

ICPS newsletter

Key reform challenges for Ukraine: ICPS vision

Economic transformations in different spheres of social life in Ukraine are extremely erratic. Some success has been achieved in adapting the population to market conditions, but it can hardly be said that profound reforms have been undertaken. The international community that strives to advance the transition of Ukrainian society should invest in developing the government's capacity to implement reforms. These were the key points of a presentation given by Tetiana Sytnyk to members of the Royal College of Defence Studies (Great Britain)

Today Ukraine is at the stage of transitioning from a planned economy to a market one. Economic transformation will be successful if the government takes on the new role of a body which makes public policy but does not manage industries or enterprises directly. Public policy should be directed to creating an environment which would foster the development of private initiative.

Another factor, critically important for completion of economic reforms, is rational use of resources. The reform of the budgeting process should prevent inefficient usage of public resources. The development of new values regarding human capital can ensure long-lasting success in a market environment.

The year 2000 has become a turning point for reforms in Ukraine. Defeat of the Communist candidate at the last presidential elections demonstrated public support of reforms and showed that there is no way back to the planned economy. The re-elected president and newly appointed government declared their political priorities: (1) reform of the government machine; (2) promoting private initiative; and (3) budget reform. Importantly, these priorities were also acknowledged by the Ukrainian parliament, where a reform-oriented majority was formed.

Reforming the government machine

The following achievements of Ukrainian administrative reform have been most remarkable:

- re-organisation of government bodies to ensure a distinction between policy-developing and policy-implementing agencies;
- Cabinet of Ministers works as a collegial decision-making body focused on making strategic decisions;
- Secretariat of the Cabinet of Ministers is established as a strategic planning and policy analysis unit.

In future, the process of reforming the Ukrainian government will face the following challenges:

- duties, authorities, and performance criteria for policy-implementing agencies should be clearly defined (State Tax Administration is an example of a policy-implementing agency);
- new policy analysis skills to be developed within the government;
- reform of local government should go in accordance with reform of the central government.

Unleashing private initiative

Thanks to the long-awaited implementation of a facilitated taxation system, the growth of small business in Ukraine has started. Slow land reform, fostering private initiative in agriculture, remains rudimentary and ineffective. The Ukrainian government abolished the most distorting taxes and tax privileges. Privatisation is helping to improve management at enterprises, resulting in their increased efficiency.

These factors have undoubtedly fostered the development of private initiative in Ukraine. However,

numerous unsolved problems prevent it from being fully "unleashed", particularly the inadequacy of the legal framework needed to protect competition. The most important codes that provide a legal framework for business activity are still to be adopted: the new Civil Code has passed second reading, while the new Land Code and Tax Code are still in first reading.

Weak contract enforcement increases the risks of doing business in Ukraine. The major objective in this area is the acceleration of judicial reform. Regulatory and tax administration procedures remain weak, allowing discretionary abuses of government officials. A clear definition of government officials' powers is regarded as the most effective way to fight corruption.

Budget reform

As a result of budget reform, a zero-deficit State Budget of Ukraine was adopted for 2000. The ban on tax debt restructuring and mutual debt offsets with the budget forced taxpayers to pay taxes on time; as a result, budget revenues increased substantially. Thanks to better inflows to the state budget, the government has managed to fulfill its commitments to repay pension and wage arrears. In the 2001 State Budget, the use of a programmatic budgeting approach for some expenditures, and the principle of better targeted social aid, should be introduced.

In the area of budget reform, Ukraine faces the following challenges:

- reduce government obligations in accordance with resource constraints;
- programmatic budgeting for more government expenditures;
- determine contracting procedures.

Instilling relevant skills

The major obstacles to reforms are the lack of new knowledge and skills, as well as a deficit of qualified professionals, both in business and government. The development of a market economy and democracy demands new approaches to education that should ensure educational programmes providing the knowledge needed for living in a democracy, market economy, and the globalisation of social processes. The Soviet system of education established a solid educational infrastructure. However, these educational institutions were only producing “nuts and bolts” for the totalitarian regime.

Ukraine needs a strategy to develop human capital, aiming at:

- ensuring Ukraine’s integration into the international community;
- the competitiveness of Ukrainians in the international market in the 21st century;
- achieving consistency between the content of education and the skills and knowledge demanded in a market economy.

