

# ICPS newsletter

## Restructuring Industrial Enterprises Must Become State Policy

*The essence of Ukraine's economic reforms makes restructuring a necessary precondition for the further existence of enterprises. Restructuring is a means of removing contradictions between the market and outdated Soviet operating logic. This should be achieved by carrying out deep all-round structural adjustments at an enterprise. Restructuring cannot be performed without efficient state industrial policy. Restructuring must become an object of economic and industrial policy of the Ukrainian government.*

*This conclusion was made at the Round Table "Restructuring Enterprises: State Policy and Success Stories of National Stories".*

### A Director Is a Bad Owner

Reforms initiated by Mikhail Gorbachev made directors of state owned enterprises their effective owners. Directors were entitled to make decisions on the distribution of profit, strategy of the enterprises' development, etc. Such a situation cannot be judged normal under the conditions of property rights reform. Privatisation in Ukraine often leads to conflicts between directors of enterprises who have gotten used to behaving like owners and stockholders. Directors also often prove unable to run their enterprises under market relations. This opinion was expressed by Oleg Trypolskyi, Deputy Head of the Ukrainian National Agency for State Corporate Rights Management.

According to Mr. Trypolskyi, restructuring Ukrainian enterprises is hampered by the following factors:

- corporate governance is underdeveloped in Ukraine;
- directors of enterprises have no interest in maximising profits;
- financial management is ineffective;
- enterprises have to finance the social sphere, which turns out to be an unbearable burden.

The main objective of restructuring should be to increase the volume of cash flow from an enterprise's activities and enhance its investment attractiveness.

Restructuring should include the following steps:

1. Steps aimed at increasing the volume of sales:
  - improve the price/quality ratio of products;
  - alter the product line.
2. Steps aimed at reducing production costs:
  - sell or lay-up excessive production facilities;

- implement new technology, reduce power-consuming production facilities;
  - search for better suppliers.
3. Steps aimed at improving financial management:
    - reduce the turnover period;
    - attract credit and investment resources;
    - use modern financial products.
  4. Organisational steps:
    - introduce an efficient management structure;
    - transfer the social sphere;
    - create new structural subdivisions, representative offices, branches, and subsidiaries.

### Blank Places in Legislation Impede Restructuring

As practical information on restructuring, the Donetsk Metalurgiynyi Zavod (Donetsk Steel Works) suggests that efficient restructuring of Ukrainian enterprises is hampered by many factors. Mohammed Zahur, Chairman of MetalsRussia Group and strategic investor at Donetsk Steel Works, mentioned the following obstacles:

- absence of company law;
- inconsistent investment regulations;
- equal treatment of large strategic and minor investment projects;
- absence of straightforward regulations concerning relations between affiliate companies and terms of taxation on the movement of goods and services between subsidiaries of one holding company.

### Restructuring Must Be Regulated

The reason for the unsatisfactory situation in restructuring the Ukrainian industry is the absence of a relevant government industrial policy. Thus, development of a sound state policy, which would facilitate and regulate restructuring of industrial enterprises, is an urgent task for the Ukrainian government. Vadym Gurov, First Deputy Chair of the Industrial Policy Committee

*Participants in the Round Table prepared a number of recommendations on regulatory support of restructuring enterprises in Ukraine. The recommendations included:*

1. *The Cabinet of Ministers of Ukraine should order the branch Ministries to work out a draft law on restructuring enterprises.*
2. *The Cabinet of Ministers of Ukraine should order the branch Ministries to draft a set of laws which will regulate the activities of private holding companies and establish a legal framework of relations between a holding company and its subsidiaries.*
3. *The Legislation Committee of the Supreme Rada of Ukraine and the Ministry of Justice of Ukraine should provide official telling of Article 15 of the Bankruptcy Law of Ukraine concerning sale of corporate rights owned by a bankrupt. In accordance with Article 20 of the Bankruptcy Law of Ukraine, all property of a bankrupt including its stockholdings in other companies, shall be subject to sale.*
4. *Additional research should be carried out to analyse the obstacles for restructuring, alternative governmental policies in this field and their possible consequences. Findings of this research activity should be publicly discussed by experts.*

## Last Week

### **Economic Growth in Ukraine Is Not Possible Without Radical Tax Cuts.**

This was the basic point of the presentation delivered by Hennadii Balashov, Member of the Supreme Rada, at the macroeconomic seminar at the International Centre for Policy Studies on 27 April. Mr. Balashov pointed that gradual changes in Ukraine's fiscal system could not ensure economic growth. Economic growth can be achieved only through radical fiscal reform. The main step of this reform should be to introduce a 10% tax on individual income and profit of enterprises. Such a fiscal system will make Ukraine an attractive country for foreign investors. Some entrepreneurs who used to operate in the shadow economy will start paying taxes. This will help avoid a sharp reduction in budget revenues shortly after the commencement of reform. So reform will not lead to a collapse in the social economy.

