THE BLEYZER FOUNDATION
Turning Transitions Into Prosperity

Assessment of Ukrainian Reforms – September 2016

Investment Drivers	Areas of progress	Pending items
1. Anchor Macroeconomic stability to minimize capital and operating losses resulting from excessive exchange rate volatility and price fluctuations.	1. Public finance deficit reduced (i.e., from around 8% of GDP in 2014 to around 4% in 2016). 2. Prudent monetary policies with money supply increasing by 5% pa 3. Moved to flexible exchange rate regime. The NBU removed most of its administrative regulations of the foreign exchange market which were introduced to stop fast depreciation of the UAH/USD exchange rate after occupation of Crimea and some of the Donbass regions. 4. Hryvnia fluctuation does not exceed 10%. 5. Foreign exchange reserves reached $14 billion (i.e., 3.5 months of imports). 6. Inflation already slowed down and should not exceed 12% as of the end of 2016.	1. The NBU should now move monetary policy towards full inflation targeting, as recommended by the IMF.
2. Improve Taxation, Public Expenditures & Customs Administration to reduce the cost of doing business.	1. Number of taxes reduced from 22 to 11 2. Payroll taxes cut in half to 22% 3. Subsidies to NAK Naftogaz (i.e., state gas monopoly) are eliminated. 4. New electronic public procurement ProZoro system is in place. 5. Ministry of public health out-sourced medicine procurement to the UNDP, UNICEF, and Crown Agents. Some of the medicines were procured at prices almost twice as low compared to previous years. 6. A single portal on public funds have been established (http://spending.gov.ua). 7. A single retail price for the natural gas was introduced and some of the cross subsidies in the energy sector were eliminated.	1. Overall tax burden is still high, which (i) negatively affects willingness of investors to enter the market and (ii) substantially increase the level of the shadow economy (i.e., level of the shadow economy might be as high as 50%) 2. VAT refund is cumbersome and non-transparent. 3. The majority of subsidies are not monetized yet. 4. Privileges are not fully eliminated. 5. Pension system reform did not start. 6. Tax administration is not eased. 7. A large number of abuses by tax authorities is reported. 8. ProZoro system does not cover all the public procurement operations (for example, public procurement operations of the Ministry of Defense are fully excluded from the system). The overall efficiency of the system is below expectations as its potential savings of the state budget are around 14% under competitive procedures. 9. Customs remained unreformed and non-transparent.
3. Eradicate Corruption to protect businesses from abuse of power by public officials.	1. A new Prosecutor General was appointed. 2. Three anti-corruption bodies are in place, which includes (i) Anti Corruption Prevention Committee, (ii) National Anti Corruption Bureau and (iii) Anti Corruption Prosecution Office. 3. Around 150 proceedings against high level civil servants, prosecutors, judges,	1. Granting the Anticorruption agencies more powers, such as wiretapping powers by courts only. 2. The reform of Prosecution system has not yet been initiated. The functions of GPO are not reviewed and the nature of institution was not changed. 3. The blanket immunity from prosecution of

