

# ICPS newsletter

## Social protection is only for those who need it

**The Ukrainian Constitution defines social security of citizens to be one of the main functions of the state. Due to the economic decline, the Soviet-style welfare system turned out to be unable to protect the poorest social groups. Achieving the major goal of Ukrainian societal development—establishing a socially oriented market economy—will be impossible without drastic improvements in the social security system. Participants of a seminar conducted in the framework of the project "Ukraine's Future: A Plan for the President" developed proposals on the strategy for reforming the social security system**

The primary objectives of social policy are increasing people's standard of living, avoiding and overcoming the poverty phenomenon, protection and social adaptation of the most vulnerable social groups, as well as ensuring targeted state assistance.

While the Ukrainian Constitution and legislation define broad state responsibilities to protect those who are at risk, the lack of efficiency in providing social assistance hampers the implementation of these legal requirements. Efficiency in providing social assistance is contingent on targeting benefits to those who really need them. To raise quality in the provision of social services, administrative infrastructure needs to be improved. The procedures for obtaining social assistance should become simple and transparent.

An important component of the social security system is superannuation (old-age pension) system. The seminar participants came to the conclusion that the present superannuation system does not follow the adequacy principle. Pension differentiation on the basis of labor contribution is far from perfect, pension insurance deductions are too high, pension benefits are too small, and the retirement age is too low. Thus, objectives of superannuation system reform should include providing people with reasonable income after their retirement, preventing poverty among elderly people, as well as ensuring economic growth.

Among other serious drawbacks of the existing social security system in Ukraine the seminar participants indicated the following:

- lack of an elaborated strategy for security system development;
- non-targeted and inefficient social assistance;
- opacity of the present social security system;
- lack of funds for social security, and the residual principle for social sphere financing;
- inefficient spending of budget resources;
- lack a definition of "poverty", and of impartial information on poverty and social processes; and
- poor public participation in dealing with social security problems.

The seminar participants concluded that reforming the social security system should envisage increasing targeted assistance, eliminating abuses, and improving the administration of social security programs.

The social security system should be based on the principles of equal access to social security for men and women; solidarity (since all people have the right to social security); obligatory participation in the system; as well as government responsibility for organizing social security.

While reforming the social security system, it is also necessary to revise legislative acts on the compulsory state social insurance, taking into consideration the realistic possibilities of financial provision.

Methods for dealing with social security problems were also discussed during the seminar. In the participants' opinion, the following measures should be implemented in this sphere:

- conducting prompt reforms in social security administration;

### **This Week**

**Competition in Agriculture and the Power Sector.** The fifth seminar within the framework of the "Ukraine's Future: A Plan for the President" project, planned for November 17, will be devoted to the subject "Promoting Competition in Agriculture and the Power Sector". The goal of the seminar is to develop strategies for promoting competition in the Ukrainian agricultural and power sectors, which will identify:

- guidelines for promoting the development of small and medium business in Ukraine;
- obstacles to reform;
- approaches to overcoming such obstacles.

The presentations will be given by Ms. Petra Opitz, expert of the German Consulting Group on Economic Reform in Ukraine, Ms. Olha Kovalenko, head of the Strategic Planning Group of the Secretariat to the Commission on Agrarian Policy under the President of Ukraine, and Mr. Vitali Nosov, research director of the VELOX Company.

**A Plan for the President.** A document titled *A Plan for the President*, prepared by ICPS jointly with the Freedom of Choice Coalition and the Coordination and Analysis Center for Ukrainian Business Associations, will be presented at a round-table meeting on November 19. The following questions will be discussed by the participants of the roundtable:

1. Strategic goals for the development of Ukrainian society.
2. Development of a new role for the government: planning and implementing strategy.
3. Economic policy priorities.

The presentations will be given by Ms. Vira Naniivska, director of ICPS, and Ms. Tetiana Sytnyk, chief economist of ICPS.

