

ICPS newsletter[®]

The Government gets public recommendations for how to solve pressing economic problems

Organizing All-Ukrainian public hearings has provided ICPS specialists with an opportunity to develop well-grounded recommendations for government policy on reforming blanket privileges, bringing personal incomes out of the shadows, and creating a favorable business climate—and to prepare to present these to the Government. The recommendations were produced in the format of White Papers, analytical public policy papers

Public opinion on three government policy priorities was formulated and discussed with representatives of stakeholders in early 2004. Currently, the second stage of the public policy campaign is under way. During this stage, ICPS experts prepared three analytical reports "Reforming the System of Privileges in Ukraine," "Improving the Business Environment in Ukraine," and "Bringing Personal Incomes Out of the Shadows in Ukraine" and discussed them with representatives of stakeholders. The reports will be reviewed, elaborated and submitted to the Government.

These three analytical reports were developed in the format of White Papers, which are documents used by Governments in developed democracies to determine alternative ways of resolving problems that are usually outlined in Green Papers.¹ Full texts of the Green and White Papers on the three topics under discussion can be viewed at <http://www.icps.kiev.ua/eng/library/show.html?3>.

These papers were prepared as part of the "Second Opinions" and the Institutionalization of Public Consultation in the Policy Development Process in Ukraine Project. The Project is a joint initiative of the Secretariat of the Cabinet of Ministers of Ukraine, Ministry of Economy and European Integration of Ukraine, and the International Centre for Policy Studies and is implemented under the framework of Policy Advice for Reform (PAR) Project of the Canadian Bureau for International Education (CBIE) with the financial support of the Canadian International Development Agency (CIDA).

Reforming the system of privileges: two options

The first option for reforming the system of privileges involves completely canceling

blanket privileges as a means of government support, incentives or recognition. Instead, the government can commit itself to an obligation to provide targeted cash benefits to those citizens that need it the most: the sick, the disabled, the poor, and so on. Targeted benefits are a form of social welfare that the state provides personally to low-income employable or handicapped citizens on the basis of the needs of the specific individual after they have submitted an application for assistance.

Canceling professional or service-based privileges could be accompanied by raising wages in order to compensate workers engaged in dangerous professions that are important to the society as a whole. Privileges directly linked to fulfilling professional or service duties should be replaced with alternative forms of compensation and should be financed by the relevant executive bodies. For example, those who frequently use public transport in the course of carrying out their job responsibilities could be provided with a monthly transit pass. Privileges allocated to individuals for contributions to their country should also be subject to cancellation and replacement by appropriate pensions or compensation and, in special cases, with special rights.

After considering the experience of earlier reforms, it makes sense to point out that successfully replacing the system of blanket privileges with a system of targeted benefits requires:

- adopting legislation on the transition to targeted cash benefits;
- canceling privileges;
- establishing clear criteria for providing targeted benefits, the amounts of those benefits, and guarantees;

A job opening at ICPS

The International Centre for Policy Studies announces an opening for the position of "Ukraine's European Choice" Program Manager.

Job responsibilities include coordinating existing projects dealing with European integration; strategically planning the "Ukraine's European Choice" program; developing project proposals within the program; organizing public events; participating in Europe-related research; participating in the "European Integration" working group of PASOS, the Soros think-tank network; maintaining contact with PASOS experts and specialists from other Western NGOs and searching for new opportunities to develop joint projects; maintaining contacts with Ukrainian experts of the "Ukraine's European Choice" program in the Government, NGOs and media; developing projects for partners from the Government; providing analytical and informational support to ICPS experts on European integration and technical assistance issues; and participating in events organized by other organizations and presenting the ICPS opinion.

Key requirements of the right candidate include: university degree (preferably in political sciences); experience working in think-tanks, NGOs, or government institutions; fluency in Ukrainian and English; skills in developing project proposals; research skills; in-depth knowledge of the EU, Ukraine's European integration policy, Ukraine-EU relations; good computer skills.

Candidates are invited to write a brief analytical note (1,000 words max.) on "Your point of view on key problems in Ukraine's European integration" or "Your point of view on key problems with international technical assistance to Ukraine" in English or Ukrainian and e-mail it, together with your CV, to Olha Shumylo at: oshumylo@icps.kiev.ua.

- identifying the optimum forms for benefits (cash, non-cash, in kind) for different purposes and tracking how targeted benefits are used if they are provided in cash.

¹ For more information about this stage of research, see ICPS Newsletter #216.

The second option, partly preserving privileges, involves simplifying the current system of blanket privileges, improving the tracking of allocated privileges, and rationing them:

SIMPLIFYING PRIVILEGES: by canceling irrelevant privileges such as getting high-demand goods, having top priority admission to garage cooperatives and so on, canceling professional privileges, reforming the system of privileges for those suffering from the Chernobyl disaster, and developing new mechanisms for social security and guarantees instead of introducing new privileges and expanding the base of privilege recipients.

