

# AGENDA FOR UKRAINE



**Free Market Road Show Kyiv, 2016**

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# REPRESSED ECONOMY

Ukraine is  
162nd in the  
2016 Index of  
Economic  
Freedom  
(Heritage  
Foundation)



# PERSISTENT CORRUPTION

Ukraine is 130<sup>th</sup>  
in the  
Corruption  
Perception  
Index  
(Transparency  
International)



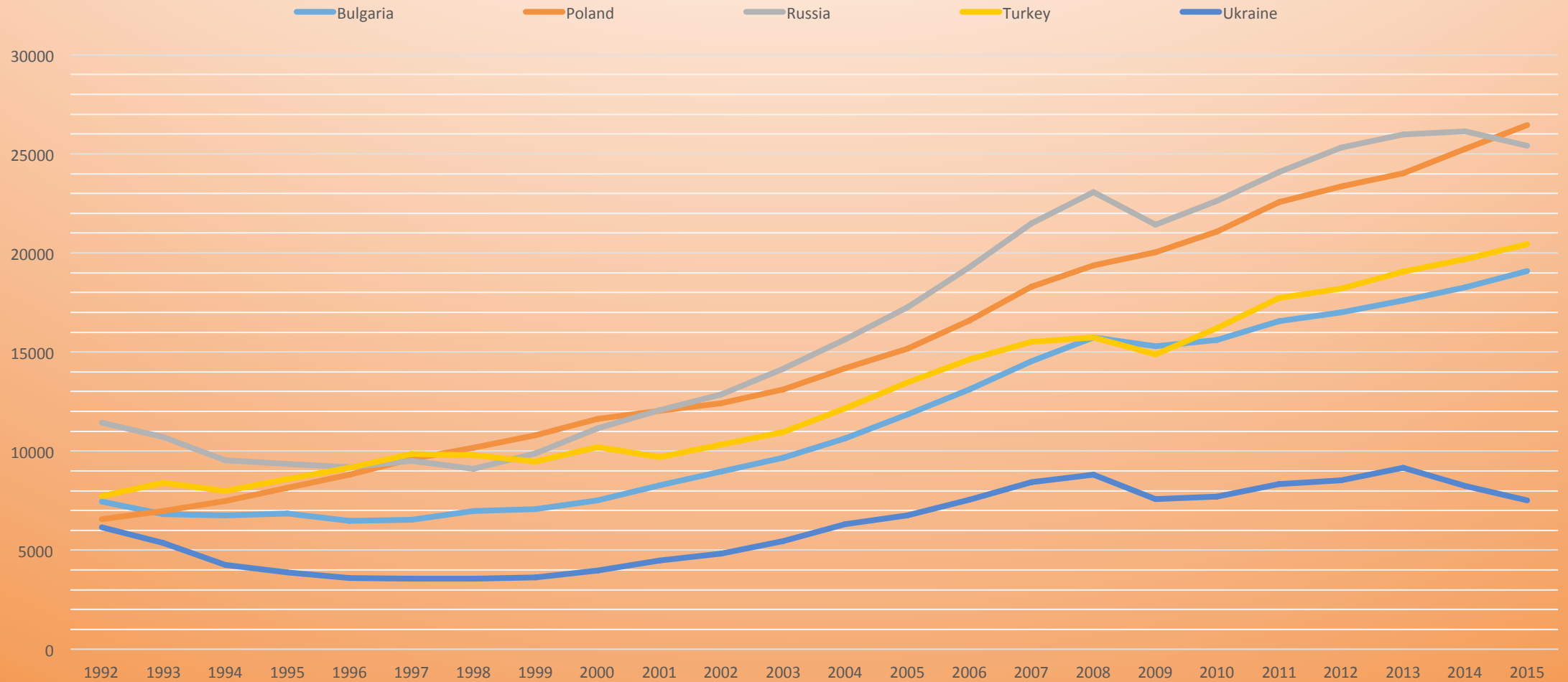


# POVERTY

Ukraine is the  
2nd poorest  
country in  
Europe with  
GDP per capita  
\$2004 in 2015  
(IMF)



