

Pending Reforms in Ukraine

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During the last two decades, successive governments have taken steps to improve several of the country's investment drivers to promote growth. But key investment drivers not properly addressed are the following:

1. **Public Governance and Administration Reform.** Current plans to reduce the size of the central government and decentralize will not be sufficient to improve public governance. International experience shows that a pre-condition for successful public reform is reaching a national consensus about the functions and role of the government: to support, not to compete with the private sector. Ideally, the central government should only be responsible only for policy formulation, with implementation of government services and provision of public goods decentralized to local authorities. Following a redefinition of the role of the government, there will be a need to carry out reviews of government functions and programs across agencies, with a view to eliminate overlaps and establishment clear accountability for government actions. This "horizontal" functional reviews should be followed up by "vertical" functional reviews within each agency to eliminate unnecessary roles, privatize some activities, and decentralize functions related to delivery of government services. Without these deep horizontal and vertical functional changes, there will be conflictive and overlapping roles between the center and the lower levels that will lead to chaos. Following these functional reviews, there is a need to improve government procedures at all levels to deregulate, and to improve transparency, predictability and efficiency. Finally, civil service should be reformed to conform to the new governance system and to improve the professionalism and competence of government officials.

2. **Anti-Corruption.** There have been lots of talk about the need to address corruption. But efforts have been ad hoc, without a proper framework to be effective. Anti-corruption must have three elements: (1) **Preventive measures** to reduce opportunities for corruption and make corruption more expensive; (2) **Enforcement** of anti-corruption measures; and (3) **Public support** elicited by greater transparency.

Very little has been done about **preventive measures** to minimize opportunities for corruption. Preventive measures require:

- a more drastic reduction in the size of the government's bureaucracy in all ministries and agencies to minimize interference with businesses.
- a total revamping of the court system and the separation of almost all prosecutors, judges and court officials, the majority of whom are corrupt.
- a much deeper de-regulation to eliminate licenses and other opportunities by government officials to ask for bribes.

- the elimination of multiple prices, tariffs and rates which provide too much discretion to officials.
- elimination of all product subsidies, such as energy subsidies to eliminate re-commercialization at higher prices.
- the privatization of state enterprises whose managers are likely to seek rents for themselves.
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Enforcement requires the insulation of the new anticorruption agencies from political pressures. The President should have nothing to do with the operations of these agencies or the appointment of officials. Otherwise, political interference will pop in. Furthermore, there must be an immediate increase in the number of corrupt oligarchs and corrupt officials that are put in jail. Otherwise, enforcement will have no credibility.

Public support requires a much better publication of government actions and much better transparency of government activities.

Anti-Corruption. Combating energetically administrative and private corruption (including prevention, enforcement and public support) to minimize seizure of company's funds and arbitrary administrative decisions on company matters.

- Undertake corruption prevention measures to reduce opportunities for corruption
- Eliminate administrative corruption by Government officials who require extra payments and bribes.
- Deal energetically with corruption in the Judiciary and Courts to eliminate biased settlements
- Deal with private business corruption and corporate raiding
- Improve the adequate anti-corruption enforcement & support
- Deal with cases of vandalism, crime and public/business safety

3. **Political Risk.**

- This investment driver needs to be addressed given the military situation in the East and South of Ukraine.
- There is a risk that pro-Russian sentiments in these regions may be further increased due to a great extent by disillusionment with the current pro-Western government that has done little for these populations in practical terms: There is still significant un-repaired damage to infrastructure, schools, health facilities, potable water, utilities, etc.
- This risk of disturbances and social tensions highlights the importance of implementing the concept of a comprehensive and large **Social Investment Fund** in these regions, as outlined in the paper produced by SigmaBleyzer some months ago.
- International experience shows that the social investments are very effective in building confidence in the country and minimizing political risks.

4. Legal and Judiciary Environment. Adequacy and predictability in the Legal Environment, including the Judiciary, to protect companies' property ownership rights, and have fair and just settlements of disputes.

- Improve the predictability/adequacies of business laws

- Improve the protection of physical property rights
- Improve the protection of intellectual property rights
- Deal energetically with arbitrary, unfair and partiality of courts
- Avoid lengthy/costly settlement of contract disputes
- Improve the effectiveness of legal enforcement of judicial decisions

5. Political Risks and Country Image. Reduced Political Risks to minimize sudden changes in business conditions, and improve Country Image to attract capital and facilitate exit operations

- Improve the stability of the political system, without excessive rotation of officials
- Reduce the prospects of social unrests due to war or to highly uneven income distribution
- Minimize the risk of expropriations/nationalizations
- Improve the country's image that hampers doing business

6. Business Deregulation. Ability to operate without excessive government regulations which increase costs and reduces profits. This requires liberalization of business to enhance market competition and provide freedom to start up, operate, or close a firm.

- Simplify cumbersome regulations to start and register a firm and to obtain construction and other licenses
- Reduce excessive regulations for business operations, including excessive government agency inspections/controls
 - Facilitate the processes of bankruptcy and closing a business
 - Eliminate unfair market competition principally by government-supported firms
 - Increase the availability of qualified labour at low wage costs
Facilitate the processes of hiring or firing workers

7. Cross-border Trade and Capital Movements. Ability to export goods easily and to import equipment and raw materials freely. Ability to invest easily in the country with minimum impediments and repatriate capital and profits freely.

- Reduce excessive documentation, time and cost to export freely with adequate institutional support
- Reduce excessive/costly import tariffs and barriers
- Simplify and reduce costs of customs procedures
- Facilitate the movement of funds in and out of the country
- Simplify the procedures to obtain foreign exchange