European integration is a long-term guide for reforms

The fact that Ukraine geographically belongs to Europe does not automatically mean that Ukraine belongs to Europe politically and economically. The major task for Ukraine on its way to European integration is to introduce European standards and

procedures for making strategic decision in various spheres of social life.

Compliance of Ukrainian legislation with European, especially in the realm of trade, is a critical objective. To comply, Ukraine should undertake the following:

- reducing tariff and non-tariff barriers to trade;
- renouncing discriminative protectionism;
- protecting intellectual property rights.■

This briefing for members of the Royal College of Defence Studies took place at the International Centre for Policy Studies, Kyiv, on October 12, 2000.

Parliamentarians join efforts for European integration

The parliament of each country which plans to join the European Union must coordinate its actions with those of government and non-government organisations. This idea was articulated at an international parliamentary conference “European Integration: The Parliamentary Dimension” organised by the Foreign Affairs Committee of the Verkhovna Rada of Ukraine and the International Centre for Policy Studies. The representatives of parliaments from twelve countries, including Germany, Hungary, the Czech Republic, Estonia, Latvia, and Lithuania, attended the conference. Participants reviewed and analysed the experience of parliamentary committees on issues of European integration, co-operation of these committees with governments and non-government organisations in their countries, and the problems they face while working with EU bodies

The speaker of the Verkhovna Rada of Ukraine, Ivan Pliusch, believes that Ukraine’s hosting of the first international parliamentary conference on European integration is an important acknowledgement of the European choice made by Ukraine. In his welcome speech, Mr. Pliusch noted that this fact demonstrates the integration aspirations of Ukraine, and its intention, together with other countries, to contribute to the creation of a new integrated Europe.

The participants of the conference agreed that sharing experience and ideas among the countries of Central and Eastern Europe for which European integration is a primary foreign policy objective should go on at all levels—not only ministries and executive agencies but also the legislative bodies should be involved. “Co-operation among parliaments is a prerequisite for

European integration. It is extremely important for Ukraine to study the experience and get the support of other candidate countries to join the EU”, — emphasised Ihor Ostash, Head of the Foreign Affairs Committee of the Verkhovna Rada of Ukraine.

The following topics were discussed at the conference:

Role of parliaments in the process of European integration, and co-operation with governments for overcoming difficulties along the way. Acting Head of the European Commission Representative Office in Ukraine, Daniel Ziglaris, is confident that national parliaments play a paramount role in integration processes. Deputy Foreign Affairs Minister of Ukraine, Oleksandr Chaly, noted that the executive “clearly understands the role of the Ukrainian parliament in the integration process and believes that without the effective

actions of the Verkhovna Rada the implementation of specific tasks would be impossible”;

Position of EU regarding Ukraine and delay of actions developing economic co-operation. Conference participants agreed that shutting the borders between Ukraine and neighbouring countries which would join European Union before Ukraine is unacceptable. The question was also raised of Ukraine’s joining the WTO, and the prospects of signing a Free Trade Agreement between Ukraine and the EU;

Specific actions of committees on European integration (and other committees) with regard to European integration. At the forum, the principal objectives of parliaments in the process of integration were defined: compliance of legislation with European standards, co-operation with governments while preparing draft laws, and participation in negotiations with the EU on accession issues. ■

The international conference on “European Integration: The Parliamentary Dimension”, organised by the Foreign Affairs Committee of the Verkhovna Rada of Ukraine and the International Centre for Policy Studies, took place on October 13–14, 2000.

For more information please contact Olga Shumylo (e-mail: oshumylo@icps.kiev.ua, tel.: (044) 463-5967).

ICPS Newsletter is a weekly publication of the International Centre for Policy Studies delivered by electronic mail.

ICPS Publications director Hlib Vyshlinsky (hlib@icps.kiev.ua)

ICPS Newsletter editor Oleksandr Tsarenok (pr@icps.kiev.ua)

English text editor D. (Ksenia) Ovcharenko.

Articles may be reprinted with ICPS consent.

The International Centre for Policy Studies is an independent non-profit research organisation with the objective of improving the Ukrainian policy development process.

Address: 8/5 Voloska Street, Kyiv 04070, Ukraine

Phone (380-44) 462-4937/38/58 Fax (380-44) 463-5970

Web-site: <http://www.icps.kiev.ua>