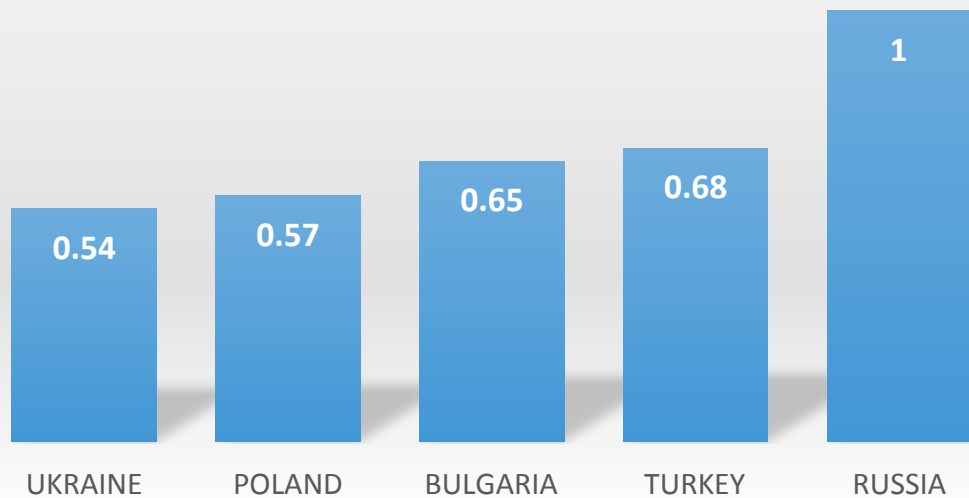
# UKRAINE AND ITS NEIGHBORS



# DIVERGENCE INSTEAD OF CONVERGENCE

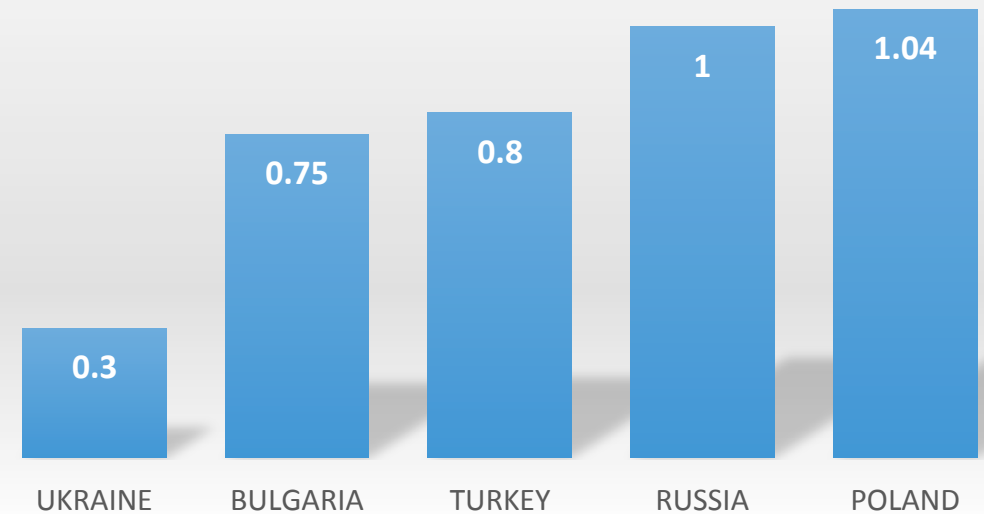
## Ukraine and Its Neighbors - 1992

GDP per Capita (\$, based on PPP, Russia's is 1)



