

Edilberto Segura, Iryna Piontkivska, Olga Pogarska, Oleg Ustenko, David Bleyzer

# Proposed Reform Agenda for Ukraine: The First Twelve Months

Editor Rina Bleyzer Rudkin

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# Introduction

The international experience of countries that have successfully implemented economic reforms shows that economic reforms must be implemented quickly, on an accelerated basis. Step-by-step reforms do not work over time as too much resistance is created and vested interests are able to stifle reforms.

Only a "big-bang," bold program will have a chance to succeed. In Eastern Europe, those countries that undertook accelerated and bold reforms suffered the lowest declines in output after the collapse of the former Soviet Union and were able to develop their economies more quickly.

President Yushchenko has a strong backing of the electorate and a clear mandate to accelerate reforms and improve living standards. He should now seize the opportunity to break from the past and implement reforms on an accelerated basis.

This paper presents the views of SigmaBleyzer/The Bleyzer Foundation on the key structural reforms needed in Ukraine to build private sector confidence, improve Ukraine's business climate and sustain economic growth.

The paper is divided into three parts, as follows:

Part One lists the proposed quick measures that the government could take to produce rapid results and show government commitment to reforms. These measures are summarized in Attachment 1.

Part Two discusses five priority fundamental institutional and policy reforms for the first twelve months needed to generate confidence in the country and facilitate the implementation of economic reforms (these measures are summarized in Attachment 2):

1. Modernize and increase efficiency of public administration
2. Secure the stability and predictability of the legal environment
3. Strengthen public finance discipline
4. Eliminate the interference of government in private sector firms and further deregulate business activities
5. Liberalize foreign trade and international capital movements

Part Three discusses other economic reforms to bring sustainable investment and economic growth:

1. Corporate governance
2. Privatization policies
3. Financial sector development
4. Corruption level
5. Political risks
6. Country promotion and image

## Part One: Quick Payout Actions to Show Commitment to Reforms

The following actions are recommended as relatively quick and concrete measures to demonstrate that the new government has a great deal of commitment to make changes and create a new country, based on good governance:

### Leadership, Communication and Transparency

**1. Establish Open Communication.** The new leaders should open channels to communicate directly to the country periodically about the actions that the government is taking and the results achieved. It is proposed that once a week, one of the key leaders of the country speaks for 30 minutes about these matters.

**2. Increase Transparency.** Transparency in government should be established by expeditiously passing legislation on "Free Access to Government Information" on any non-national security matter. Transparency in business should be improved by requiring all companies filing tax returns to prepare financial statements based on international accounting standards.

### Pending Legislation

**3.** The government should work with the Rada to quickly enact a number of pending laws and amendments, including the Joint Stock Company Law, the Administrative Court Procedure Code, the removal of conflicts between the Civil and Commercial Codes, and the removal of the recent extension of the Land Sale Moratorium.

### Public Finance Discipline

**4. Eliminate Tax Privileges and Free Economic Zones.** To show a more even tax treatment across the country and taxpayers, tax privileges and exemptions and free economic zones should be abolished.

**5. Settle all Remaining Arrears on Value Added Tax Reimbursements.** This will send a message that the government will act quickly to establish public finance discipline.

### International Trade and Capital

**6. Seek Market Economy Status and WTO Membership.** The government must pursue whatever measures are needed to secure the status of "Market Economy" both from the European Union and the US. It should complete the remaining bilateral agreements and take other trade measures needed to join the WTO before the end of the year.

**7. EU Integration.** The government should rapidly secure a commitment in principle from the European Union that Ukraine may eventually become a full member of the EU once it has met all the Copenhagen and other criteria for membership.

**8. Promote Foreign Direct Investments (FDI).** Rapidly create and staff a small Foreign Investment Agency, which should immediately promote FDI for the country. A major international conference on FDI should be organized in Kyiv or a key European country (Germany, UK) as soon as possible. It should be followed by visits to a number of countries in America, Europe and Asia to seek foreign direct investments from large key enterprises with ongoing plans to establish operations in this part of the world.

## Part Two: Fundamental Reforms for the First Twelve Months

In order of priority, we recommend that major efforts be made to implement the following five key measures:

1. Modernize and increase the efficiency of public administration
2. Secure the stability and predictability of the legal environment
3. Strengthen public finance discipline
4. Eliminate the interference of government on private sector firms and further deregulate business activities
5. Liberalize foreign trade and international capital movements

### 1. Modernize and Increase the Efficiency of Public Administration

Although there is still an unfinished agenda, during the last few years, progress has been made 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 institutional environment for the public sector. That is, little has been done to provide the "incentives" and "control" systems that would positively influence the behavior of government organizations to achieve a well-defined role for the government.

Upgrading the capacity of government institutions, both at the central and local level, is the key to the success of the implementation of other policies, programs and projects that the government wishes to execute. In fact, the initial approval of these policy reforms requires 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. Therefore, public administration reform is the reform that would facilitate the implementation of all other economic reforms. Furthermore, given the inadequacy of current government institutions, there is the risk that economic policy reforms will be undermined over time. In fact, even if adequate policy reforms are enacted, there is a high risk of policy reversals if the government institutions continue to be weak.

The current government structure retains many of the problems inherited from the former Soviet Union. A legacy of the communist past, it is ripe 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.

If the reform of public administration is well done, this reform will put the country on a different path, on an accelerated course to faster development and growth. 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. According to the European Commission's annual study of civil service capacities in various states, with continuous progress, it will take Ukraine up to five 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. Box 2 describes the public sector experience of Can-

ada, which was undertaken following a comprehensive "audit" of government functions. Box 3 discusses the public administration reforms in Ireland, under which Ireland became one of the most successful countries in the EU.

## **Implementation of Public Administration Reform**

To facilitate the execution of public administration reform in Ukraine, the government should create a separate high profile unit responsible for it. This unit should have direct access to the President and the Prime Minister.

The government should start the reform by approving a plan of action for the implementation of the concept of administrative reform. The plan of action should take into account the experiences of other countries, which show that a comprehensive and drastic reform of public administration has a better chance of succeeding than piecemeal or incremental reform. In fact, the piecemeal strengthening of individual agencies will just be a painful process that would demoralize the entire organization. Furthermore, attempts to strengthen individual institutions in a given sector would either fail in the short run — because of factors such as low civil service pay scales that go beyond the particular sector — or they would fail in the long run when the ad hoc arrangements expire.

The action plan should define the various components of the reform agenda, along the following lines:

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

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 functions and responsibilities.

Therefore, the plan of action should start with a clear definition of the role of the government. It should state that its role is limited to non-commercial activities and the provision of necessary "public" goods and services (goods and services that would not normally be undertaken by the private sector due to externalities and other factors, such as education, health, defense, security, regulatory services, policy formulation and implementation, etc.) The main objective of the government is not to compete with the private sector in productive activities, but to support economic and social development, with economic growth led by the private sector.

### **2. Undertake Functional Reviews**

Based on a clear definition of the role of the government, the functional reviews will aim to redefine the roles and functions of key government agencies. This redefinition would also lead to elimination of fragmentation and overlapping of roles, by consolidation, transfer, and/or elimination of entities.

