PUBLIC ADMINISTRATION IN UKRAINE: NEW CHALLENGES IN TERMS OF TRANSFORMATION OF THE STATE

23 October 2018
MAJOR TRANSPORT ROUTES CROSS UKRAINE
<table>
<thead>
<tr>
<th></th>
<th>Germany</th>
<th>Ukraine</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area, km²</td>
<td>357 168</td>
<td>603 628</td>
<td>643 801 (Metropolitan) 551 695 (Metropolitan)</td>
</tr>
<tr>
<td>Population, mln.</td>
<td>82,2</td>
<td>42,5</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>65 (Metropolitan)</td>
</tr>
<tr>
<td>GDP, nominal, $ trillions</td>
<td>3,4</td>
<td>0,087</td>
<td>2,647</td>
</tr>
<tr>
<td>GDP, per capita, $</td>
<td>41 267</td>
<td>2 052</td>
<td>41 181</td>
</tr>
<tr>
<td>Monthly average wage, €</td>
<td>2 270</td>
<td>180</td>
<td>2 157</td>
</tr>
<tr>
<td>GDP - composition, by sector of origin:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Agriculture</td>
<td>0,6%</td>
<td>14,4%</td>
<td>1,7%</td>
</tr>
<tr>
<td>- Industry</td>
<td>30,3%</td>
<td>26,3%</td>
<td>19,4%</td>
</tr>
<tr>
<td>- Services</td>
<td>69,1%</td>
<td>59,3%</td>
<td>78,8%</td>
</tr>
<tr>
<td>Corruption perceptions index 2016 (Rank)</td>
<td>81 (10/176)</td>
<td>29 (131/176)</td>
<td>69 (23/176)</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>Ukraine</td>
<td>France</td>
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<tr>
<td>--------------------------------</td>
<td>----------------------------------</td>
<td>----------------------------------------------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>Political system</td>
<td>Federal parliamentary republic</td>
<td>Parliamentary-presidential republic</td>
<td>Presidential-parliamentary-republic</td>
</tr>
<tr>
<td>Administrative divisions</td>
<td>16 states (Lands)</td>
<td>24 provinces (oblast), 1 autonomous republic, and 2 municipalities</td>
<td>18 regions (13 metropolitan + 5 overseas)</td>
</tr>
<tr>
<td>Urban population</td>
<td>75,3%</td>
<td>69,7%</td>
<td>79,5%</td>
</tr>
<tr>
<td>Median age, years</td>
<td>46,8</td>
<td>40,4</td>
<td>41,2</td>
</tr>
<tr>
<td>Population growth rate</td>
<td>-0,16%</td>
<td>-0,39%</td>
<td>0,41%</td>
</tr>
<tr>
<td>Life expectancy at birth:</td>
<td>80,7 years</td>
<td>71,8 years</td>
<td>81,8 years</td>
</tr>
<tr>
<td>- Male</td>
<td>78,4</td>
<td>67,1</td>
<td>78,7</td>
</tr>
<tr>
<td>- Female</td>
<td>83,1</td>
<td>76,9</td>
<td>85,1</td>
</tr>
</tbody>
</table>
UKRAINE IS FACING CHALLENGES

MILITARY CONFLICT IN THE EAST OF UKRAINE AND ANNEXATION OF CRIMEA

Conflict in the East >3% of the country 700km from Kyiv

MINSK AGREEMENT

11 February 2015, the leaders of Ukraine, Russia, France, and Germany agreed to a package of measures to alleviate the ongoing conflict in the Donbass region of Ukraine.

REFORMS

DEREGULATION

PUBLIC GOVERNANCE

JUDICIAL REFORM

BANKING SECTOR

ENERGY SECTOR
REFORM PROGRESS
IN UKRAINE
**PRECONDITIONS FOR REFORMS:**

**EXTERNAL FACTORS**

- **Information war**
  Large-scale information war launched by the Russian Federation inside and outside of Ukraine

- **Hybrid war**
  Ukraine became target for testing new forms and technologies for aggression

- **Trade and economic aggression of the Russia Federation**
  Revenues from export to Russia reduced by $1-1.2 bn annually

- **Price drop for key Ukrainian exports**
  Export revenue in 2015 fell by $25 bn (-39%) vs. 2013

- **Energy aggression by the Russian Federation**
  Damage from loss of energy facilities in Crimea is estimated at hundreds of billions dollars

- **Military aggression by the Russian Federation**
  Military budget reached 5% of GDP in 2016 or UAH 113.6bn. Six times more than in 2013.