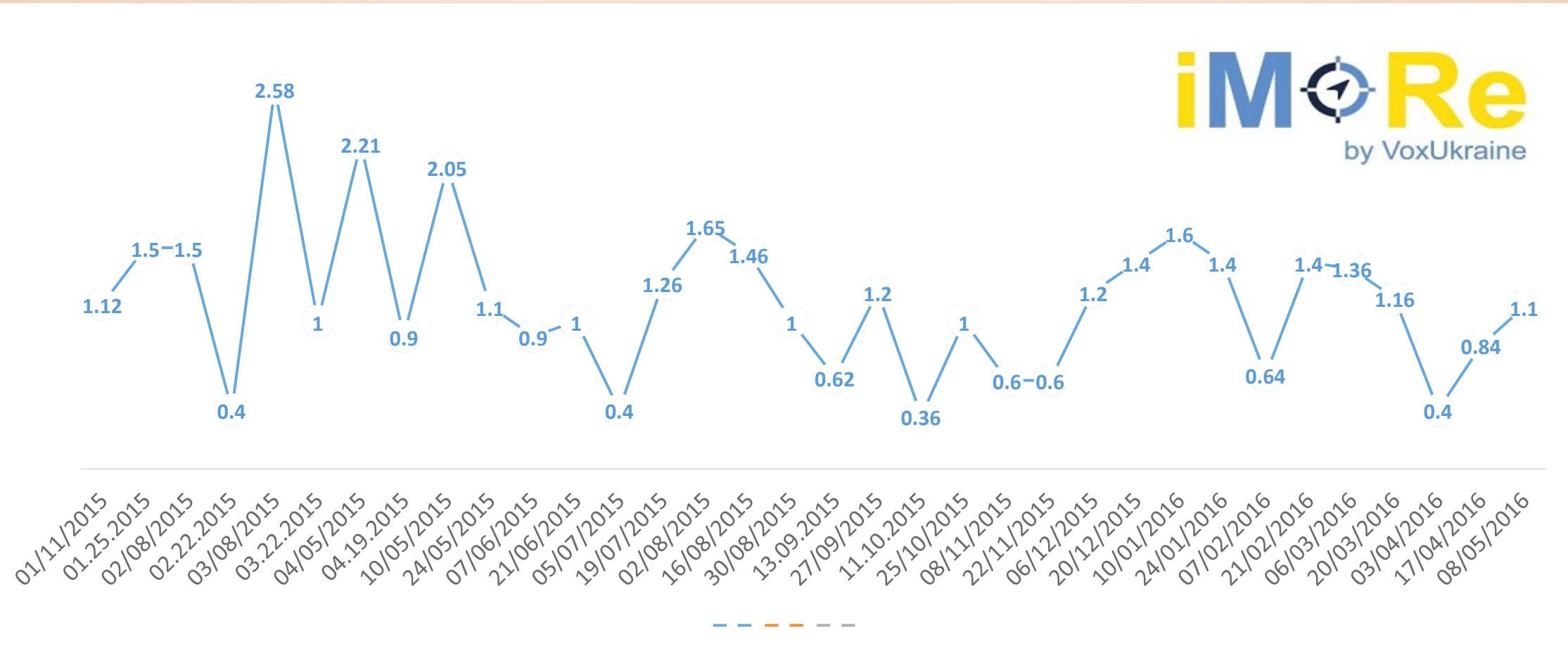
## Ukraine and Its Neighbors - 2015

GDP per Capita (\$, based on PPP, Russia's is 1)



