

ICPS newsletter[®]

Broad debate helps find ways out of dead end

We finally have the results of the first series of public discussions dedicated to three key challenges of state policy: improving the business environment, reforming the system of "blanket" privileges, and legalizing personal incomes. Participants at workshops in Chernihiv, Kyiv, Poltava, Simferopol, and Vinnytsia sought answers to the questions: What are the objectives of the relevant state policies? What main problems exist and what are the reasons for their emergence? What possible ways can be used to solve them?

Every time they make a decision, government officials must ask themselves, on the one hand, Will this decision solve the problem in the maximally effective way? and on the other, Will it be acceptable for our society and if not, how we can we otherwise reach our goal? For the purpose of reaching a given objective, a community and its elected officials need to get together with experts and all the possible stakeholders so that they can, as a team, consider the various options, the benefits and drawbacks, and the costs and consequences of each relevant policy. Then, the decision made will truly be well thought out.

Under a joint project between ICPS and the Government program, "Public Opinion on Government Priorities and the Institutionalization of Government Consultations with the Public in the Process of Forming State Policy in Ukraine," the first series of public workshops have already been held. These were dedicated to three crucial state priorities: replacing the system of "blanket" privileges with targeted subsidies, legalizing personal incomes, and improving the business environment and developing the necessary entrepreneurial infrastructure. This project anticipates developing a thoroughly substantiated public response and recommendations for determining state policy priorities that can be submitted to the Ukrainian Government.

Representatives of local business, officials, political parties, non-government organizations and the media attended the three hearings, which were held from March 24 through April 8 in five Ukrainian cities. Representatives of a variety of stakeholders provided answers to a number of questions regarding each of the three topic areas:

- What are the main problems being faced?
- What are the reasons for the emergence of these problems?
- How are these problems affecting stakeholders?
- What are some possible ways to solve these issues?

Here we present a non-prioritized version of the main comments expressed by participants in these working groups. This will all be used for further analysis and to work on a formal document that will address possible ways of solving these problems.

Challenge 1: Replace no-name freebies with proper, targeted benefits

Since the government has difficulties providing proper social assistance in a monetary form, it has tended to allocate "blanket" privileges (subsidized utilities, free public transport, free post-secondary education, and so on). These too often go to those who don't need them, while those who really do, the poorest layers of the population, often don't have access. Participants in the workshops mentioned a number of key problems in the existing system for allocating such privileges:

- unequal access to privileges (resulting in "elite" and "virtual" privileges);
- failure to take into account the income levels of recipients in the allocation of these privileges;
- officials taking advantage of people's desire to get privileges;
- inadequate state compensation of the given privileged services to those enterprises who provide the services;

- unclear definitions of the classes of individuals who are eligible for a given privilege (particularly, of the recipient's household);
- no limits as to the amount of subsidized services that can be used at the privileged rate;
- no accountability in the provision of services; lack of transparency;
- excessive professional privileges;
- complicated procedures for receiving privileges;
- abuse by both recipients and providers of privileges.

According to the participants, these problems have arisen for a number of reasons: 1) failure to financially secure all privileges; 2) lack of a consolidated regulatory act that would specify the procedures for allocating privileges; 3) insufficient efforts to inform the general population about these privileges; 4) lack of accounting procedures to track allocated privileges; 5) lack of coordination between various departments and ministries; and 6) excessive numbers of beneficiaries.

The consequences of these problems participants saw as:

- increased destitution among the impoverished;
- declining public trust in government officials;
- growing losses among the public services enterprises (utilities, maintenance, transport, and so on) who provide subsidized services;
- abuse of privileges.

In conclusion, participants came up with a number of ways of tackling this challenge: 1) form a register of those eligible for specific benefits; 2) reduce the number of groups eligible for benefits; 3) differentialize the allocation of benefits based on income; 4) introduce targeted cash benefits (welfare); 5) get government support for

disseminating information; 6) finance benefits through state programs; 7) increase the accountability of those who allocate and receive benefits; and 8) regulate the extent to which a given benefit can be used.