IMPROVING TRACKING OF ALLOCATED SUBSIDIES: first of all, this means setting up a single state register of recipients, regularly updating the database—which means that recipients should have to periodically confirm their eligibility—and regular reviews by residential services companies of the grounds for allocating privileges through the register.

RATIONING SUBSIDIES: this means introducing social norms instead of health norms for consumers of residential services and not extending subsidies to members of the benefit recipient's family. This particularly concerns privilege used of telephone and residential services.

The main hurdle for implementing this reform is one clause in Art. 22 of the Constitution of Ukraine, according to which it is prohibited to restrict the nature and extent of current civil rights and freedoms through amendments to existing legislation. The first step, then, has to be getting a Constitutional Court ruling on the interpretation of the concepts of "privilege" and of "nature and extent of current civil rights and freedoms" specified in Art. 22 of the Constitution, as well as the meaning of the entire Article.

The stick or the carrot: how to legalize personal incomes

Possible options for giving employers a reason to stop paying salaries under the table and evading taxes can be increasing oversight of commercial activities or introducing incentives for the voluntary legalization of personal incomes.

The **ENFORCEMENT STRATEGY** involves intensifying tax collection and blocking avenues for tax evasion. Measures for this option are based on the assumption that the Government has enough resources to perform its functions and the government spending system is satisfactory, but not efficient as a result of abuses and lack of due oversight. Possible measures to improve oversight of commercial activities can be: stronger liability for tax evasion, mandatory declarations of personal

income when purchasing property for large amounts of money, plus expanding the State Tax Administration's powers and increasing in the number of tax inspections.

Choosing this strategy could expand Budget revenues in the short term. But a powerful argument against this strategy is the high risk that eliminating current opportunities for tax evasion will only stimulate the search for new loopholes.

The **INCENTIVES STRATEGY** envisages shifting the main emphasis to improving the quality of public services while further reducing the tax burden, simplifying tax legislation and regulating commercial activity. This strategy is based on the assumption that the lack of attention to establishing a system that makes staying in the official economy more profitable than working in the "shadow" is the main reason why the Government's previous efforts to bring the economy out of the shadows have not yielded many results.

Incentives that can contribute to bringing the economy out of the shadow include:

- lower mandatory payments to social funds;
- simplified tax legislation;
- a ban on changes to tax legislation for the next five years;
- reducing the number of tax breaks;
- simplifying tax procedures;
- developing draft laws on procedures for inspecting the commercial activity of business entities by regulatory bodies;
- strengthening the tax administration and reducing possibilities for tax evasion through flawed legislation that provides endless loopholes.

The perception that tax pressure is too high is usually caused not only by the actual size of tax rates, but also by the benefits people receive from the government. Many problems in the system of social security, healthcare, and pension security could be resolved by introducing different forms of insurance.

How to improve the business environment?

The business environment is a complex system that includes many components. The system's effective functioning depends on many factors and it is restrained by many problems. This means that there is no single goal that, if achieved, can resolve all the problems of doing business in Ukraine.

At the moment, when taking care of problems in the business environment, the government tries to cover as many directions or goals as possible. Practical experience shows that this kind of approach does not produce the best effect. The more reform directions, the more

difficult it becomes to agree them with stakeholders and the higher the risks that efforts will fail. Apart from that, scattering available resources significantly slows down the attainment of the desired goal. According to ICPS, it is now urgent to identify key goals whose achievement can ensure an improvement of the business climate, and to concentrate government efforts and available resources on achieving them.

In view of the main issues with doing business in Ukraine, ICPS specialists formulated four main goals for improving the business environment:

IMPROVING THE REGULATORY ENVIRONMENT. Regulations are among the key instruments the government uses to "influence" the business environment. Improving Ukraine's legislative base can ensure the elimination or at least reduction of regulatory and administrative barriers, and establish clearer, fairer and more understandable rules of the game for doing business.

REFORMING THE TAX AND SOCIAL CONTRIBUTION SYSTEMS. It makes sense to continue reforming the system of taxes and general mandatory social payments in order to ensure a fairer distribution of the tax burden among different members of the business community, businesses and citizens, lowering tax pressure to the level that will reflect a balance between the interests of the government and those of business and will correspond to the quality of administrative and social services.

REFORMING THE PUBLIC ADMINISTRATION SYSTEM. The state "machine" as the key regulator is the main source of hurdles for business. The consequences of the government's ineffective activity and irresponsibility are administrative and regulatory hurdles, and complicated access to resources and infrastructure. That is why administrative reform is such a key goal to improving the business environment.

ENSURING ADVOCACY OF PROPERTY RIGHTS. Protecting property rights reduces risks for potential investors and makes the business environment more attractive. Apart from that, effective advocacy of property rights will lower non-productive business expenditures, and raise business confidence in the Government and the actions it undertakes. ■

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See you August 30...

The next issue of the ICPS Newsletter will come out on 30 August 2004, after our creative team returns from their well-deserved vacations.

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