- **Russian occupation of Crimea and areas of Donetsk and Luhansk regions**
  - Industrial production dropped by 20%
  - About $200 mln monthly spent providing utilities to the occupied territories
  - GDP dropped by 17-20% due to war and annexation of Crimea
The Ukrainian army was not prepared for modern hybrid warfare due to external aggression, which led to a decrease in foreign direct investments in Ukraine by $13.7 bn during 2014-2015. Political and government changes, along with exhausted financial and banking systems, have also affected the country. Corruption in the state system is widespread, with a 35 times increase in the volume of investigated corruption cases in 2015, with an estimated value of UAH 3 bn; UAH 1 bn is investigated by the National Anti-Corruption Bureau. Inefficient law enforcement and judicial systems, terrorist attacks and sabotage activities on the territory of Ukraine, and an ineffective system of the state governance are also significant challenges.

**PRECONDITIONS FOR REFORMS:**

**INTERNAL FACTORS**

- **Corruption in the state system**
  - Broad corrupt practices across state institutions
  - Volume of investigated corruption cases during 2015 grew 35 times (est.value UAH 3 bn); UAH 1 bn is investigated by the National Anti-Corruption Bureau

- **Exhausted financial and banking systems**
  - Banking system lost UAH 120 bn during 2014-2015

- **Terrorist attacks and sabotage activities**
  - on the territory of Ukraine

- **Ineffective system of the state governance**

- **Foreign investments decreased due to external aggression**
  - Foreign direct investments in Ukraine decreased by $13.7 bn during 2014-2015

- **Political and government changes**
  - Parliamentary elections, local elections and several government changes took place over the two last years
UKRAINE UNDERTAKES REFORMS UNDER CHALLENGING CONDITIONS
The total amount of funding from the IMF, EBRD, EU $ per capita (accumulation)

Ukraine is approaching Slovakia level of financing.

However, Slovakia has not experienced such stress-factors as Ukraine.
After "Solidarity" secured parliamentary elections, an expert committee headed by Leszek Balcerowicz was created in September 1989. The committee prepared reform plan for rapid transition of the Polish economy from planned to free market.
In 1965, Singapore was so economically underdeveloped that it was necessary to import fresh water and cement. Neighboring countries were unfriendly. Malaysia closed its market for Singapore, and Indonesia actually declared war.
Before the 2004 elections, Georgia was a half-collapsed state in deep economic turmoil. Over the next few years the new cabinet conducted extensive and effective changes.
In 1998, Mikuláš Dzurinda, an experienced politician became head of the government. Main sectors of Slovakia's reforms were: public finance, tax and pension systems, health care, labor market and local government. Fiscal incentives became the main instrument of the reformers’ policy. In the area of public finance, Slovakia strengthened budget transparency, implemented program funding, and planned three years ahead (versus one).
REFORMS PROGRESS
IN UKRAINE
REFORMS PROGRESS

**High**
- External debts restructuring
- Strengthening defense
- Police reform
- Optimization of procurement system (ProZorro)
- Improving the regulatory environment
- Improvements in banking sector
- Promoting Ukrainian interests abroad, diplomacy success
- Decentralization

**Average**
- Optimization of budget indicators
- Tax reform
- Energy sector reform
- Anti-Corruption, public administration reform
- Geo diversification of export

**Low**
- Improvement of investment climate
- Pension reform
- Revival of credit activity in economy
- Product export diversification
- Healthcare reform
APPROVED:

- National Security Strategy (May, 2015)
- Military Doctrine of Ukraine (September, 2015)
- Concept of security and defense sector development (March, 2016)
- State targeted defense program on weapons and development of military equipment by 2020 (March, 2016)
- Strategic Defense Bulletin (May, 2016)

PERSONNEL:

- Total personnel increased to 250,000 people
- Over 52,000 people signed up for contract-based service
- 150 new recruitment centers are opened
- Established: 15 brigades, 1 regiment, 5 separate battalions
- 115,000 people have been trained in higher military educational institutions
- Fully restored combat capability of 14 brigades and 60 battalions

REFORMED:

- Reforms started in the Ministry of Defense, General Staff, Armed Forces (aligned with NATO standards and approaches)
- Logistic on NATO standards
- Electronic procurement system ProZorro saved over UAH 180 mln

DEFENCE AND FACILITIES:

- Defensive fortification line include 220 km of artificial obstacles and more than 500 command centers
- 1,400 hectares of lands and 21 valuable real estate properties returned to the Ministry of Defense under anticorruption program
REFORM PROGRESS:
ARMY

ARMY PROVISION IN 2014

... IN 2016
EUROPEAN INTEGRATION

• EU - Ukraine Association Agreement signed and provisionally applied

• EU - Ukraine Association Agreement ratified by 28 EU member states in a year. Finalization of ratification process by the Government of the Netherlands is pending

• Strong international pro-Ukrainian coalition formed

• Ukraine met all EU requirements for visa-liberalization

• Launched biometric passports for international travel of Ukrainian citizens

• Opening European markets for Ukrainian companies, overcoming consequences of Russian embargo

DEREGULATION

• Ukraine went up from position 112th (2013) to 83rd (2015) in Doing Business rating

• More than 15,000 Soviet standards abolished

• About 100 administrative barriers for business canceled

• Quantity of permits cut from 143 to 84

• List of activities that are subject to licensing decreased from 56 to 30

• Electronic licensing introduced

• Deregulation in agricultural sector: 28 permits cancelled, 28 simplified

• The number of scheduled and unscheduled State Fiscal Service inspections decreased almost by half in 2015 compared to 2013
The Law "On Government Cleansing“ (Lustration) adopted and signed.

