

ICPS newsletter

Competition will help to overcome crises in agriculture and power sector

Agriculture and the power sector, forming the basis of Ukraine's economy, are of great importance for its development. That is why the crisis situation in these two sectors threatens economic growth. The main problems of agriculture and the power sector are the lack of competition and extreme state interference. Participants in a seminar conducted as part of the "Ukraine's Future: A Plan for the President" project focused on reaching agreement on a strategy for promoting competition in the Ukrainian agricultural and power sectors

The main goals of state policy regarding the power sector are to satisfy effective consumer demand for electricity and to develop competition in order to reduce electricity prices. For its part, agriculture is an important source of welfare for the population, therefore state agricultural policy should be directed at the maximum usage of sector potential.

But current state policy hampers the achievement of determined targets. The state influences price formation, and dictates with regard to supplies and relations between producers and consumers. Moreover, the state is the chief instigator of non-payments and restrictions on competition.

State interference leads to slowed market development, low production efficiency and profitability, price distortion, and weak competition. These result in unstable electricity supply even to solvent enterprises and citizens, and in the tendency to toughen administrative measures in agriculture even further.

Seminar participants indicated that among the major problems of these two sectors are the following:

— *in the power sector:*

- a lack of financial responsibility of customers for non-payments for consumed electricity;
- incomplete reform of ownership relations in the power sector;
- absence of competition between electricity generating companies because the Ministry of Energy is their main shareholder;
- an excessive number of privileged customers (65 consumer categories);
- accountability of the National Electricity Regulatory Commission to the government;
- problems with tariff creation for different groups of electricity generating companies;
- faulty or inadequate legislation;

• unsatisfactory electricity metering system (impossible to determine losses or remove their causes);

— *in agriculture:*

- unclear role of the state in creating conditions for sector development;
- undefined functions of government bodies regarding agriculture in the process of transforming from an administrative management system to a market-oriented one;
- limited access to resources which should be allocated on a market basis, and monopolies on inputs supply and produce sales;
- lack of "rules of the game" for agricultural enterprises.

Promoting competition should be a priority in economic reforms. Fostering competition and reducing government interference in the agriculture and energy sectors will stimulate private initiative in these sectors and create proper business incentives for enterprises.

Seminar participants proposed the following measures that would promote competition in these two sectors:

— *in the power sector:*

- creating a single Ministry of Energy, fulfilling political functions rather than economic ones;
- ensuring independent status for the regulatory body in the power sector;
- canceling administrative accountability of the Energoynok enterprise to the Ministry of Energy;
- creating an independent operator of the electrical energy system;
- restricting government interference in the activity of enterprises of the fuel and energy complex at the legislative level;
- abolishing privileges to certain consumer categories and increasing targeted benefits to citizens;

Last Week

What kind of pension system does Ukraine need?

Participants of a macroeconomic seminar held at ICPS on November 16 discussed problems of pension reform in Ukraine. Ms. Viktoriya Yakubovych, ICPS economist, described three main reform directions:

- improvement of the solidarity system;
- introduction of a mandatory system of individual accounts; and
- introduction of a system of voluntary individual accounts.

The improvement of the solidarity system foresees the motivation of citizens to retire on a pension later than now; determination of pension size based on the average wage received during the whole labor period; and gradual abolishment of privileged pensions.

Contrarily to the solidarity system, where pensions are accounted from current earnings, the system of individual accounts means that pensions are paid out from a fund created over a period of some years on the basis of citizen-deposited fees. The macroeconomic preconditions for the introduction of the system of individual accounts are real GDP and real wage growth, moderate inflation, and a stable exchange rate. Financial prerequisites for the introduction of the system of individual accounts are preparedness of the banking system and insurance companies, and a developed stock market.

According to Ms. Yakubovych, these prerequisites have not been created in Ukraine yet. That is why the optimal way of overcoming problems is a reasonable combination of all approaches to pension reform.

Economic policy priorities. On November 19, a roundtable was conducted as part of the project "Ukraine's Future: A Plan for the President", summarizing the results of five seminars devoted to Ukraine's key problems of economic policy (see **ICPS newsletter** #41-43). The participants discussed economic policy priorities, measures that should be undertaken in pursuance of the defined priorities, and the sequence of these measures.

· reinforcing debtor responsibilities through bankruptcy procedures.

