer some “normality” to the population of Donbas that have lost their housing and other social services.
- But these social efforts cannot be financed by the Ukrainian government alone. Ukraine must secure special grants and financing from international sources (World Bank, EBRD, EIB, UN, Red Cross, bilateral aid, etc.) in order to provide this population with:
  - Temporary winter housing;
  - Temporary schools and health services;
  - Counselling to affected families;
  - The possibility of “cash grants” for families with children (following the successful programs in Brazil for the poor).
- To facilitate foreign aid, these funds should follow international standards of transparency and be audited by external auditors.

## 4. The Economy

- Given the deterioration of the Ukrainian economy, the emphasis should be on high-impact short-term measures, as follows:
  - The IMF **stabilization plan** should be implemented to reverse the recent acceleration of inflation and exchange rate depreciations. This will include increases in revenues (such as energy prices, excise taxes) and reductions in non-military expenditures (such as public jobs, wages and pensions).
  - Given the loss of **exports markets** in Russia, an export facilitation and diversification drive should be undertaken. In addition to deepening trade with the EU, new markets should be sought and FTAs signed with other countries in Europe, Latin America and Asia.
  - **Policy reforms** to improve Ukraine's investment climate are urgently needed, with emphasis on business deregulation, business taxation, and less government interference in business activities.
  - **Anti-corruption measures** should be implemented right away.
- Specific action plans for these economic areas have already been stated in a number of reports. The emphasis should be now in making the necessary implementation arrangements.



## 5. Reconstruction of the East

- The eventual reconstruction of the East cannot be financed only by special taxes, given the large amounts involved.
- Only large international financial assistance, based on aid and long term financing, can be successful.
- For this purpose, Ukraine should now start the preparation of accurate and complete assessments of the conflict-inflicted damage of economic and social infrastructure.
- This assessments should then be converted into specific “projects” for investments in infrastructure, energy, housing, education and health facilities, job-creating industries, etc.
- The ensure that the private sector is engaged in these efforts, the government should rapidly improve the business investment climate in the region and in Ukraine in general.

## 6. Country Image and Diplomacy

- Ukraine is loosing the propaganda war against Russia which is investing heavily in distorted propaganda in the West.
- The establishment of the TV channel Ukraine Today in English is a good first step; but Ukraine must implement a wider information campaign in the EU and USA with regular TV appearances and articles in newspapers written by well-know “friends of Ukraine”, such as political figures, academicians, movie stars, etc.
- The Embassies, with the help of the diasporas and NGOs, should organize in the US/EU regular press conferences and workshops.
- Ukraine should press the UN, the EU and the USA to carry out formal investigations of Russia’s actions to explore the possibility of declaring Russia a state that supports “terrorism”.
- Ukraine should carry out a program in Ukraine to improve the morale and patriotism of its soldiers and population.

## 6. Sector Support for Energy and Agriculture

- The Energy and Agricultural sectors provide Ukraine with the best opportunities to spearhead economic growth.
- Given the current risks, to tap foreign investments in these sectors, the government should start investing with private capital in **join ventures** (public-private equity partnerships) with arrangements that would provide a more predictable investment climate and a number of guarantees.
- In the **energy sector**, growth and investment opportunities exist on projects for alternative sources of energy, for increasing oil/gas domestic production from shale and secondary recovery from older wells, and from energy efficiency and conservation.
- **In agriculture** the government should make arrangements to sell or lease state-owned land; offer export guarantees; improve agricultural infrastructure; and simplify agricultural regulations.