In October 2014 key anti-corruption laws on new anti-corruption institutions were adopted.

National Anti-Corruption Bureau (NABU) was formed and started investigation.

Specialized anti-corruption prosecutor's office and the National Anti-Corruption Policy Council were established.

Based on the results of the open competition four members of the National Agency for Prevention of Corruption (NAPC) were elected.

State Bureau of Investigation and the National Agency for Identification, Tracing and Management of Assets Derived from Corruption and Other Crimes were legislatively established.

Legislative Acts concerning Fight against Political Corruption and Financing Political Parties were adopted.

Property registers became publicly accessible.

Police patrol has been launched in 32 cities, and staffed by over 12,000 persons.

The Law "On the National Police" adopted.

Prosecutor's office was deprived of powers of general supervision, and the new Law “On the Prosecutor's Office” adopted.

The number of local prosecutor's offices reduced by 23%, and administrative staff - by 75%.

The process of establishing the State Bureau of Investigation started.

Amendments to the Constitution regarding the administration of justice and the implementing the Law on Judiciary and Status of Judges were adopted.

Law "On Ensuring the Right to a Fair Trial" adopted.

New rules introduced: evaluation of the performance of judges, maintenance of judicial dossiers, qualification of examinations; new professional and ethical requirements.
ENERGY SECTOR

- **Foundational law** "On the Natural Gas Market" was adopted. The legal basis for the new European, open and competitive gas market established.

- **Significant diversification of gas supply sources.** The volume of gas imports from EU increased from 8% in 2013 to 63% in 2015, Russian share reduced from 92% in 2013 to 37% in 2015.

- Agreement with alternative suppliers of fuel for nuclear power plants signed.

- Deficit of “Naftogaz of Ukraine” decreased from $ 8 bn to $ 1.5 bn in 2015; **zero deficit projected for 2016.**

- Utility rates have been adjusted to the market level.

- Western standards of the corporate governance have been implemented in “Naftogaz of Ukraine”

- “Naftogaz of Ukraine” supervisory board (5 members) appointed (3 - independent members)

DECENTRALIZATION

- Voluntary merger process was initiated in more than 6300 territorial communities; 367 capable communities formed.

- Communities obtained additional financial resources as a result of financial decentralization.

- Local government revenues increased by UAH 29.6 bn. (i.e. 42.1%) in 2015 vs. 2014.

PUBLIC PROCUREMENT

- Online system ProZorro became a cornerstone for optimizing government procurement and preventing corruption: 4,500+ contractors; savings exceed UAH 1.2 bn.

- **ProZorro** received World Procurement Award 2016.

- Ukraine joined WTO Agreement on Government Procurement, enabling access to public procurement markets of 48 countries (est. $ 1.7 trillion).
NEW LAW "ON CIVIL SERVICE" ADOPTED. IT CLEARLY DIFFERENTIATE POLITICAL AND ADMINISTRATIVE ROLES IN PUBLIC SERVICE.

- Quantity of public servants was reduced by 16%.
- Updated State Portal for Administrative Services launched (poslugy.gov.ua).
- Ukraine’s public sector efficiency indicator (Global Competitive Index survey) increased from 140th (in 2013) to 119th (in 2015).

STATE-OWNED ENTERPRISE GOVERNANCE

- For the first time financial statements of 780 state-owned enterprises (SOEs) had been published.
- 345 SOEs were approved for privatization.
- Mandatory sale of 5 - 10% of shares before the auction was canceled.
- Changes to the Law on JSC shareholders’ meetings decreased quorum requirements from 60% to 50% + 1 share.
- For the first time international audit companies will audit 150 major SOEs.
- For the first time reports on the top 100 state-owned enterprises have been published.
- Market level compensation for the CEO’s of state-owned enterprises has been introduced.
- For the first time special independent committee was established to select CEOs of 12 strategic enterprises (Ukrgasbank, Ukrgazvydobuvannya, Sumykhimprom and others). Eight of them had already been appointed.
- Corporatization of the state railway company “Ukrzaliznytsia” started.
MANAGEMENT OF PUBLIC FINANCE

• Since 2014 the quantity of taxes and fees was cut from 22 to 11.

• Electronic VAT administration system introduced.