— in agriculture:

· developing a market environment in the sector, in particular through the institute of private land ownership;

· creating integrated legislation on agricultural activities;

· reinforcing policy development functions of the Ministry of the Agroindustrial Complex and discontinuing its economic functions;

· promoting the agricultural cooperative movement, the organization of integrated production and processing companies, and agricultural credit unions;

· improving access to information for decision makers at agricultural enterprises. ■

A seminar on "Promoting Competition in Agriculture and the Power Sector" within the framework of the project "Ukraine's Future: A Plan for the president" was held at ICPS on November 17, 1999. 71 experts participated in the seminar (among them 6 regional experts): 17 officials, 28 representatives of NGOs, 11 international experts, and 9 representatives of the mass media.

Supervisory Board discusses development strategy for ICPS

A meeting of the Supervisory Board of the International Centre for Policy Studies took place on November 19

ICPS management submitted to the Supervisory Board a strategy for further evolution of ICPS as a development institution. ICPS will continue to study public policy and be an independent voice, publishing the results of its own research. This strategy also foresees active participation of ICPS in technical assistance projects and

promoting public participation in policymaking; these cannot be commercial in their nature.

The majority of members of the Supervisory Board supported this strategy of ICPS's further development. The Board proposed to Ms. Vira Nanivska, who was the director of ICPS during the last three years, to accept the post of ICPS director for the next three-year term. ■

ICPS ideas of improving policymaking process in Ukraine

A high level of analytical capability in the Ukrainian public sector is a crucial (albeit insufficient) condition for Ukraine to manage the transition to a market economy, and the lack of this capability is a root cause of the slow pace of reform in Ukraine.

Rapid development of democracy in Ukraine has brought executive arm of government face to face with the problem of how to present its policy, how to defend it against opposition, and how to mobilize the support of the general public for its implementation.

Since 1991, Ukrainian policymakers have lacked the training and the kind of "transition-specific" advice they need to undertake proper restructuring and economic reforms.

In dealing with policy issues, Western policy analysts draw on an established methodological framework. They are aware that policy analysis must include a clear understanding of the problems to be addressed and the objectives to be reached, and they recognise the need to provide policymakers with information on alternatives for achieving these objectives, as well as the advantages and disadvantages of alternative approaches.

In contrast, Ukrainian ministries and other institutions have continued to work in similar ways to those imposed by the Soviet regime, where the apparat was never concerned with preparing or justifying government strategy. Thus, today's Ukrainian bureaucrats lack the awareness and experience of Western approaches to policy analysis, and they generally do not envisage their role as having to provide policymakers with choices (all choices were made once and forever in 1917). Thus, no-one could foresee the need to consider alternative solutions in the short or long term, nor the costs or benefits to society of implementing these alternatives.

Given the aforesaid situation, we believe that technical assistance to the Ukrainian government should help to build its analytical capability. Only through the development of policy analysis skills will

the Ukrainian government acquire the capacity to develop and implement successful economic and social policies.

Typically, Western consultants have been providing assistance to Ukraine in the form of already-developed policy recommendations. These experts have even avoided providing Ukrainian policymakers with the types of options they would give their own politicians, for fear of dulling the urgent reform message they hope to send. And the Ukrainian government is still expected—as before—to simply follow their prescription.

Not surprisingly, this approach has been unsuccessful at promoting economic reform in Ukraine. Clearly, successful implementation of an economic strategy for Ukraine requires that it be developed and supported by Ukrainians themselves.

Good news is that a new type of technical assistance has been supported by USAID and CIDA. The new programs focus on building the Ukrainian government's institutional capacity for sound, sustainable, and judicious policymaking. It has been quite encouraging to witness the eagerness with which civil servants respond to opportunities they are provided to learn and practice new analytical skills. The innovative type of technical assistance called the Centre of Policy Excellence (CoPE) is a structured training program that focuses on the process of policy analysis. This TA program has been designed so that it can be tailored directly to the recipient institution, by having the participants do individual assignments and projects on a regular basis that are relevant to their job responsibilities. With the help of foreign consultants, CoPE fellows derive maximum benefit from the international experience offered by the program.

The ongoing training has been in budget policy, regulatory reform, and macroeconomic forecasting, but the CoPE framework can actually be adapted to support any policy area. These programs have been very successful in developing Ukrainian government participants into a new breed of bureaucrats—policy analysts rather than administrators.

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The International Centre for Policy Studies is an independent non-profit research organisation with the objective of improving the Ukrainian policy development process. This is achieved by increasing the know-how of key government officials for policy choices, formulation, and debate, and the awareness of the public-at-large of the benefits of policy.

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