Challenge 2: Get personal incomes out of the shadow economy

Pensions below subsistence levels, poor-quality medical care, ineffective social security, and salaries that are paid under the table. What can the Government do to break the vicious cycle of insufficient Budget resources, low-quality public services, tax evasion by individuals? One of the top priorities of state policy needs to be drawing personal incomes out of the shadows. Participants in the debate series listed a number of issues that keep private individuals from legalizing their incomes:

- excessive taxes;
- lack of transparency in the use of Budget funds;
- low quality of government (public) services;
- inadequate pension system;
- ineffective social security.

The reasons underlying this unsatisfactory situation, according to participants, include: 1) lack of professionalism among civil servants; 2) lack of information among the general population; 3) low level of public awareness; 4) disinterest among the country's leadership in handling the problem; 5) the country's totalitarian past; 6) the "dictatorship" of the current government; and 7) the decline in Ukraine's economic foundation.

In the opinion of participants, the consequences of this situation for stakeholders are:

- tax evasion;
- deterioration of basic infrastructures;
- under-funded local budgets;
- low wages;
- abuse and corruption;
- population decline;
- labor flight;
- social stratification;
- lack of public confidence in state officials;
- arrested economic development.

Among ways to solve this problem, participants mentioned: 1) make the

allocation and use of Budget funds transparent; 2) institute public oversight; 3) review social payments; 4) reduce the cash economy and increase non-cash transactions; 5) raise the material standing of the general population; 6) educate taxpayers; 7) reduce the government bureaucracy; and 8) deregulate the economy.

Challenge 3: Make the business environment more attractive and provide the necessary infrastructure

The main problems hampering the expansion of Ukraine's private sector and an influx of investment into the country are the high taxes, an unsatisfactory commercial regulatory system, and an insufficiently developed business infrastructure. Participants in these discussions named a long list of problems in the domestic business environment:

- excessive taxes;
- flawed and unstable legislation;
- ineffective state policy regarding commercial loans;
- underdeveloped of leasing and mortgaging;
- lack of effective enforcement of laws;
- absence of an independent judiciary;
- uncontrolled interference by the state in business activities;
- corruption and high-handedness among civil servants;
- lack of input from SMEs on the policy- and decision-making process;
- no guarantees for investment or protection of investors' rights;
- ineffective regulation of monopolies;
- an overly complicated regulatory system (licensing, registration, permits and so on);
- undeveloped system of public information for entrepreneurs.

Among the reasons for these problems, a slightly longer list was named:

- 1) divergence between the interests of the society and that of state bureaucracies;
- 2) lack of transparency in the government decision-making process;
- 3) insufficient efforts to keep the society informed;
- 4) a politically biased and bureaucratic form of governance;
- 5) lack of consistency in state policy and in the strategies for implementing it;
- 6) lack of analysis of how the decision-making process affects the

business environment; 7) lack of oversight over the government; 8) ineffective (outdated) approach to educating entrepreneurs and civil servants; 9) lack of readiness in the society for market relations; 10) lingering soviet mentality; 11) lack of a well-defined positive image of business; 12) undeveloped mechanism of public influence over the development of economic policy; 13) lack of dialog between the government and business circles; and 14) unfair competition.

Participants noted the main consequences of leaving these problems unresolved:

- social tension;
- corruption;
- growing criminality;
- an expanding shadow economy;
- low standard of living for most of the population;
- distrust in the government;
- continuous expansion of the bureaucracy;
- lack of social protection for hired workers;
- low-quality consumer goods and services;
- brain-drain;
- shrinking tax revenues;
- financial stratification of the society.

According to participants of the discussions, these problems can be solved in a number of ways: 1) formulate a clear state policy and introduce a mechanism for implementing it; 2) improve the tax system; 3) organize indirect methods of dialog between business and government; 4) reduce bureaucratic red tape; 5) enforce the accountability of government officials; 6) develop a system for disseminating information to businesses; 7) provide effective oversight over government actions; 8) develop self-government; 9) provide professional information for business people and civil servants; 10) create effective lobbying entities; 11) standardize the legislative system; and 12) promote a positive image of business. ■

Read more about this project on-line at http://www.icps.kiev.ua/eng/projects/second_opinion.html.

You can also read the original analyses of the debated issues and participate in the on-line debate on our website at www.icps.kiev.ua/projects/internet_discussion.html. For more details, contact Ihor Shevliakov by phone at +380-44-236-4477 or by e-mail at ishevliakov@icps.kiev.ua.

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