*Concerning invitations for ICPS's seminars, please contact Larysa Romanenko. Tel. (380-44) 463-5967.*

- ensuring targeted assistance;
- revising criteria and terms for assignment of social benefits and assistance;
- developing and approving poverty criteria and a state program for overcoming poverty;
- canceling socially unjustified and

- economically ungrounded privileges;
  - developing non-governmental social security systems;
  - elaborating training programs for officials who implement reform of the social security system. ■
- A seminar on "Reforming the Social Security*

*System" within the framework of the project "Ukraine's Future: A Plan for the President", was held at ICPS on November 9, 1999. 55 experts participated in the seminar (among them 9 regional experts): 10 officials, 28 representatives of NGOs, 6 international experts and 1 representative of the mass media.*

# Increased prosperity is impossible without small business

***During transition, small and medium business support should be one of the key priorities of state policy. Such policy will lead to improvement in the competitive environment, decreased unemployment, filling the market with goods and services, and introduction of innovative technologies. Development of small business in Ukraine is restrained by the command-administrative state control, lack of a regulatory system able to protect free competition, and an unfavorable taxation system. Participants of a seminar on "Small and Medium Business Development" conducted in the framework of the "Ukraine's Future: A Plan for the President" project had as their aim to develop proposals on a strategy for promoting small and medium business***

The support of small business development ensures conditions for enforcing citizens' constitutional rights to conduct business activity, and improving their welfare. Developing small and medium business channels people's talents to creating wealth to improve their own economic status; provides job opportunities and eliminates additional unemployment resulting from restructuring; contributes to the transfer of resources from the shadow to the legal economy; and increases the efficiency of human resources utilisation.

The lack of an effective regulatory system protecting competition is a key factor impeding competition and the efficient use of resources in Ukraine. Current regulations act as barriers to the effective running of business and conflict with one another. The mechanism of drafting new regulations is opaque and does not allow the discussion of draft decisions with businessmen. Various government bodies interfere in the day-to-day activities of businesses. The increasing costs of entering and running businesses limit private entrepreneurial initiative. It prevents the channeling of human resources to their best uses.

The seminar participants shared the opinion that the major problems of small and medium business in Ukraine are:

- misunderstanding of the role of small business as a driving force for achieving societal objectives;
- inefficient and untransformed regulatory system;

- unfavourable taxation system;
- instability of legislation and the normative-legislative base that regulates entrepreneurial development and investment attraction;
- lack of domestic and foreign investment;
- inadequate lending system, lack of a program for micro-lending to small business;
- limited access to information resources;
- lack of an attitude towards entrepreneurs as active and useful members of society;
- insufficient level of entrepreneurs' education.

To overcome these difficulties efforts should be concentrated on designing an integrated strategy for the long-term development of the SME sector. A set of support policies for SME should be designed to relax external and internal constraints on SME activities. Relaxing external constraints implies providing SME with access to credit, decreasing entry barriers to monopolised sectors of the economy, and enforcing more competition in the economy. Internal constraints on SME development emerge from a lack of relevant skills and information to operate businesses. Policies envisioning for special training, communication and information exchange should be designed.

Unless a long-term development strategy for small business is elaborated, having all daily decisions corresponding to it, and unless this strategy becomes an absolute

priority for the President, government, and parliament, the environment for small and medium business activity will remain unchanged, administrative barriers will not be removed, and the regulatory system will not be transformed properly.

The seminar participants indicated that innovative activity is the main precondition for producing competitive goods and services by small businesses. The factors that restrain innovative activity of small business include the lack of funds for purchase of new facilities and technologies, high level of economic risk, and lack of technical and technological information.

The seminar participants suggested the following measures for solving the problems of small and medium business:

- government approval of a new concept and strategy for the state policy on small business development;
- establishing a market regulatory system;
- development of simplified taxation methods;
- stimulating different forms of small business loans;
- further cancellation of barriers for entering, conducting, and exiting business;
- public opinion formation on the role of entrepreneurship through mass media;
- providing information for small business entities;
- developing an efficient market infrastructure;
- encouraging innovative activities of small and medium business. ■

*A seminar on "Development of Small and Medium Business" within the framework of the project "Ukraine's Future: A Plan for the President" was held at ICPS on November 12, 1999. 85 experts participated in the seminar (among them 15 regional experts): 22 officials, 35 representatives of NGOs, 9 international experts and 4 representatives of the mass media.*