
Five Priority Reforms

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During the last two years the government has made good progress in implementing prudent fiscal and monetary policies that have advanced macroeconomic stability (stability in inflation and FX rates). Second, it has eliminated most energy subsidies by establishing a single price for natural gas (which was a major source of corruption and fiscal deficits). Third, it has made progress in stabilizing the banking system by closing about 80 insolvent banks (which was needed to revive credits). And fourth, it has completed the FTA with EU (the largest potential export market) and has advanced discussions on FTA with Canada, Israel and Turkey.

But these reforms are insufficient to convince the international community and international investors that Ukraine is tracked into a sustainable path of reforms and that will not roll-back past achievements. The major pending issue for sustainable progress, and therefore the main overall priority for economic reforms, is to deal more drastically with widespread corruption, including judiciary deficiencies. The current legal system has lost the confidence of the people and the international community. Without addressing these issues, the level of international investments will remain subdued. Furthermore, these reforms are needed urgently now to show to the new US Administration and Ukraine's friends in Europe that Ukraine is taking the measures needed to live within the rule of law. So far, this has not been demonstrated.

The main measures to address these issues are the following:

1. Establish the **Anti-Corruption Court System** (currently under discussion in Government/Rada); **but** given the low credibility of local judges, the new first court should consist of a majority of prestigious former **international judges** (principally US/EU) who would judge **Ukrainians former and current officials** involved in high-level corruption (as was done successfully in Romania and Guatemala).
2. Complete the reform of the **judicial and prosecution systems**, strengthening the recently established anti-corruption agencies; and implementing the full lustration, re-evaluation and replacement of the majority of judges and prosecutors who have lost the confidence of the people.
3. Give **Amnesty** to all wealthy officials that fill correctly the electronic declaration of assets and income and also amnesty to exiting oligarchs; but only after imposing **significant windfall taxes** to those suspected of having acquired their excessive income and assets through questionable or irregular means. This should be followed by zero tolerance for future irregular actions.
4. Remove the **blanket immunity from prosecution** currently enjoyed by members of Rada and the judiciary, to make them subject to legal actions against any corruptive practice and immediately increase in the number of corrupt officials and Rada members that are successfully prosecuted and convicted.
5. Prevent corruption and reduce opportunities for corruption by drastically reforming **public administration**. This will involve: (i) redefining the role and functions of the government with a major reduction in the number of agencies, regulatory bodies, and staff; (ii) decentralizing to local governments the implementation of most government functions delivering services to the public; and (iii) privatizing the majority of state enterprises (currently 3,500) and state land that are now major sources of high-level corruption.

STATUS OF REFORMS

REFORMS CARRIED OUT

1. Macroeconomic stability

- Fiscal budget brought under control
- Prudent monetary policies
- Some liberalization of FX rate regime
- Inflation down to 12% by year-end

2. Reform Taxation, Public Expenditures & Customs

- Number of taxes cut from 22 to 11
- Payroll taxes cut in half to 22%
- Single retail price for natural gas
- Naftogaz eliminated income losses
- New electronic public procurement
- Procurement of medicine outsourced
- Single portal on public funds use

3. Eradicate Corruption

- New Prosecutor General appointed
- Three anti-corruption bodies in place
- New electronic income declaration
- Legal procedures initiated for 150 officials

4. Legal and Judiciary Reform

- Constitution adjusted to permit judiciary reform
- Lustration law approved
- New police established

5. Improve public administration

- The size of government reduced
- “One-window” public administration
- Started fiscal decentralization with local revenues about 20% of the total

6. Develop the financial sector

- Banking system stabilized with closure of 80 weak banks
- Banking supervision improved with stress tests and re-capitalizations.
- Banks opened information about their final beneficiaries and owners.

7. Deregulate business activities

- Moratorium for business inspections.
- Some controlling agencies were eliminated (i.e., veterinary, sanitary)
- Open state registries and databases
- Management of state firms improved and cut income losses by 85%

8. Reform International trade/capital

- FTA with EU
- New FTA with Canada, Israel, Turkey
- Foreign debt was restructured

9. Reduce Political Risks

- No conflict between President-PM both with pro-EU orientation.
- TV channels/radio list owners.
- Actively engaged the US/EU to contain Russian aggression
- Strengthen local military forces

PENDING REFORMS

1. Macroeconomic stability

- Move NBU policy towards inflation targeting

2. Reform Taxation, Public Expenditures & Customs

- Overall tax burden is still high
- Cumbersome tax administration & VAT refunds
- Most subsidies are not monetized yet
- Tax privileges are not fully eliminated
- Electronic procurement still limited
- Electronic income declarations still sabotaged
- Pension system reform did not start
- Customs Administration remained unreformed

3. Eradicate Corruption

- Reform of Prosecution not initiated
- Anti-corruption bodies are still weak
- Delays in setting Anti-Corruption Courts
- None top level official convicted.
- Privatization of state firms not happened

4. Legal and Judiciary Reform

- No re-evaluation & dismissal of judges, prosecutors and other legal officials.
- Number of court abuses is still large
- Blanket immunities for judges/Rada are not removed
- Commercial-Civil Codes unreformed.
- Business legal environment unreformed
- Number of raiding cases has increased.
- Shortage of qualified new police.

5. Improve public administration

- Government remains too large and ineffective
- Functional reviews in govt. not conducted.
- Fiscal decentralization is slow/limited

6. Develop the financial sector

- Poor availability of financial resources.
- Independence of NBU is no finalized.
- Banking sector still weak with large bad debts
- Non-banking sector remains modest

7. Deregulate business activities

- “Regulatory guillotine” not employed.
- Antimonopoly Committee ineffective
- 3,500 state firms still not privatized
- Energy and railway transportation markets are highly monopolized.
- Silent approval business procedures not approved
- Rada slow in adopting deregulation laws with only 3 out of 50 draft laws passed

8. Reform International Trade/capital

- Cumbersome international capital transfers
- Restrictions to exports still exists
- Slow harmonization of foreign trade

9. Reduce Political Risks

- The ruling coalition in Rada is weak.
- No Social Stabilization Fund
- Further Russian aggression possible