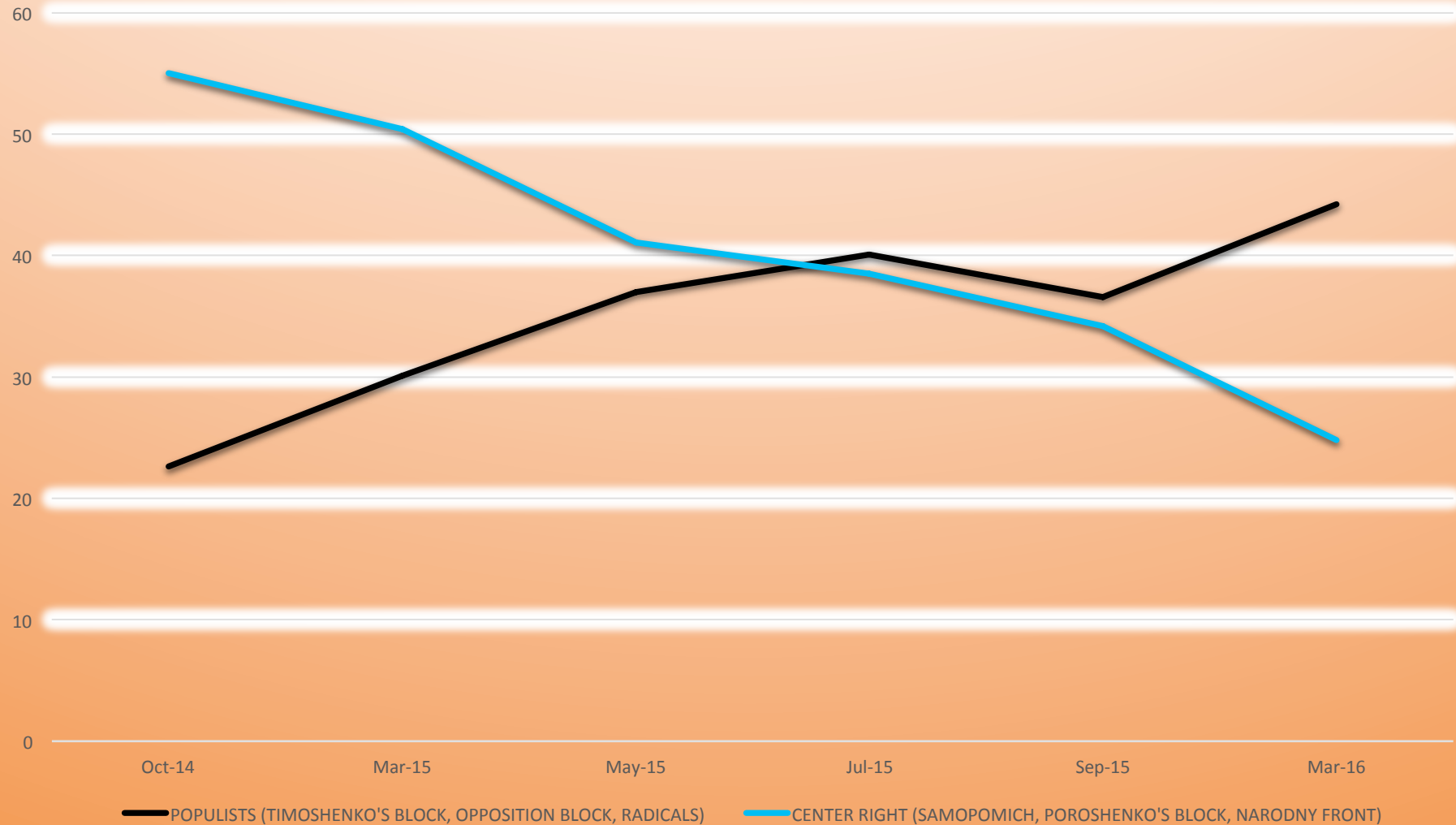
# REFORM SPEED IS INSUFFICIENT

Reform's Speed Was Fast Enough (value of the Index 2+) Only Thrice in 33 Periods of Appraisal