It may be useful for each government agency and department to make a self-analysis of its functions based on a clear centrally prepared questionnaire (as in Canada). The questionnaire would be sent to all agencies, asking them to produce a reply in 45 days, answering the following questions:

- (1) Define clearly the main role/function and output of your department.
- (2) Is this program of clear "public interest"? How?
- (3) Is this something the government should be doing? Why?
- (4) Can this be done more effectively by local administrations?
- (5) Could this be done by the private sector?
- (6) If maintained in the government, how can it be made more efficient?
- (7) Are there enough resources for this program and if not what needs to be cut?

Based on the responses from the agencies, the PM's Unit would identify the government's "core" functions and allocate most resources to them. Other "non-core" functions would be subcontracted, delegated to local governments, or privatized. Care should be taken that the individual departments and agencies have clear objectives with measurable performance goals.

The functional reviews would be as follows:

- Review the role and functions of the President's Administration to convert it into a small Secretariat for the President. The reform should devolve functions to the line ministries such as issuance of Presidential Decrees on economic regulations and organization of agencies. It should also transfer reporting of most Central Committees to line ministries.
- Review the structure of the Secretariat to the Cabinet of Ministers (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 of the Cabinet of Ministers. This would be accomplished by eliminating the current overlap of responsibilities between the COM as a 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.
- Review their roles and functions and consolidate and reduce the number of individual 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. Ministries should be organized along "functional" lines rather than by branch or sector. Also, greater competition in the provision of government services should be sought, for example, by permitting open enrollment in schools or health clinics.
- 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 (such as 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 decentralization 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*. The operational reviews should consider the following points:

- Review internal decision-making, processes, practices and procedures in order to simplify them and make them more transparent.
- The review should also eliminate unnecessary 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.
- Measures should be taken to improve information for accountability. Open and transparent processes should be developed to define agency performance, outputs and costs, and to measure, monitor and publish them widely.
- 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 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 to build popular support — among businesses, unions, students, the press, the civil service — for policy reform and for the role of the government.
- Legislation and clear procedures should be established to improve public access and transparency of government information, making any non-national security information freely available to the public. In fact, in the absence of a market test, transparency and openness of information and public processes are the best ways to ensure accountability for performance.
- Improvements in procurement procedures should continue to make them more competitive and transparent.

#### **4. Carry out a Civil Service Review**

Civil service reform would aim to upgrade the quality of civil service employees. For this purpose, the following points should be considered:

- The merits of a Senior Executive Corps, modeled after the US government's SES or New Zealand's Senior Executive Service, should be considered as a short term solution; under this approach, job security is given up in return for higher salaries.
- The reform should include the development of "incentives" and "control mechanisms" to encourage public sector employees to operate effectively, including sound job performance, and fair hiring, promotion and separation of employees. In particular, a key measure to motivate performance is to link a substantial part of compensation (about 20%-30% for most staff) to the achievement of measurable objectives, under performance agreements. This will require defining, measuring, and monitoring performance indicators both for individual units and individual staff.
- 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.
- A strong Civil Service Institute should be created to provide periodic training to new and old staff, in order to increase their qualifications.
- Legal regulations should be passed to deal with the management of enterprises in which the state is still a shareholder. Sub-contracting of management of state enterprises to the private sector should be considered.
- Administrative corruption should be dealt with promptly. The above measures should permit a reduction in the number of civil servants and increases in salaries and benefits packages. This should make civil servants less prone to rent-seeking (corrupt) behavior.

#### **5. Delegation to Local Authorities**

Decentralization of government services and resources to sub-national levels of government should be a key element in restructuring the public sector. 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 principle, social services, such as health, education and housing, should be totally transferred to local administrations.

The objective of decentralization 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. Therefore, the lower the administrative level to which decentralization takes place, the better.

Decentralization would increase opportunities for local initiatives and for better targeting of benefits. It would also 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. In fact, international experience shows that 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 that is not carried out in a comprehensive manner would be ill-advised and may fail. 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 effectively assume their new responsibilities.

## 2. Secure the Stability and Predictability of the Legal Environment

### Legislation

After the collapse of the Soviet Union, Ukraine was left with legislation that was unfit for the new realities. Development of a democratic society and a market economy required creating new laws and regulations. For the past 12 years of independence, Ukraine succeeded in drafting a significant amount of legislation. The country adopted a new constitution, passed a new criminal code, land code, civil code, commercial code, customs code, election law, family code, and many economic laws. Ukraine can now boast modern legislation in the areas of bankruptcy, money laundering, public procurements, privatization, mortgage, labor regulation, and others. Significant work is being done to improve legislation on company law, the stock market, and leasing, as well as to streamline legislation and bring it up to western standards. Such a large number of legislative initiatives required a significant effort, and was often done with assistance from international agencies like the World Bank, IFC, USAID, and others.

However, some of the new laws have been amended and changed many times as a result of shifts in the political situation in the country. Such instability of legislation often created a great deal of uncertainty among local and foreign businesses. In a notorious example, Ukraine originally granted broad privileges and tax exemptions to joint ventures established with foreign participation. These were fully revoked a few years later with a law that had retroactive force, leaving foreign-owned businesses bewildered and frustrated.

According to a recent survey of the business environment in Ukraine, 69% of respondents cited unstable legislation as a significant barrier to business development. The survey estimated that there were 26 changes in three major taxation laws in 18 months, 6 changes in legislation on licensing in 2002, and 11 changes in customs laws and regulations in 18 months. To minimize changes in legislation and ensure consistency of new laws with existing laws, the processes and responsibilities for drafting of new laws should be better defined.

Ukraine's legislation ensures equal treatment of domestic and foreign businesses (with notable exceptions being the production of weapons and alcohol, which is open only for local companies.) However, local companies, through their strong political lobbies, are often better positioned in competition than their foreign rivals.

Ukraine has passed legislation that allows the country to acknowledge and execute certain decisions of foreign courts. The law covers foreign court decisions in civil, labor and family cases, as well as particular aspects of criminal cases, and it also honors decisions of foreign arbitration courts. Ukraine is using an international commercial arbitration law that parallels commercial arbitration laws set forth by the United Nations Commission on International Trade Law. Also, Ukraine is a member of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitration Awards. In 2000, Ukraine ratified the Washington Convention, which provides for the use of the International Center for Settlement of Investment Disputes (ICSID) for resolving investment disputes between investors and the government of Ukraine. Similarly, decisions of the European Court for Human Rights on cases involving Ukrainian citizens are also enforced in the country. The newly adopted Civil Code also ensures easier enforcement of international contracts in the country.

An important legislative issue is the inconsistency between the Civil Code and the Commercial Code. Amendments should be passed to remove these inconsistencies. Otherwise, the Commercial Code should just be abolished, with some of its provisions passed to other Codes.

## The Judiciary

The main problem with the Ukrainian legal system is not so much deficient legislation, but law enforcement. Court decisions can be very unpredictable and often politically motivated. Besides, they are often hard to enforce. The task of reforming the judicial system is necessary to improve the situation with law enforcement.

