

#UkrFinForum17

Day 1. Panel 3-1

Reforms: acknowledging accomplishments, measuring the pace

Was Ukraine truly reforming itself over the past four years or just talking about reforms? Lately, the country has won accolades from the international community for bringing about changes that were overdue for decades. However, some have criticized the authorities for the extremely slow pace in delivering these reforms. To over half of Ukrainians, reforms meant salary increases, while 26% believe reforms are about seizing the assets of the oligarchs. So, it's no surprise that real reform is causing discontent among the general public.

Dmytro Shymkiv, Deputy Head of the Presidential Administration of Ukraine: "Don't forget that there is a war going on in my country. Some days we in the Presidential Administration have to deal with military issues only". Yet, he believes Ukraine has been successful in these key areas:

- Gas-price unification has eliminated much of the corruption in the sector. Only the middle class and rich are paying the full price, while the economically vulnerable are protected by subsidies.
- Prozorro, a government e-procurement system, has eliminated much of the corruption in state procurement. Starting with small tenders, the program quickly picked up pace, and has helped to save billions wasted on inefficient spending.
- The banking sector was in particular pain. The efforts of those responsible for reform—although not always appreciated—have brought about the financial stability of the country. Making changes of that magnitude is impossible to implement without pain, Shymkiv believes.

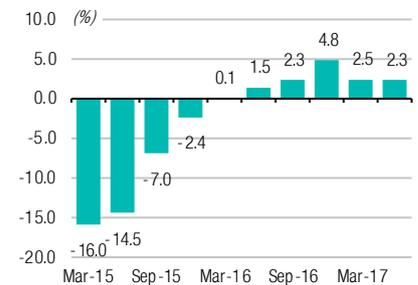
"Two years ago, many said Ukraine was dead. We have proven them wrong," he added. It is not that reforms are slow, more, they are enacted when feasible given the direction the country is heading. "We cannot simultaneously build democracy and demand that the President force Parliament to vote on particular issues," argues Dmytro. He calls for leaving politics to politicians. "They need to be persuaded otherwise they are not pushing buttons. It's how it is supposed to work." Therefore, reforms should and are taking time.

When asked, the audience selected pension and land reform as the biggest economic priorities right now for Ukraine. Energy reform was ranked lower than those two and healthcare reform, suggesting that there have been quite successful reforms in those areas. In terms of the preferred design of land reform, the forum split equally between abrupt or staged liberalization.

"Politicians unite under reform slogans while there can be many variations in the design." Shymkiv believes that Ukraine should avoid the Columbian experience when the oligarchs purchased all the land in a transparent, but unjust way. Perception of the land reform among the general public depends on how you design the question and the land question has been very sensitive for centuries here in Ukraine.

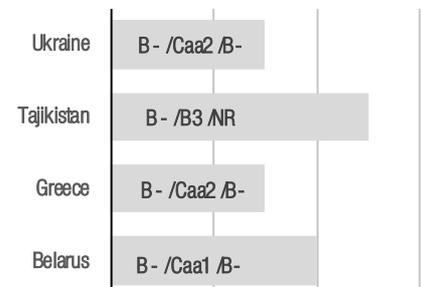
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Ukraine's GDP growth, YoY



Source: State Statistics Service.

Sovereign credit ratings (S&P/Moody's/Fitch)



Source: Moody's, S&P, Fitch.

It would be very hard to find new judges at this time to bring about judicial reform. One proposal is to offer new judges very competitive salaries, although many populists are fiercely opposed to this solution.

You need to talk to all engaged parties, prior to reform implementation

Ulyana Suprun, Acting Minister of Healthcare of Ukraine (MoH), believes that quality changes take time. It's more important to do the right things than to do something quickly. Programme "Affordable Medicines" that the MoH managed to introduce within a year of their tenure was a breakthrough that proved to be effective. However, it was not successful for the pharmaceutical companies because the amount they were compensated by the government was based on mandated prices that often were below their costs.

"You need to spend time and talk to the stakeholders. Ask them what the obstacles are for a particular policy," Suprun argues. After negotiations with market participants, reimbursement was reduced to 10 days after the submission of a medical bill. The negative result was a delay of the programme's start. "Instead of January, the first programme was launched three months later, but it was done properly," added Suprun. She believes this is the way that reforms should be handled: talk to the involved parties. Discussions among the regional administrations about the patients, and who would pay what proportion of which bills was not the way to go about it. Now there is a central registry that has helped to identify and eliminate multiple entries for the same person as well as non-existing individuals. The Affordable Medicines Programme has helped to save some UAH500m, as, for instance, the actual number of people with diabetes was 170,000 instead of the reported quarter million.

Foreign investors demand two things: property rights protection and ability to repatriate their money

Pavlo Moroz, former Deputy Minister of Justice of Ukraine believes that for a foreign investor in Ukraine, the key concerns are property-rights protection, and the ability to enter and exit investments conveniently and quickly. Moroz believes that in this area, Ukraine already has a good track record. Implementation of anti-corporate raider legislation helped to eliminate numerous loopholes that made raiding possible. State registry was eliminated altogether, and functions were decentralized by transferring them to 10 independent entities, while many operations now can be done online.

Instituting the role of the private executor will help to ensure that court orders will result in action, not just stay on paper. As of today, there 86 private executors with a UAH5mln cap on the amount of decisions they are allowed to carry. It should be increased to UAH80m next year, and a year afterwards, the cap will be abandoned altogether.

Yuriy Terentyev, Head of the Antimonopoly Committee of Ukraine (AMCU), thinks that sometimes reform isn't possible, things must be built from scratch. "That is true in case of AMCU. Prior to 2015, it produced a report of how many decisions were carried out and how many fees were imposed," he said. Prior to recent changes by the regulator, Ukraine used to be among four countries with what could be called an illogical merger-control regime. However, AMCU has little capacity for fighting a lack of competition. Terentyev emphasized that other parts of the executive branch should implement their policies with the aim of encouraging competition. "AMCU can punish the monopolist, but it lacks the ability to bring a competitor to the market."



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