## This Week

### **Creating an Efficient Intergovernmental Finance System for Ukraine.**

The ICPS macroeconomic seminar on 5 May will be devoted to the issue of establishing a sound system of financial relations between the central government and local authorities in this country. A presentation will be delivered by Victor Miller, Deputy Director (for the Budget), Office of Technical Assistance, U. S. Treasury Department. His presentation will be entitled "Intergovernmental Finance and Legislation in the USA, South Africa, and Other Nations".

### **Role of Education in Transforming Society.**

The ICPS Strategy for Reforming the Ukrainian Educational System project and the Embassy of the Netherlands in Ukraine will cosponsor the seminar "Does the Educational System Meet the Requirements of Societal Transformation?" The seminar will take place at the International Centre for Policy Studies on 6 May.

## Next Week

### **Impact of the Financial Crisis on the Ukrainian Banking Sector.**

The ICPS macroeconomic seminar to be held on 11 May will host a discussion of the issue "Analysis of the Banking Sector: Macroeconomic Aspect". Speakers will be Khwaja M. Sultan and Dimitar Mishev of the Harvard Institute for International Development.

of the Supreme Rada of Ukraine, drew the participants' attention to this point. State support of inefficient enterprises is a waste of resources and makes economic growth impossible. Only integrated industrial policy can lead Ukraine toward economic growth.

Privatising enterprises as a single, indivisible estate and production facility without restructuring causes the social sphere to remain on its books, social infrastructure facilities not being involved anyhow in the enterprise's core activities. Under such circumstances, an enterprise's value as an investment target essentially dwindles since a prospective investor understands that his money may be spent on financing the non-productive social infrastructure. Privatisation does not solve the question of restructuring. Thus, the issue of restructuring is transferred to the post-privatisation period when it becomes a key determinant of the enterprise's investment attractiveness. This was the idea expressed by Volodymyr Altyynyk, Head of the Regional Office of the State Property Fund of Ukraine for the Donetsk Oblast.

Taking into account the strategic importance of restructuring for Ukraine, it seems reasonable that the Restructuring Law of Ukraine be adopted. This Law must determine the mechanism of restructuring and ensure a rational approach to restructuring activities.

*Round Table "Restructuring Enterprises: State Policy and Success Stories of National Stories".* Organiser: Cabinet of Ministers of Ukraine, Ministry of Economy of Ukraine, State Administration for the Donetsk Oblast and International Centre for Policy Studies. The Round Table was held at the Donetskyi Metalurgiynyi Zavod (Donetsk Steel Works) on 23 April

Participants included: Sergii Romaniuk, Deputy Minister of Economy; Vasyl Kotko, Deputy Minister of Finance; Vadym Vasyliiev, Deputy Head of the State Property Fund of Ukraine; Vira Nanivskia, Director of the International Centre for Policy Studies; Natalia Nesterenko, Division Head at the Cabinet of Ministers of Ukraine; Andrii Zhrebnykh, Head of the Principal Division of the State Tax Administration of Ukraine; Victor Taraba, Deputy Head of the State Bankruptcy Agency; Andrii Kliuev, Deputy Head of the State Administration for the Donetsk Oblast; Vasyl Struk, State Commissioner of the Antitrust Committee of Ukraine; Yuri Zerov, European Bank for Reconstruction and Development; Volodymyr Zhukov, General Director of Makiivskiy Metalurgiynyi Kombinat (Makiivka Integrated Iron-And-Steel Works); Oleksandr Neustroev, General Director of Nikopolskyi Pivdenno-Trubnyi Zavod (Nikopol Southern Pipe Mill); and Oleksandr Pylypenko, Deputy Chairman of the Management Board of Donetskyi Metalurgiynyi Zavod (Donetsk Steel Works)

### **The International Centre for Policy Studies, a Ukrainian think-tank, announces an open competition for 3 research analyst positions within its fast growing macroeconomic unit.**

#### *Requirements to applicants:*

- degree in economics (including 1999 graduates);
- fluency in English and Ukrainian;
- strong statistical analysis skills;
- desire to make a career in economic research.

*Preference will be given to applicants with experience in policy analysis.*

*Remuneration package is competitive and commensurable with experience.*

#### *The set of application documents must include:*

- resume;
- sample of recent research work in economics;
- statement of purpose.

*Documents must be sent by e-mail to: [silchuk@icps.kiev.ua](mailto:silchuk@icps.kiev.ua) no later than May 15.*

*Phone: 4635966.*

*For more information about ICPS activities refer to our web-site at <http://www.icps.kiev.ua/>.*

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