Independence of the judiciary still remains a major stumbling block. Extremely low financing of the courts leaves judges vulnerable to demands from different government bodies, from local authorities and law enforcement agencies, and utilities suppliers. It also makes the court system vulnerable to corruption. The government is trying to address this issue in part by increasing government financing of the judiciary, with a registered increase of 2.4 times in 2003 compared to 2000.

As a consequence of continued under-financing, courts are largely understaffed, with over 2,000 vacancies at the beginning of 2004. This situation has made the judiciary system desperate for new employees, and has resulted in under-qualified personnel being hired to fill the vacant positions. Also, the judges are often insufficiently qualified to resolve some modern issues in company law, taxation, bankruptcy, and intellectual property.

To tackle this problem, the government has emphasized the importance of up-to-date legal education, which has improved significantly over the last few years. Currently, most law schools are offering classes on important new topics not covered before, such as business law, human rights, international treaties, ethics, etc. Major law schools are adopting modern approaches to teaching, including legal clinics, to ensure training of their students to meet international standards.

Many international organizations are working to help Ukraine build a stable legal system. In one instance, a USAID-funded project to support effectiveness and independence of local courts purchased computers for the courts, brought numerous judges to the U.S. for training programs, helped build libraries in the higher courts, and helped develop judicial training centers.

With the adoption of the new Law on Judiciary in 2002, the authorities are undertaking wide reform of the judiciary system to enhance its capacity as an independent and reliable system to protect basic freedoms.

Although Ukraine made significant progress in enacting business laws, the legal environment is still behind other successful transition economies because of the inadequacies of the judiciary to implement their laws and enforce business contracts. The draft Code on Administrative Court Procedures is also key for the implementation of the Law on the Judiciary, but its enactment is pending in the Rada. The following reforms of the judiciary system are necessary:

- Improve financing of courts to ensure their independence.
- Increase salaries of judges and court employees to curb corruption and ensure independence.
- Hire additional judges and administrative personnel to reduce the workload and eliminate the backlog of unresolved cases.
- Develop comprehensive training programs for judges in contemporary issues, including company law, financial services, taxation, bankruptcy, intellectual property, human rights, etc.
- Improve legal education; encourage creation of "legal clinics."
- Enhance commercial courts for settling disputes.
- Enact the Administrative Court Procedure Code.
- Ensure effective enforcement of the Law on Judiciary.
- Abolish the practice of backdating any legal decisions.
- Develop sound computerized databases for court decisions and legislation that can be accessed by judges across the country.
- Set the practice of thorough consideration of any kind of regulations to be adopted, including their correspondence with existing legislation.
- Ensure better enforcement of the existing Law on Intellectual Property Rights Protection by delegating the clear responsibilities to enforcement agencies.

### 3. Strengthen Public Finance Discipline

One of Ukraine's most significant achievements in economic policy-making in the past five years was taking control of the country's mismanaged fiscal budget system. The country's weak fiscal budget system, characterized by lack of fiscal discipline and politically motivated decisions, was at the root of the macroeconomic instability of the 1990s, with fiscal deficits in excess of 5% of GDP. The 1998 financial crisis helped the government realize the need to curb fiscal expenditures. Since then, until August 2004, the authorities kept the fiscal deficit below 1% of the country's GDP.

Unfortunately, the decisions made in September 2004 on pension payments and minimum wages have changed the outlook for the fiscal budget. Increased pension payments alone would represent additional expenditures amounting to 5.2% of GDP in 2005. The fiscal budget situation will be under pressure in 2005 due to the commitments made in 2004. In order to maintain confidence in public finances, the following is needed:

#### **Ensure fiscal sustainability of the country:**

- Adjust revenues and expenditures as needed to balance the fiscal budget.
- Eliminate tax privileges and exemptions for selected industries and enterprises.
- Eliminate free economic zones or eliminate their fiscal preferences.
- Complete the tax reform program, including the reduction in VAT, the elimination of tax exemptions and privileges, and the adoption of a single social security tax.
- Complete the restructuring of VAT arrears.

#### **Improve tax administration:**

- Introduce new processes to computerize tax payments.
- Simplify the procedures for paying and collecting taxes.
- Improve the control of tax collectors to minimize harassment to businesses.

#### **Fiscal decentralization:**

- Redefine the financial relationships between the Center and the Oblasts.
- Define budget programs that can be locally managed and financed (i.e., health care, education).

### 4. Eliminate the Interference of Government in Private Sector Firms and further Deregulate Business Activities

There is a need for the government to undertake policies and actions that reduce excessive government interventions in businesses, enabling private businesses to operate freely and make profits in a competitive environment. Favorable conditions must be created for the three major components of business activity: entry, exit and operations.

Ukraine has made progress in eliminating barriers to entry. It has enacted a sound legislative framework that defines specific rules and procedures for company registration, including a President's decree on deregulation adopted in 1998, and a law on registration that came into force in July 2004. The latter law introduced a more transparent and rapid registration process in line with requirements of the WTO and the European Union. Furthermore, "one-stop shop" methods for company registration have been introduced in a few oblasts. Unfortunately, the implementation of these laws and regulations is still inadequate. The government must take measures to fully implement the existing legislation on registration.

Ukraine has also been successful in eliminating barriers to exit, which required the existence of sound legislation. A new bankruptcy law considered to be one of the most progressive in Eastern Europe came into force in January 2000. The law ensures debtor-led reorganization, a meaningful moratorium on payment and collection of pre-existing debt, and a tax forgiveness provision. The new law emphasizes the need to rehabilitate enterprises to restore their operations and satisfaction of creditor's claims; bankruptcy is applied only as a last resort. The existence of a credible

threat of bankruptcy is an effective way of ensuring the enforcement of contracts and payment discipline, and therefore essential to the functioning of credit markets.

As for deregulation of barriers to business operations, the situation is more difficult. The interference of government agencies in business activities has continued, even at a higher pace. According to a recent survey on the business environment in Ukraine, obtaining numerous permits is another big impediment to business operations in the country. The permits are required for virtually any area of a company's activity: from land use, to office remodeling or construction, to fire department and police approvals. Obtaining permits is one of the few areas where not only was no improvement registered compared to previous years, but the situation actually deteriorated. According to official estimates, business operations are administered through more than 1,200 permits regulated by 146 legislative acts. About 40% of these permits are considered unjustified and unnecessary. The process of granting permits is often non-transparent, paving the way for red tape and corruption opportunities. To deal with this problem, the authorities must prepare a new law to streamline the procedures and develop implementation capacity.

Inspections by all sorts of local authorities remain a significant hurdle to normal business operations. Inspections are most often performed by tax officials and by the fire department and frequently result in demands for unofficial payments. In an attempt to cope with the problem, the state tax authority recently declared a planned reduction in the number of inspections. The new government should take more decisive and global measures to improve the situation.

Taxation remains one of the greatest problems for business activities in Ukraine. A large number of taxes, privileged treatment of selected companies, and unclear tax procedures all contribute to a great deal of concern for businesses. Furthermore, these uncertainties encourage corruptive practices and abuses by the tax police.