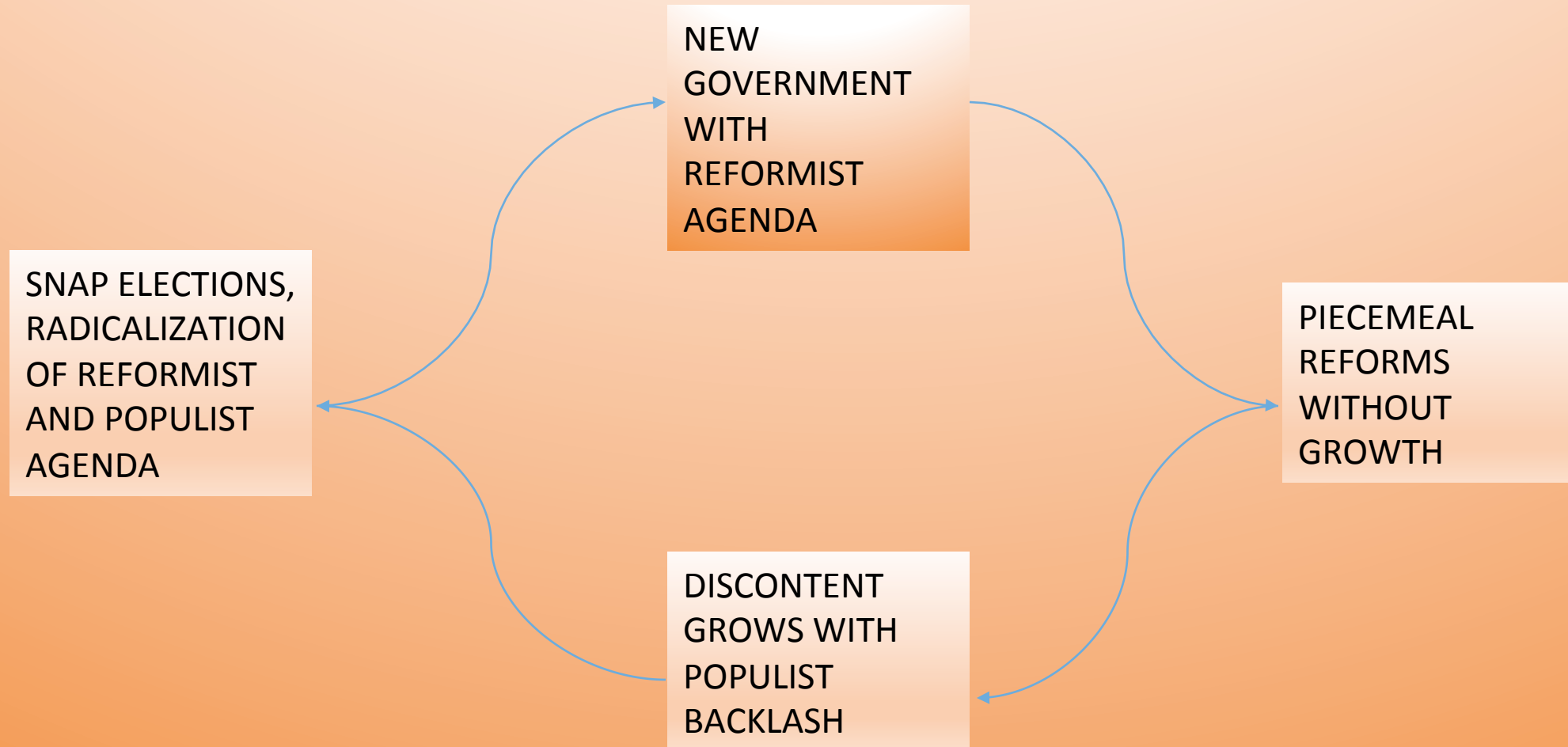
# ...AND POLITICAL SYSTEM IS SUFFERING

Electoral Support of Center-Right and Populist Parties in Rada





# POLITICAL CYCLE OF SLOW REFORMS



WHAT SHOULD BE DONE?!