	and other officials have been instituted so far. 4. A New electronic income declaration for government officials is about to be fully operational. 5. Criminal responsibility for government officials for reporting wrong income has been introduced. 6. Number of criminal investigations against low level officials accused in corruption is proceeding.	parliamentarians and judiciary is not removed. 4. Provide a legal basis for the creation of specialized and transparent Anti-Corruption courts to facilitate the work of the new anti-corruption agencies in prosecuting corrupt officials. 5. Due to the "corporate interest conflict" between GPO and anti corruption bodies, the effectiveness of newly established bodies is jeopardizing. 6. None of the top level officials have been convicted for corruption crimes. The majority of those of them under investigation were able to leave the country. 7. Privatization campaign of state owned companies was not launched.
4. Ensure the Rule of Law by reforming the Legal and Judiciary Systems.	1. The Constitution has been adjusted to permit judiciary reform 2. The new police has been established. 3. Lustration law approved	1. The re-evaluation & dismissal of judges, prosecutors and other legal officials under the Lustration law have not been slow. Furthermore, many officials that were lustrated with violation of the law were allowed to restore themselves in their jobs through court actions. 2. Number of raiding cases has increased. 3. The new police have a shortage of qualified staff. And professional training programs should be launched. 4. Old "militsia" staff was able to be converted into the new police. 5. Number of abuses is reported by public activists. 6. Very little progress in elimination of inconsistencies between the Commercial and Civil Codes and their merge. 7. Replacement of the entire business legal environment was not even initiated.
5. Improve public administration to provide public goods efficiently and without corruption.	1. The size of central government was reduced (i.e., in some agencies by two-fold as in the Ministry of Judiciary). 2. Number of "one-window" public administrative service office was introduced all over the country. 3. Fiscal/financial decentralization started. Local community budgets keep 60% of individual income tax, land tax, single tax, and excise taxes. Local authorities were granted powers to establish some local taxes and duties. Budget revenues of the amalgamated territorial communities managed to increase their budget revenues by 2 to 6 times.	1. Government remains ineffective with an old "soviet style" features. 2. Functional and operational review of all state agencies was not conducted. 3. Fiscal decentralization reform is implemented too slow as revenues of the local budgets are slightly above 20% of the consolidated budget and the share of expenditures of the local budgets in the consolidated budget is even lower at 14.8%.
6. Develop the country's financial sector to facilitate investments and growth.	1. The Banking system was stabilized. Most of the banks worth saving were saved, while most of the problematic banks were liquidated (liquidation procedures for around 10 banks are in progress, nearly the same number of banks are under	1. Low pace of increase in confidence to commercial banks creates a lack of financial resources in the economy. 2. The reform meant to ensure full independence and accountability of the NBU is no finalized.

	administration). Total number of commercial banks was reduced from 180 in 2014 to around 100 as of the middle of 2016. 2. Banking supervision improved with stress tests and re-capitalizations. The reform intended at making the banking system more stable and predictable. Regular stress testing was introduced. Stress tests themselves are continuously updated in line with the best European and world practices. 3. Banks are obliged to open information about their final beneficiaries and owners.	3. Non banking financial sector remains underdeveloped. For instance, there is no any real operational private pension fund in the country. 4. Only a few deals are made through the stock exchange. The majority of deals are registered “behind the counter”.
7. Deregulate business activities to enable firms to operate freely in a competitive market and significantly reduce the costs of doing business.	1. A temporarily moratorium on all government business inspections was introduced. 2. Some controlling agencies were eliminated (i.e., veterinary, sanitary and epidemiological) 3. Several state registries and databases were open for public (registry of legal entities, registry of real estate and immovable, registry of means of transport, data on public procurement, urban planning documentation database, and some others). 4. Management of state firms improved and cut income losses by 85%.	1. “Regulatory guillotine” approach to reduce administrative barriers for business was not employed. 2. Antimonopoly Committee remains highly inefficient in developing free market competition due to (i) the lack of strategic plan and (ii) wasted interests. 3. State is still the owner in number of companies including those from SME sector. 4. Some markets including energy and railway transportation are highly monopolized. 5. Number of monopoly collusions cases is reported on different markets including even retail. 6. Silent approval procedure was not fully implemented yet. 7. The parliament is too slow in adopting deregulation laws. On September 8th, just 3 out of 8 deregulation laws passed the voting in the parliament but only the first reading. A package of around 50 deregulation draft laws is waiting for consideration by the Rada.
8. Accelerate international trade and free movement of capital to convert Ukraine into an international production hub for supply to the West.	1. FTA with EU finalized. 2. Ukraine has signed an agreement with Canada and about to conclude the agreement with Israel and Turkey.	1. Procedures and costs of receiving permits from the NBU to move capital in- and out- of Ukraine are still cumbersome and costly. 2. Restrictions to exports still exists and should be removed. 3. Harmonization of Ukraine’s legislation with that of the EU in the field of international trade and capital flows shows little progress.
9. Reduce Political Risks and Improving Country Image	1. There is no conflict between President and Prime Minister office. 2. The Country has actively engaged the US/EU to contain Russian aggression 3. Strengthen local military forces 4. The coalition in Verhovna Rada exists. 5. Ukrainian authorities reconfirmed their European course numerous times.	1. The ruling coalition in Verhovna Rada is weak and some crucial decisions are taken only with votes from the opposition. 2. A number of populists in Verhovna Rada reduced its effectiveness significantly. 3. Works on establishing the Social Stabilization Fund were not initiated. 4. Further Russian aggression possible.