Frequent changes in tax legislation also negatively affect the business environment in the country. According to recent estimates, there were 26 changes to three major tax laws in the 18-month period starting in January 2002. At the same time, attempts to adopt more progressive tax legislation have been stalled for years. However, the parliament made progress towards completion of the tax reform by passing a few important new laws in 2003. The new legislation reduced the corporate profit rate from 30% to 25%, and introduced a flat rate of 13% for personal income tax instead of the 10%-40% tax brackets. There is now a need to proceed with further tax reform, particularly to reduce payroll deductions to various social funds, and introduce a clear model of VAT payments.

In its advance towards a modern market-based economy, Ukraine has made significant progress in liberalization of business activities. However, despite major efforts to liberalize and deregulate the economy, specific problems still remain. Although barriers to entry and exit have been substantially reduced, the cost of doing business remains very high due to the number of permits and licenses that operating firms have to obtain as well as the frequent interference of government agencies in business. The high costs negatively affect the country's rank among other transition economies. The comparison of Ukraine with other economies of the region shows that the total level of its business liberalization and deregulation is still behind many other countries. The following measures are proposed:

- Make The Law of Ukraine on State Registration of Legal Entities and Self Employed operational.
- Implement the one-stop-shop system of business registration across the country.
- Simplify the procedure and reduce the cost for operating business.
- Eliminate the incentives of state agencies to carry out excessive government intervention in businesses.
- Make the schedule of inspections available well in advance.
- Simplify and reduce the number of inspections, eliminating ad-hoc inspections.
- Eliminate the current system of tax police.
- Develop transparent procedures for the liquidation of companies, including disclosure of information.

## **5. Liberalize Foreign Trade and International Capital Movements**

The government will need to take further actions to facilitate the export and import of goods and transfer of capital internationally. This includes the following: removal of restrictions to both exports and imports (including non-tariff restrictions), streamlining customs procedures and certification requirements, and liberalizing the foreign exchange regime.

Since independence, Ukraine has significantly eased its foreign trade regime. However, Ukraine's trade regime still remains far behind other transition economies and developing countries. In order to sustain export growth, Ukraine needs to act on four priority actions. First, it needs to become recognized as a Market Economy by the EU and the US. Second, it must join the World Trade Organization. Third, it must sign free trade agreements (FTA) with the EU, the CIS countries, and the US. And fourth, it must secure an agreement in principle with the EU to begin preliminary consultations on accession, including a date for the beginning of negotiations.

Ukraine should be able to get recognition as a Market Economy by the EU and the US in the near future. This would facilitate trade relations, including prompt resolution of existing anti-dumping allegations. Ukraine is also striving for WTO membership by the end of 2005 and is thus fully committed to aligning its foreign trade-related regulations to those of the WTO and the European Union. Little progress has been made however in reaching FTAs.

In 2000, Ukraine introduced a uniform customs duty that combined seven import fees (customs clearance, sanitary, veterinary, phyto-sanitary, radiation, ecological control, and the road usage fee), thereby significantly increasing transparency of import-related payments. Import duty rates for most goods (except for farming goods, food and excisable items), are established at levels accepted by WTO.

However, the most significant restrictions on international trade are of the non-tariff kind. These can range from import licensing, to standards and certifications, to various sanitary, ecological, veterinary, etc. controls. Even though much progress has been made through creating more transparent regulations and streamlining the procedures, this area remains heavily affected by corruption and selectivity of the authorities. Much emphasis in recent efforts to deal with these problems has been put on improving legislation (to eliminate existing loopholes), proper financing and training of customs officials, and creating clear non-biased practices of cooperation with businesses.

Since 2001, the Ukrainian parliament has passed several new laws on standardization and certification to streamline the process. Ukraine is striving to harmonize its standardization and certification system with international norms, and plans to bring it into conformity with the European Standards System by 2008. The government has established a National Accreditation Body to ensure the use of standards and procedures consistent with the European Cooperation for Accreditation policy.

Ukraine has actually abolished most export controls, leaving only those pertaining to exports of sensitive goods (e.g., weapons, or products that can be used for producing weapons). However, some export restrictions are still in place, mainly through the mechanism of minimum export prices for certain commodities, sluggish performance of the agencies responsible for issuing required documents, etc. Such non-competitive behavior is being taken very seriously by the authorities that are striving to align Ukraine's foreign trade regulations and practices with those of the EU.

In fact, Ukraine has gone a long way in harmonizing its regulations with those of the WTO. The country has signed bilateral protocols on mutual market access with more than 20 countries out of 29 required for joining the WTO, including the EU. Also, Ukraine enjoys most favored nation status, according to the Partnership and Co-Operation Agreement signed with the EU.

Ukraine has recently signed a Common Economic Area (CEA) agreement with Russia, Belarus and Kazakhstan; but it has not been confirmed by the Rada. Although this agreement is ambitious, its implementation is quite flexible. The first step would be a "true" free trade agreement among these countries (prior FTAs with these countries contained innumerable exemptions), which could be highly beneficial for Ukraine. Further steps under the CEA (such as common markets and monetary unions), however, are controversial and highly unlikely to materialize as they may be in conflict with the goal of joining the EU. In addition, Ukraine intends to become a full member of the Central European Free Trade Agreement (CEFTA) pending the country's membership in the WTO.

Ukrainian laws allow for the free transfer of profits earned in the country once all the taxes and other required fees are paid. However, a recent regulation by the National Bank of Ukraine (NBU) requires that all capital transactions must be executed in Hryvnas and converted to foreign exchange on the inter-bank market before any funds are repatriated. This provision limits the free repatriation of capital abroad and causes exchange losses. It should be repealed.

Another foreign exchange constraint is that Ukrainian exporters are required to sell 50% of their hard currency export proceeds on the inter-bank market. Currency conversion is freely available through commercial banks at market rates.

Although Ukraine has made substantial progress in the liberalization of its international trade and capital movements, the country's rank among other transition economies is low, due mainly to deficiencies in its customs administration, and other trade deficiencies as noted above. Key policy recommendations are as follows:

- Secure market economy status from the EU and the US.
- Ensure entry into the WTO as soon as possible; for this, sign protocols on mutual market access with the remaining countries in order to pave the way for WTO entry.
- Eliminate all existing export restrictions, including export duties for some commodities and minimum export prices established by government.
- Eliminate import non-tariff restrictions that often function through licensing, standards and certifications, sluggish performance of government agencies, etc.
- Ease the system of certification and standardization to acknowledge international standards and certificates for quality, safety, etc.
- Streamline customs procedures and formalities to ensure prompt consideration and to avoid opportunities for rent-seeking behavior.
- Enter into free trade agreements with the country's main trading partners (EU, USA, CIS countries).
- Secure an agreement in principle with the EU to begin preliminary consultations on accession, including a date for the beginning of negotiations.
- Eliminate the surrender requirement of 50% of export proceeds.
- Repeal the recent NBU regulation on the need to execute capital transactions in local currency, which causes exchange losses for capital repatriation.

## Part Three: Other Economic Reforms to Bring Sustainable Investment and Economic Growth

### 1. Corporate Governance

Since independence, the authorities have been actively introducing new rules to regulate the creation and operation of joint stock companies. However, the country still suffers from many serious problems in the area of corporate governance, mainly due to inefficient legislation. Loopholes in current legislation allow for the non-disclosure of information, insider trading, asset stripping, shares dilution, and voting fraud, to name a few. Also, the issue of minority shareholder rights is not sufficiently regulated, which allows majority stake holders to exercise virtually unlimited control over the company with no regard to other owners' needs.

