

Short Term Reform Priorities

April 2016

Eradicating Corruption

Although the country has taken a number of actions to eradicate corruption results are not yet visible. Over the short-term (next six months), the country has to show results in implementation. It needs to:

1. Remove the blanket immunity from prosecution currently enjoyed by members of Rada and the judiciary, to make them subject to legal actions against any corruptive practice. Also, as in most European countries, remove most “special” privileges, utility payments, other subsidies, housing and other prerogatives to Rada members and high level officials to establish the principle that they equal under the law to the rest of the society.
2. There must be an immediate increase in the number of corrupt officials and Rada members that are successfully prosecuted, convicted, and put in jail. Punishment for corruption cases should be strong and non-selective. Otherwise, anti-corruption will have no credibility.
3. Dismiss a number of public officials for whom evidence of corruption may not be available, but whose past behavior may be questionable, including the current General Prosecutor and other high level officials.

Devolving Credibility and Reputation to the Judiciary and Legal System

1. Public opinion about the reputation, ethics, fairness and competence of judges, prosecutors and law officers is very low. To regain public trust, blanket immunities should be abolished as noted earlier. And second, there should be **a complete re-evaluation of all judges** (about 10,000), prosecutors (about 20,000) and key law enforcement personnel. These re-evaluations should be extensive and not limited to the selective lustration of only a few. Every judge, prosecutor and key law officer must satisfy a rigorous independent evaluation (with international support) of their professional ability, integrity and financial assets.
2. The current inconsistencies between the Commercial Code and the Civil Code have been a major source of corruption in courts, allowing judges to permit illegal corporate raiding and unlawful transfer of business ownership. Right away, eliminate the Commercial Code and merge any necessary sections into the Civil Code.
3. The merge of the two codes during 2016 should be followed by a simplification of the entire business/commercial law environment. In particular, the entire business-related legislation must be replaced by a more business friendly legislation, possibly copying the best legislation of other former centrally-planned countries, such as Poland, Georgia, Estonia, and Slovakia. This should be

accompanied by improved enforcement. The new business legislation should also be amenable to alternative dispute resolution, such as arbitration.

Anchoring Macroeconomic Stability

1. The Fiscal Budget deficit should be significantly reduced, aiming at a maximum level of 2%-3% of GDP by 2018 and thereafter.
2. At about 45% of GDP, government expenditures are too high and must be cut drastically to about 35% of GDP, a level consistent with those of similar and competing countries, such as Romania (36%), Bulgaria (34%), Turkey (34%), Georgia (31%), Chile (23%), Mexico (26%). The main area for reducing expenditures must be on discretionary spending, such as the provision of energy subsidies and subsidies to state enterprises. This process can be facilitated by the introduction of Zero-Based Performance Budgets for all agencies, under which funds are provided on the basis of fully appraised programs, and not just additions to existing “departments”.

Improvement of Public Administration

1. Since independence, deficiencies in public administration have been major causes of for the poor implementation of economic reforms. Given the difficulties in reforming public administration, the only option today is just to dissolve the bulk to the central government through a large transfer of its functions to local administrations, as was successfully done in Poland, Canada, New Zealand, and other countries. Furthermore, the quality in the provision of public goods and services would be improved by decentralization, since this will bring the provision of services closer to the final users who can exercise better control.
2. This decentralization should be based on a national consensus about the functions and role of the government. This role should be to support, not to compete with the private sector. Ideally, this should be embodied in the Constitution. The goal should be to retain in the central government only those functions which are not able to be transferred either to local authorities, to the private sector, or to the rapidly maturing civil society institutions. In principle, the central government should only be responsible for strategy, policy formulation and overall control. It should also be responsible of matters of national interest, such as defense and the military. The implementation of government services and provision of most public goods should be decentralized to local authorities, in order to bring their provision closer to the final users.