• Employer’s social payroll tax rates has been reduced from 41% (2014 average) to 22% in 2016.

• Experiment on financing road construction and development from the surplus of customs duties has started.

• Ukrainian foreign debt of more than USD 19.4 bn. was restructured.

• The Law "On the Accounting Chamber" adopted.

• Ministry of Finance launched E-data portal for monitoring public finance.

FINANCIAL SECTOR

• 78 insolvent banks were closed during 2014 - 2016; over UAH 70 bn of deposits returned to customers by state.

• Budget deficit reduced from more then 11% (2014) to 3% (2015).

• Macroeconomic situation in the country stabilized.

E-GOVERNMENT AND INNOVATIONS

• 3G introduced in 2015 (budget gained UAH 11 bn via transparent tender).

• Open data portal - launched.

• Electronic petitions to the President of Ukraine - launched. More than 21,000 petitions are registered YTD.

• Other electronic services have been introduced including electronic apostil and access to public registers of the Ministry of Justice.
EDUCATION AND CULTURE

• Control over academic integrity (counteraction of plagiarism in theses) has been enhanced.

• Launched “Go Global” - national initiative to promote learning English and other foreign languages across Ukraine.

• Ukraine joined EU framework programme for research and innovation “Horizon 2020” (€80 bn).

• Ukraine will be enrolled in Programme for International Student Assessment (PISA) in 2018.

• Ukraine joined EU framework Programme “Creative Europe”

SOCIAL AND POLITICAL AREA

• New national holidays: the Day of Defender of Ukraine (October 14), the Day of Remembrance and Reconciliation (May 8).

• Established celebration of the Day of the Heavenly Hundred Heroes (February 20) and the Day of Freedom and Dignity (November 21).

• Decommissioning started (979 towns and cities, and 24 districts were renamed).

• More than 1000 monuments of Lenin and over 150 monuments of other Soviet figures were demolished.
During the last 2 years more than 13 laws and 100 regulations were introduced for the competitive selection of:

- Director and the staff of the National Anti-Corruption Bureau
- Members of the National Agency for Prevention of Corruption
- Prosecutors for supervising the observance of laws during investigation and search operations, as well as pre-trial investigation carried out by detectives of the National Anti-Corruption Bureau of Ukraine
- Managers and prosecutors of the Specialized anti-corruption prosecutor's office
- Members of the High Council of Justice, members of the High Qualification Commission of Judges of Ukraine, judges, court staff
- Police officers
- Members of the Accounting Chamber
- Head of the National Agency for Identification, Tracing and Management of Assets Derived from Corruption and Other Crimes
- Director, deputies and staff of the State Bureau of Investigation
- Civil servants and secretaries of the state
- Leaders of all important state-owned enterprises
- Heads of scientific institutions, Director of the Ukrainian Book Institute, heads of state and municipal museums, libraries, cultural institutions, heads of centralized library systems, heads of administrations of historical and cultural reserves.
• Slow pace of reforms and their formal nature
• Legislative changes and the fulfillment of formal benchmarks of the reform do not imply its successful implementation
• Maydan did not bring enough "new" players in politics, who could provide formation and implementation of alternative development programs
• Old politicum absorbed most of the reformers
• State power and access to public monopolies remain powerful sources of economic rent
• Weak interest of elites in reforms, lack of the respective political will
• Restoration of the oligarchic groups’ influence and control over the sectors of the economy, political parties, public authorities, parliament

• High level of corruption in public authorities, sabotage by state officials

• Weak technical preparation for the implementation of reforms

• The imbalance of powers in Ukraine, the gradual restoration of the vertical control (parliament and the judiciary are not independent)

• Little trust of people in the success of these reforms

• Conservative monetary and fiscal policies hindering the economic growth opportunities

• War in the East causing an additional pressure on the state budget
CONCLUSIONS
NO COUNTRY IN THE WORLD WAS REFORMING UNDER SUCH CHALLENGING CONDITIONS
Since 2014 we established the foundation for the new principles of governance. We do not focus on names, but institutions.

«...Ukraine... is an example of how it is possible to reform institutions in a way allowing us to generate enormous amounts of goodwill among the Ukrainian people, because Ukrainians want to see these institutions move forward»

Geoffrey R. Pyatt,
Extraordinary and Plenipotentiary Ambassador US to Ukraine, May 16, 2016
OUR GOAL: UNITY

Only through joint efforts of the President, the Parliament, the Prime Ministers, governments, coalition, civil society, army, diplomacy, donors, volunteers and all citizens of Ukraine WE ARE ABLE TO ACHIEVE SUCH RESULTS AND PROGRESS.
Over the last 2 years **Ukraine advanced on reforms more than other countries before.**
WE HAVE DONE MORE THAN PERCEIVED, BUT LESS THAN WE ASPIRE FOR ...