Many of these problems were addressed in the 2002 Presidential Decree "On Measures for the Development of Corporate Governance in Ukrainian Joint Stock Companies". The document provides for the improvement of the legal foundation, information disclosure, shareholder protection, and company management structure. It also recommends that the judiciary summarize and analyze corporate governance practices in Ukraine in order to support their compliance with international best practices. The newly adopted Civil Code that came into effect on January 1, 2004 ensures better property rights protection and defines clear rules for property relationships (including intellectual property).

The Draft Law "On Joint Stock Companies" being prepared in the parliament intends to make the 2002 Presidential Decree more binding and to eliminate the remaining conflicting issues. This Draft Law has undergone many revisions and amendments, and its adoption has become a political issue. The adoption of the Joint Stock Company Law is an urgent matter.

In order to increase transparency and accountability of company management, the government has required all state-owned enterprises to submit their annual reports to the State Securities and Stock Market Commission. Also, all joint-stock companies are required to publish their annual reports in the media, including on specialized web sites.

One of the stumbling blocks to faster development of modern corporate governance standards is the lack of understanding among many of the company executives of how these mechanisms are supposed to work. To deal with this problem, several programs to educate company management have been implemented with the assistance of some international financial institutions.

Over the last few years, Ukraine has made progress on intellectual property rights protection. Partly under pressure from the U.S., the country passed new legislation that establishes a sound legal base for honoring copyrights, and for prosecution of violations in this area. However, enforcement of current legislation still lags behind, leaving opportunities for non-competitive behaviors.

In an effort to improve transparency of its business operations, Ukraine introduced new accounting standards. The new rules are based on international accounting principles and are a big step forward from the Soviet-era standards that were previously used. However, some issues must still be addressed for Ukrainian accounting rules to fully comply with international accounting standards (IAS).

In order to improve corporate governance, the following measures should be undertaken:

- Adopt the Joint Stock Company Law, according to international standards. The Law should include provisions that would (i) clarify differences between closed and opened companies; (ii) define the role and responsibilities of the board of directors; (iii) introduce cumulative voting; (iv) facilitate the settlement of shareholder disputes; (v) improve protection of minority shareholders; (vi) define the rights and obligations of common and preferred stock shareholders; (vii) define clear requirements on disclosure of information.
- Develop a corporate governance code incorporating world's best practices.
- Adopt and amend securities laws and regulations to develop a functioning stock market and get rid of loopholes in legislation allowing abuses.
- Adjust Ukrainian accounting standards to international accounting standards.
- Clear up conflicts between the civil and the commercial codes in the treatment of similar issues with regards to setup and operation of corporations.



- Disclose whether key suppliers and customers have ownership control of the company.
- Strengthen the capacity of the Antimonopoly Committee.
- Introduce international disclosure standards into the Ukrainian stock market.

## 2. Privatization Policies

Privatization in Ukraine started in 1992 and was designed to increase the private sector share of the economy, transforming the country from a centrally planned economy to a market economy. Since then, the government has managed to privatize over 91,000 companies, or about 85% of all companies. Mass privatization of small and medium-scale companies was successfully completed by 1999. These enterprises, now in private hands, contributed significantly to the economic recovery. As a result of these privatization activities, as much as 65% of GDP is generated by the private sector today (a percent similar to Slovenia and Romania, but below the 70% in Bulgaria and 75% in Poland.) The privatization of large enterprises is still underway, but there have been problems in execution and the process has been stalled. Over the years, Ukraine has realized the need to find strategic investors to speed up the development of companies, and consequently entire industries. Therefore, industry experience and a good track record have become very important requirements for prospective buyers.

The State Property Fund (SPF), an independent agency in charge of privatization in the country, has managed the process since the start of the campaign. The SPF was successful in creating an effective process of changing ownership and a level playing field for both domestic and foreign investors. However, concerns have been raised over the lack of transparency of the privatization process, which has led to power abuses and favoritism towards vested interests. In response to this, the authorities passed a new privatization law that corrected the alleged cases and provided for more open bidding procedures, clearer qualification requirements, and the use of independent financial advisors to help ensure transparency.

Private ownership of land remains an important issue. In 2001, parliament passed the new Land Code, which provided the legal basis for transactions with land. In addition to acknowledging ownership rights to agricultural land, the Land Code provides for foreign ownership of non-agricultural land and clarifies the rights of foreign investors. However, the Land Code prohibits the sale of land until 2005 (and recently extended to 2007), and restricts the land ownership of any Ukrainian individual or company to no more than 100 hectares until 2010. While the code does not allow foreigners to own agricultural land, a Ukrainian-registered company with foreign participation may purchase and use such land.

The following are policy recommendation on privatization:

- Modify the law on the State Property Fund to ensure a clearer definition of the Fund's role and to avoid abuses of power.
- Accelerate the privatization of the remaining state enterprises, particularly the local utility companies, the remaining energy distribution companies, and telecommunications monopoly, Ukrtelecom.
- Establish adequate procedures to ensure that the privatization process is transparent and competitive.
- Based on specific criteria, regularly review the list of strategically important companies barred from privatization.
- Expediently develop regulations to facilitate land trade.

## 3. Financial Sector Development

Ukraine can now boast a well-developed financial framework that includes basic regulations, institutions (including privately-owned) and infrastructure. It is a big advance from the Soviet-era state-owned banks and outdated payment systems that required days to process basic financial transactions. In 2000, Ukraine passed a new law on banks and banking activities that corrected many flaws in the regulatory framework that existed before. Amended by many bylaws and regulations, it paved the way for faster expansion of the banking sector in Ukraine.

Currently there are 158 active commercial banks; however, most of them are small regional banks with insignificant capital. The number of banks has decreased from the 1995 peak of 230 as a result of tighter supervision and regulations. The banking sector may be better off with a more significant degree of concentration, which is likely to take place over the coming years. To encourage this concentration, the central bank should rigorously enforce prudential regulations, including capital adequacy ratios and lending to related parties.

Financial supervision over commercial banks is executed through an independent central bank. The latter has done much to improve the effectiveness of the banking sector through modern prudent regulations. Also, the central bank significantly eased regulations on the foreign exchange market, which allowed the banks to better serve clients engaged in foreign trade.

The commercial banking sector has developed rapidly over recent years. Striving to stay ahead of the competition, many banks are offering more sophisticated instruments, including derivatives. Being largely under-capitalized, local banks engage in syndications with other local or foreign banks to accommodate the growing needs of businesses. Banks in Ukraine have now moved toward using international accounting standards and audit procedures, which enhance their transparency and accountability.

Some of the world's largest banks are very active in Ukraine, including Citibank, ING Bank, Calyon Bank, etc., with seven foreign-owned banks in total. Some 13 other banks have foreign-owned stakes. Entry of foreign banks used to be limited due to restrictions placed on their activities by the legislation, and through heavy lobbying from local banks. However, the 2002 law on banking activities eliminates any discrimination against foreign banks in Ukraine. Foreign banks, properly licensed by the central bank, may now carry out the same activities as domestic banks, and there is no ceiling on their participation in the banking system.