# LAND OF DREAMS

- The fastest growing economy in Europe, one of the most dynamic countries in the world
- Intensive development of infrastructure
- New system of health care, clinics and hospitals compete for customers
- New higher education system: money follows a student, zero corruption in universities
- Strong financial system that allows citizens to save efficiently, and entrepreneurs to attract investment
- Strong social system that provides a decent standard of living to those who are not able to take care of themselves
- Strong pension system, consisting of a decent basic pension and an opportunity to save freely through various financial instruments

# PRINCIPLES OF THE NEW AGENDA

## **CURRENT APPROACH**

- Compromises due to political constraints
- Cajoling existing constituencies and groups of interests
- Preservation of the ossified state apparatus, low salaries in public administration

## **NEW APPROACH**

- Drafting reforms as if there were no political constraints
- Appealing to broad popular base and outside groups (e.g. foreign investors)
- Drastic downsizing of bureaucracy, hiring new professionals



# GOALS OF THE NEW AGENDA

- **DEPOLITIZATION OF ECONOMIC DECISIONS THROUGH:**
  - DOWNSIZING THE STATE
  - FOCUSING ON CORE GOVERNMENT FUNCTIONS – DEFENSE AND RULE OF LAW
  - PRIVATIZATION OF ALL STATE ASSETS
- **CREATING OPEN ACCESS ORDER**
  - ELIMINATION OF CORRUPTION IN CORE GOVERNMENT INSTITUTIONS
  - EMPOWERING CITIZENS
  - CUTTING RED TAPE TOGETHER WITH SCORES OF GOVERNMENT AGENCIES

# TOOLS FOR THE NEW AGENDA

- **DEEP LIBERALIZATION**
  - TAX AND CAPITAL AMNESTY
  - LEGALIZATION OF GREY ZONE ACTIVITIES
  - CUTTING SUPERFLUOUS REGULATION TOGETHER WITH REGULATING AGENCIES
- **IMPORT OF INSTITUTIONS**
  - RECOGNITION OF PHARMACEUTICAL, CONSTRUCTION AND OTHER STANDARDS ADOPTED IN ADVANCED ECONOMIES
  - OUTSOURCING LAST JUDICIAL INSTANCE IN COMMERCIAL DISPUTES
  - OPENING MARKET FOR FINANCIAL COMPANIES FROM OECD COUNTRIES
- **NEW TECHNOLOGIES**

# SCOPE OF THE NEW AGENDA

**LAND REFORM**

Transparent privatization **NEW PUBLIC SERVICE**  
**POLITICAL REFORM**

**Tax reform.**

Lowering taxes on labor to 20%.

Abolition of corporate tax

Smart

Decentralization

**STATE FOR BUSINESSES**

**FREE MOVEMENT OF CAPITAL**

**JUDICIARY REFORM**

**State for citizens**

**PENSION REFORM**

**Liberalized**

**Labor Code**

**Public finance reform**

Reducing government spending to 30% of GDP

**EDUCATION REFORM**  
**HEALTHCARE REFORM**

# Judiciary Reform

## PROBLEM

- Ukraine is 70th among 102 countries in the 2015 Rule of Law Index
- Ukrainian court system is even less trusted than notoriously corrupt law enforcement agencies

## BACKGROUND

- Judicial system is politicized and controlled by the executive branch
- Some judges are entangled in corrupt networks

## SOLUTIONS

### 1 **Fast Overhaul of the System**

- Establishing a single court of cassation, eliminating high specialized courts
- Introducing the unity of courts of general jurisdiction, having withdrawn administrative and economic courts from this system
- Consolidating court districts that may not coincide with the system of administrative-territorial division of the country
- Conducting a transparent competitive selection of judicial candidates, giving preference to young lawyers with unblemished reputation

### 2 **Attracting reputable lawyers from abroad**

- “Hybrid” procedure with distinguished foreign judges as jurors
- Constitutional amendments allowing foreigners to hold positions in Ukrainian judiciary
- Outsourcing appellate jurisdiction for commercial disputes