Some of the largest banks are former state-owned banks where the state still holds a large or even controlling stake. There are only two fully state-owned banks out of 158 functioning banks in Ukraine at the moment. There is some concern that the state-banks still enjoy a number of privileges that are not available to private banks, such as less stringent application of prudential supervision.

The loan and deposit markets have seen dramatic growth over recent years, primarily due to the broad recovery of the economy and its ensuing monetization. Stiffer competition among the banks resulted in higher quality services and a wider range of banking products offered to companies and individuals alike. Larger disposable incomes of the population spurred the development of consumer credit, as well as long-term loans, including mortgages. This was facilitated in part by more organized credit policies and streamlined procedures. With the passage of a very progressive mortgage law recently, the banking sector has been given another opportunity to pursue.

Rapid expansion of consumer lending has recently put a big strain on the banking system, which found itself with a lack of capital and a growing mismatch between the primarily short-term deposits and the medium to long-term loans it provided. However, the central bank is acting promptly to avoid possible crisis by introducing adequate measures. The central bank is aware that this matter should be under continuous review.

In recent years, Ukraine has seen a boost in its corporate bond market. With the legislation in place, many companies began borrowing extensively, both internally and externally. There is a concern, however, that some of the bond issuers may not be fully creditworthy and that the next few years may see major bond defaults. Even though the situation is unlikely to be serious now, the central bank is aware that this issue should be closely monitored to ensure the stability of the financial system.

Ukraine has an effective deposit insurance system in place. Even though it offers just up to \$560 per deposit contract, this amount will cover nearly 85% of all deposits due to their small sizes. The central bank is considering increasing the deposit insurance maximum amount to about \$1,000 within a few years. Bank insolvency cases are scarce, with the most significant being the collapse of the state-controlled bank "Ukraina" a few years ago.

The insurance sector has been rapidly developing in recent years. New products and services have been introduced (such as life insurance, agricultural risk insurance, etc). However, most are not very popular due to the limited purchasing power of local clients. A big impediment to further development of the insurance market is the fact that foreign insurance companies can do business in Ukraine only through establishing a local branch or investing in a local company. Also, minimum capital requirements for foreign companies are higher than for local companies. The government is currently considering abandoning these discriminating regulations to encourage well-known foreign insur-

ance companies to enter the market. Also, stricter statutory capital requirements led to a wave of consolidations in the insurance industry, making the companies and the sector as a whole more solvent and reliable.

While leasing activities could be a financially sound option for many companies, those were not very popular until recently due to inappropriate legislation. After continuous pressure from different IFIs, the law on leasing was amended at the end of 2003 and it now allows financial leasing operations. The new version of the law also eliminated inconsistencies with the Civil Code and the Commercial Code that existed in its earlier version. It also reduced the number of specific provisions that are required to be included in a financial lease contract from 14 to 3, which provides for less regulation and allows the financial lease contracts to be more transparent and easily enforced. Nevertheless, for financial leasing to be developed in Ukraine, there is a need to revise other related legislation such as tax and accounting treatments for leasing operations.

The stock market has seen some improvement over recent years in terms of higher capitalization and higher trading volume. However, most equity transactions are taking place outside the organized stock market for tax reasons. Ukraine's Securities and Exchange Commission is working to strengthen its regulation of the stock market.

Despite some existing irregularities, Ukraine's financial sector has grown into a developed and rather stable system. Further improvement is ensured by sound regulation by the central bank, increased confidence in the national currency and the financial system as a whole, and constant use of and movement towards world's best practices. Although Ukraine performs much better than many other countries in the region, its financial sector development is still behind many other transition countries, in particular those who have already joined the EU.

The following policy recommendations are proposed:

- Ensure a fair playing field for all banks, including state-owned.
- Provide adequate regulation of corporate bond issues.
- Implement effective mechanisms for dealing with bad debts.
- Increase the maximum level of deposit insurance.
- Allow foreign banking and non-banking institutions to fully operate in Ukraine.
- Encourage stock market transactions to be made on the organized market through tax incentives and improved legislation.
- Introduce a modern three-pillar pension system and ensure development of private pension funds.
- Enact the Mortgage Law regarding farm land mortgages.

## 4. Corruption Level

Corruption is one of the gravest impediments to the successful development of a competitive market economy in Ukraine. It is a problem that spreads through nearly all aspects of the country's economic, political and social life. According to Transparency International's most recent Corruption Perception Index, Ukraine placed 106th out of 133 countries surveyed, sharing this position with Bolivia, Honduras, Serbia and Montenegro, Sudan and Zimbabwe, while neighboring Russia ranked 86th. A recent study by a local NGO showed that the number of officially registered instances of corruption in public administration decreased only marginally, from 4,500 in 1998 to 4,030 in 2002. This is in part due to an insufficient number of specialized anti-corruption teams in government institutions, and a lack of measures to prevent corruption in the groups of officials most prone to such illegal activities.

The country has had a wide range of anti-corruption laws and regulations for years. However, Ukraine still lacks systematic efforts to actually fight corruption and to prevent it.

Ukraine participates in global and regional anti-corruption organizations and initiatives. Ukraine was among eighty countries that signed the United Nations' Convention against Corruption soon after it was adopted in October 2003. This Convention is the first truly international initiative to have a coordinated policy and practice for preventing and fighting corruption. Ukraine is also a signor to a similar Convention of the Council of Europe.

Recently, Ukraine approved an action plan against "VIP corruption" in the former Soviet countries, developed by OECD's Anti-Corruption Network for Transition Economies. By approving this document, Ukraine committed to take ac-

tive measures to develop effective and transparent civil service, to fight bribery and to support public participation in policy-making. Successful implementation of the anti-corruption measures would serve as a basis for the on-going financial support of the anti-corruption campaign.

In an attempt to raise public awareness of the problem, Ukraine is launching an educational campaign on corruption as part of the joint Ukrainian-Canadian project on improving conscientiousness in civil service. There will be two educational courses: one to be taught at colleges and universities, and the other for training of civil servants.

While corruption in Ukraine stems from a lack of institutional traditions of transparent decision-making, it is largely fueled by the low standards of living of public officials. Policy measures that the government is taking to encourage sustained economic growth and increased standards of living are the first step to alleviate the problem.

The level of corruption in Ukraine is still high compared to other countries. Ukraine is far behind the new EU-member states. To deal with this problem, the following policy recommendations are made:

- Continue with public administration reform to improve transparency of decision-making.
- Reduce the ambiguity of government regulations and reorganize responsibilities of public servants to reduce the room for arbitrary decisions.
- Increase official compensation of public servants as a result of the reduction in their number, achieved through restructuring of government agencies.
- Raise accountability of public servants for their decisions; strengthen the internal audit office.
- Educate the population on the damage corruption brings to society and the economy; encourage individuals to avoid involvement in corrupt activities and introduce public watch measures.

## 5. Political Risks

A great achievement of Ukraine is that since independence, there has not been any significant incidence of violence and no military clashes in the country. This was despite a considerable economic downturn in the mid-1990s, which resulted in falling standards of living and some acute political tensions erupting periodically.

However, the recent political events during the Presidential elections have created tensions in the country, particularly between the Eastern and the Western regions. Furthermore, due to Ukraine's location between Russia and the enlarged EU, the country finds itself in the middle of increasing pressures both sides. The new government has declared its strategic objective of closer ties with the EU, including full membership in the organization. Ukraine is a member country of the United Nations, World Bank, IMF, other universal international institutions and organizations, and is a signatory to most important international treaties. Since the country is moving towards closer integration with the EU, accession to the WTO and even NATO, it is under continuous scrutiny from these and other organizations, who constantly monitor Ukraine's progress in building a democracy and a functioning market economy.

Ukraine's participation in the initiatives of former Soviet countries has for the most part been formal. Even though the country recently signed an agreement with Russia, Belarus and Kazakhstan on forming a Common Economic Area, full implementation of this agreement beyond free trade agreements is deemed unlikely.

The last few years have been marked with the rise of local oligarchs, who started to play critical roles in policy-making at all levels of the government through extensive lobbying. The activities of these vested interest groups often explain the sluggishness of reforms, the reluctance to adopt progressive legislation, etc. It remains a challenge for the authorities to set aside such demands and continue building a strong economy and civil society. This effort may be supported by the fact that several of these vested interest groups are now in the process of seeking "legitimization."

The comparison of Ukraine with other transition countries shows that it had suffered from a high level of political risks, which inhibited foreign direct investments. This was mostly explained by political uncertainty, which exists in the country due to the great fragmentation of political parties in Parliament, the "state capture" by vested interests, and the uncertainties of the recent presidential election. However, the level of political risks in the country should be substantially reduced following the election of President Yushchenko. Ukraine should be able to get increases in its ratings.

To minimize political risks, the country needs to:

- Dissipate the current friction between the East and the West of the country, with measures such as decentralization of some functions and recognition of language differences.
- Take measures to eliminate power abuses at different levels of government.
- Ensure that laws and regulations are passed with the nation's interests in mind rather than to serve vested interests.
- Assure the private sector that the government will not undertake massive expropriations.
- Ensure stability of the legal environment; avoid government decisions affecting businesses that have retroactive action.
- Strive for governmental stability.
- Continue the policy of reconciliation and avoidance of civil disorders that may affect the private sector.

## 6. Country Promotion and Image

The favorable outcome of the "Orange Revolution" in the recent Presidential elections has contributed to a major improvement of the country's image abroad.

It is likely that the new government will resolve all current investment disputes soon. The U.S. Overseas Private Investment Corporation (OPIC) has recently decided to resume its support for U.S. private sector investment projects in Ukraine, after a long investment dispute that forced OPIC to stop its operations in the country was finally resolved.

Ukraine continues to actively cooperate with its global donors and international financial institutions. The country is known for full, timely payments of its foreign debt. At the end of 2003, the World Bank approved a \$250 million Second Programmatic Adjustment Loan (PAL-II) for Ukraine, praising the country's macroeconomic performance, which was followed by resumption of active cooperation with the IMF. Ukraine has recently been removed from the Financial Action Task Force on money laundering (FATF) blacklist of countries fostering money-laundering, after the country's legislation and activities had been brought in line with the organization's requirements in record time.

Overall, despite some political and economic policy setbacks that negatively affected Ukraine's relations with the West over the last few years, the recent political events managed to prove that Ukraine is a country of great potential and it belongs among the world's most attractive emerging markets. Ukraine has performed very well compared to other countries of the region, including those that have already joined the EU.

Further measures to promote investments in the country include:

- Ensure effective functioning of the investment promotion agency or equivalent and immediately promote FDI for the country.
- A major international conference on FDI should be organized in Kiev or a key European country (Germany, UK) as soon as possible. It should be followed by visits to a number of countries in America, Europe and Asia to seek foreign direct investments from large key enterprises with ongoing plans to set operations in this part of the world.
- Use high-level political summits, meetings, conferences, etc. to educate representatives of other countries on Ukraine's achievements in building a strong democracy and a functioning market economy.
- Continuously interact with representatives of the private sector in Ukraine to learn the problems they are facing and provide feedback on dealing with those problems.
- Engage the country's embassies and other missions to disseminate up-to-date information on Ukraine and its business opportunities.
- Resolve outstanding investment disputes with foreign investors; ensure fair treatment of foreign investors in courts.
- Ensure timely repayment of foreign debt and other international obligations; participate in international programs and initiatives.

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

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

## 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"> <li>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</li> <li>Interventionist practices that reduce market efficiency lingered in the Irish public sector</li> <li>Policy-making in Ireland confronted rent-seeking attitudes</li> <li>Irish economy was characterized by large public sector including large state monopolies</li> </ul>	<ul style="list-style-type: none"> <li>Modernization of the public sector was based on prudence, pragmatism, and an incremental approach to change rather than the adoption of 'big projects'</li> <li>Government White Paper — Serving the Country Better (1984): advocated greater decentralization, improved budgetary process</li> <li>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</li> <li>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</li> <li>Substantial investments were made in new information and communication technologies to improve transparency and delivery of government services</li> <li>A strong judicial review mechanism promoted reforms and quality of public governance</li> <li>Successive Irish governments based their efforts on building consensus through processes of national partnership</li> <li>Public Service Management Act (1997): new management structure introduced</li> <li>Reducing Red Tape (1999): an action program for continuation of regulatory reform</li> </ul>	<ul style="list-style-type: none"> <li>The public sector grew by only 5.1% in 1989-99 when GDP had been growing 9% per annum</li> <li>Quality of government regulations improved</li> <li>Citizens dealing with the social security and family affairs' agencies felt concrete improvements</li> <li>Transparency and accountability have improved. However, reform outcomes only became tangible in 1999, five years after its launch</li> <li>Efficient e-government system improved access of public to government services. An infrastructure exists that interconnects all agencies in central government.</li> </ul>

## Attachment 1: Quick Payout Actions to Show Commitment to Reforms

Reform Area	What to do	How to do
Leadership, Communication and Transparency	<p>Establish open communication with the public</p> <p>Increase transparency in government and businesses</p>	<ul style="list-style-type: none"> <li>On a weekly basis one of the key leaders of the country may speak to all major TV channels about the actions the government is taking and the results achieved</li> <li>Pass legislation on free access to government information on any non-national security matter</li> <li>Require all companies to prepare their financial/tax statements on the basis of international accounting standards</li> </ul>
Pending Legislation	Quick approval of pending legislation	<ul style="list-style-type: none"> <li>Remove the inconsistencies between Civil and Commercial Codes</li> <li>Adopt the Law on Joint Stock Companies envisaging proper protection of rights of minority stakeholders, prevention mechanism for unfair stake dilution/asset stripping</li> <li>Remove the Land Sale Moratorium</li> <li>Develop Administrative Court Procedure Code</li> </ul>
Public Finance Discipline	<p>Introduce equal tax treatment across the country and taxpayers</p> <p>Settle all remaining arrears on value added tax reimbursements.</p>	<ul style="list-style-type: none"> <li>Eliminate tax privileges for selected industries and enterprises</li> <li>Eliminate free economic zones</li> <li>Secure targeted social assistance to poor in special amendments to the respective laws</li> <li>Settling quickly VAT arrears will send a message that the Government will act quickly to establish public finance discipline</li> </ul>
International Trade and Capital	<p>Achieve market economy status in the EU and the USA; join WTO</p> <p>EU integration</p> <p>Promote foreign direct investments</p>	<ul style="list-style-type: none"> <li>Negotiate with the EU and the USA on achieving market economy status Pursue the needed measures for achieving market economy status Complete the remaining bilateral agreements with the WTO members</li> <li>Eliminate all existing export restrictions, including export duties for some commodities and minimum export prices established by government</li> <li>Ease the system of certification and standardization to acknowledge international standards and certificates for quality, safety, etc.</li> <li>Streamline customs procedures and formalities to ensure prompt consideration and to avoid opportunities for rent-seeking behavior</li> <li>Secure measures to obtain a commitment from the EU on possibility for Ukraine to become a full member of the EU after Ukraine meets the required criteria</li> <li>Rapidly create and staff a small foreign investment agency, which should immediately promote FDI to the country by organizing a major international conference on FDI, followed by visits to a number of countries</li> </ul>