# Public Finance Reform

## PROBLEM

- Ukraine experiences systemic fiscal problems, implements the 9<sup>th</sup> IMF program,
- The level of state expenditures (43% of GDP in 2015) is too high

## BACKGROUND

- State finances public premises, not services.
- Premature welfare state (pension expenditures about 15% of GDP in 2014)
- Budget is a large source of funding for the corrupt political system

## SOLUTIONS

1

### Downsizing State Intervention

- Reforming so called “social sectors”, especially healthcare and education.
- Transferring financial responsibility for primary and secondary education to the municipal level.
- Creating competitive marketplace in healthcare and higher education
- Eliminating all state subsidies to businesses including tax benefits

2

### Open Budgeting

- Transparency at all stages of budget process – from planning to procurement
- Performance-based budgeting instead of cost-budgeting

3

### Checks on Fiscal Expansion

- Introducing more complicated procedure for raising taxes (e.g. through referendum)
- Introducing ceilings for public debt (50% of GDP) and budget deficit (2% of GDP)

# Privatization

## PROBLEM

- Ukraine is the 130th in the world in terms of effectiveness of the state
- It lacks capacity to run 3500 companies
- Losses of state enterprises in 2014 amounted to 6% of GDP

## BACKGROUND

- Politicians are not interested in transparent privatization
- Public opinion is against privatization (experience of 1990-s)
- Artificial preservation of monopolies in some sectors

## SOLUTIONS

- 1 Restructuring of State Property Fund**
  - Creating Agency for Privatization
  - Creating Agency for Managing State Companies
  - Transferring all state companies to the Agency for Privatization from the ministries
- 2 Reducing the list of companies that can't be privatized**
  - Opponents of privatization should demonstrate reasons why a company can't be privatized
  - All other companies should be removed from the list of state assets that should not be privatized
- 3 Rapid and transparent privatization**
  - Small and medium-sized state companies as well as assets of bankrupt enterprises should be sold via e-auctions in 6-18 months
  - Big companies should be sold with help from foreign advisers in 3-4 years

# Land Reform

## PROBLEM

- Private owners of 75% of Ukrainian arable land may not sell or use it as collateral and have to rent it out cheaply
- Large agricultural companies are mostly short-term investors

## BACKGROUND

- Politicians and large landlords block any move forwards
- Agrarian companies lack funds for buying land from its owners
- Urban dwellers tend to patronize their fellow citizens in the countryside

## SOLUTIONS

- 1 Lifting Moratorium on Selling Agricultural Land**
  - Auctions to sell state owned land tracts in order to obtain price benchmarks
  - No restrictions on the size of land holdings owned by a person or a company should be imposed
  - No restrictions on foreign ownership of arable land
- 2 Privatization of all state assets in agriculture**
  - Fast distribution of land plots that should legally be transferred to the current and retired employees of state farms
  - Auctioning of all state assets in the agricultural sector
- 3 Financial deepening**
  - Liberalization of access for financial companies and banks supervised by regulators from OECD countries
  - Full liberalization of capital flows

# e.Auction 3.0

## PROBLEM

- Standard auctions restrict participation
- Due to the centralized architecture budget expenditure for support grows exponentially
- Problem with info accessibility

## BACKGROUND

- Complicated procedures leave ample space for discretion
- As auction modules are run on a central server the chance of manipulation and misuse from the system administrator is high

## SOLUTIONS

- 1 Privatization and lease of state property**
  - Emerging, innovative models which offer the latest technological solutions
  - Decentralized blockchain technology
  - Private trading platforms participate, advertise and attract interested parties
- 2 e.Auction 3.0**
  - All information about auction is in permanent free access online
  - Post-moderation provides control for transparency of auctions and fairness of decisions
  - Secure management of processes due to decentralized database
- 3 System allows to:**
  - Control budget spending
  - Minimize the existing corruption, manipulation and mismanagement risks
  - Rebuild trust in government asset management



**SLAVA  
UKRAYINI!**