## Attachment 2: Fundamental Reforms for the First Twelve Months

Reform Area	What to do	How to do
Public administration	Create separate high profile unit (agency) responsible for implementation of public administration reform	<ul style="list-style-type: none"> <li>Develop and approve the plan of action for the implementation of public administration reform</li> <li>Define the role of the government to support private sector development</li> </ul>
	Redefine the role of the government	<ul style="list-style-type: none"> <li>Convert President's Administration into the small Secretariat for the President and define its functions</li> <li>Review the role and structure of the Secretariat of the Cabinet of Ministers</li> <li>Review the structure and decision making of the Cabinet of Ministers, eliminating duplication of responsibilities between Cabinet of Ministers and the line Ministries</li> </ul>
	Functional review (redefine the roles and functions of the key government agencies)	<ul style="list-style-type: none"> <li>Consolidate and reduce the number of ministries and state agencies to avoid overlapping and introduce the system of clear accountability</li> <li>Define public services that could be outsourced or subcontracted (separate funding for public services from purchasing and provision of those services and introduce competition between service providers)</li> <li>Which functions could be transferred to the regional level (decentralization)</li> <li>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)</li> </ul>
	Operational review	<ul style="list-style-type: none"> <li>Simplify operational procedures within the Ministries and government agencies</li> <li>Establish clear procedures for the dissemination of any non national security information to the public</li> <li>Separate policy formulation and analysis from policy implementation in order to increase the effectiveness of the Government decision making process</li> <li>Improve procurement procedures to make them more competitive and transparent</li> </ul>
Stability and Predictability of the Legal Environment	Civil service review	<ul style="list-style-type: none"> <li>Introduce system of incentives for civil servants (review system of benefits to link it to performance)</li> <li>Reduce the number of civil servants simultaneously increasing the salaries of the remaining staff</li> <li>Define roles and process for monitoring performance for each operational unit</li> <li>Delegate authority to managers to empower them to manage</li> <li>Introduce effective training programs in order to increase civil servants' qualifications to the EU standards</li> <li>Adopt legal regulations and policy statements that deal with problematic issues in the management of state shares on those enterprises in which the state is still a shareholder</li> <li>Ensure consistency of new laws with the existing laws</li> <li>Better define processes and responsibilities for drafting new laws</li> <li>Set the practice of thorough consideration of any kind of regulations to be adopted, including their correspondence with existing legislation</li> </ul>
	Make legislation stable	

<p>Stability and Predictability of the Legal Environment</p>	<p>Reform the judiciary system</p>	<ul style="list-style-type: none"> <li>• Improve financing of courts to ensure their independence</li> <li>• Increase salaries of judges and court employees to curb corruption and ensure independence</li> <li>• Hire additional judges and administrative personnel to reduce the workload</li> <li>• Develop comprehensive training programs for judges in contemporary issues (i.e., financial services, taxation, bankruptcy, etc.)</li> <li>• Enhance commercial courts for settling disputes</li> <li>• Enact the Administrative Court Procedure Code</li> <li>• Ensure effective enforcement of the Law on Judiciary</li> <li>• Abolish the practice of backdating any legal decisions</li> <li>• Develop sound computerized data bases for court decisions and legislation that can be accessed by judges across the country</li> <li>• Ensure better enforcement of the existing Law on Intellectual Property Rights Protection by delegation the clear responsibilities to enforcement agencies</li> </ul>
<p>Public Finance Discipline</p>	<p>Ensure fiscal sustainability of the country</p>	<ul style="list-style-type: none"> <li>• Adjust Revenues and Expenditures as needed to balance the fiscal budget</li> <li>• Eliminate tax privileges and exemptions for selected industries and enterprises</li> <li>• Eliminate preferences under Free Economic Zones</li> <li>• Complete the Tax Reform Program, including the reduction in VAT, the elimination of tax exemptions and privileges, and the adoption of a single social security tax</li> <li>• Complete the restructuring of VAT arrears</li> </ul>
<p>Liberalization and Deregulation of Business Activities</p>	<p>Simplify the procedure and reduce the cost for operating business</p>	<ul style="list-style-type: none"> <li>• Introduce new processes to computerize tax payments</li> <li>• Simplify the procedures for paying and collecting taxes</li> <li>• Improve the control of tax collectors to minimize harassment to businesses</li> </ul>
<p>Liberalization of Foreign Trade and Capital</p>	<p>Liberalize trade and capital movements</p>	<ul style="list-style-type: none"> <li>• Redefine the financial relationships between the Center and the Oblasts</li> <li>• Define budget programs which can be locally managed and financed (i.e., health care, education)</li> <li>• Make The Law of Ukraine on State Registration of Legal Entities and Self Employed operational</li> <li>• Implement the one-stop-shop system of business registration across the country</li> <li>• Eliminate the incentives of state agencies to carry out excessive government intervention in businesses</li> <li>• Make the schedule of inspections available well in advance</li> <li>• Simplify and reduce the number of inspections, eliminating ad-hoc inspections</li> <li>• Eliminate the current system of Tax Police</li> <li>• Develop transparent procedures for the liquidation of companies, including disclosure of information</li> <li>• Sign free trade agreements with the country's main trading partners (EU, USA, CIS countries)</li> <li>• Eliminate the surrender requirement of 50% of export proceeds</li> <li>• Liberalize recently introduced regulation on foreign capital movements for foreign investors</li> </ul>





Headquarters  
123 North Post Oak Lane, Suite 410  
Houston, Texas 77024, USA  
Tel: +1 (713) 621-3111  
Fax: +1 (713) 621-4666  
E-mail: [sbleyzer@sigmableyzer.com](mailto:sbleyzer@sigmableyzer.com)

[www.sigmableyzer.com](http://www.sigmableyzer.com)  
[www.bleyzerfoundation.com](http://www.bleyzerfoundation.com)

Kyiv Office, Ukraine  
21, Pushkinska Street, office 40  
Kyiv 01004, Ukraine  
Tel: +380 (44) 244-94-87  
Fax: +380 (44) 244-94-88  
E-mail: [kiev.office@sigmableyzer.com.ua](mailto:kiev.office@sigmableyzer.com.ua)