

**Prosperous Society,
Competitive Economy,
Effective State**

PROGRAM OF ECONOMIC
REFORMS 2010-2014

Committee on Economic Reforms
under the President of Ukraine

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Content

Introduction	3
Sustainable economic development	4
State budget stabilization	4
Tax reform	8
Financial sector development	12
Reform of intergovernmental fiscal relations	16
Improvement of Life Standards and Social Services	20
Reform of the medical care system	20
Reform of the pension system	24
Education system reform	28
Reform of the social support system	32
Improving the Business Climate and Raising Investments	35
Deregulation and development of entrepreneurship	35
Privatization and state property management	42
Development of the R&D and innovation sector	46
International integration and cooperation	49
Modernization of Infrastructure and Primary Sectors	54
Reform of the energy sector	54
Reform of the coal sector	58
Reform of the gas and oil industry	62
Transportation infrastructure development	68
Agricultural sector development and land reform	72
Appendix: necessary amendments to the legislative acts; adoption of the laws	75

Introduction

The global economic crisis did not walk around Ukraine, having seriously hit almost all sectors of its economy, thousands of companies and millions of people. The crisis aggravated outcomes of the inertia of recent years.

As the sources of the pre-crisis rapid growth have dried up, the only way for Ukraine to get on the track of sustainable development is to complete trenchant and comprehensive reforms, aimed at boosting competitiveness of the economy.

The proposed Program of Reforms was developed as part of fulfillment of the task of economic recovery and modernization the country's economy, posed by the President of Ukraine.

The reforms are designed to facilitate building of a modern, sustainable, open and globally competitive economy, establishment of a professional and effective system of public administration, and, eventually, improvement of the wellbeing of the Ukrainian nation.

The Program encompasses a wide range of strategic transformations in the following five areas:

1. Creation of basic preconditions for economic growth by keeping the inflation down, stabilizing public finances and establishing a sustainable financial system.
2. Having in place “most favored treatment” regime for businesses by reducing government intervention into the economy, alleviating administrative burden for its development, modernizing taxation system and deepening Ukraine's international economic integration.
3. Upgrade of infrastructure and primary economy sectors by way of elimination of long-standing structural problems in energy, coal, oil and gas industries and in housing and utilities sectors, as well as the development of the transportation infrastructure and land market. Shift from subsidized manufacturing and social services to self-sustainable ones.
4. Preservation and development of human and social capital by raising effectiveness and stability of social security, improving quality and affordability of education and health care services.
5. Raising effectiveness of the public administration by reforming public services and executive power¹.

The program was developed by the working groups of the Economic Reform Committee led by the President of Ukraine. The working groups joined forces of representatives of the government, regional administrations, businesses, and local and international expert community.

Implementation of the Economic Reforms Program with their joined forces will enable to effectively fulfill the tasks set in the program.

Following approval of the Program by the Committee, further steps will be:

- design of a detailed action plan in each area of the reform with specific steps, persons in charge and interim results;
- drafting legislation, needed to implement reforms;
- development of regional programs on the basis of the National Program of Reforms.

The Economic Reforms Committee will be in charge of monitoring the progress of reform implementation, coordination of actions between government agencies and adjustment of the Program

¹Block of reforms towards modernization of the public administration system will be presented in autumn 2010.

as the objectives are reached or conditions of its implementation change. SUSTAINABLE ECONOMIC DEVELOPMENT

STATE BUDGET STABILIZATION

Challenges

The level of the redistribution of the Gross Domestic Product through the budget and non-budget funds is very high: the specific gravity of the income of the consolidated budget together with the revenues of the non-budget funds in the GDP in 2009 was 42.4%.

This implies a high fiscal burden on business. For the last two years, the nominal amount of the direct and guaranteed public debt increased by 3.6 times - to 34,6% of the GDP.

The public finance sector deficit (including recapitalization of the banks, uncovered VAT etc.) in 2009 reached 11.5% of the GDP. Even taking into account the economic crisis, the index is high compared with the corresponding global index.

The amount of the fiscal operations, which are accomplished by the enterprises of the real sector, remains significant: according to the IMF rating, in 2009 the deficit of the funds of the NJSC "Naftogaz" only made 2,5% of the GDP

The reasons for these problems are:

- inefficient and inflexible costs. The structure of the budgetary expenditures is stiff, which increases the vulnerability of the economy to shocks. In 2009, over 90% of the general fund of the budget was formed by the protected articles. Thus according to the reports of the Accounts Chamber, every third UAH from the budget was spent inefficiently;
- chronic excess and rapid growth of the budget resources, which leads to the constant correction of the budget and tax legislation and complicates the management and forecasting of the taxes;
- weak fiscal management. The Budget planning is Limited to the annual horizon. The Public Finance Audit focuses on the financial aspects and the analysis of the effectiveness of the expenditures requires strengthening;
- weak management of the government debt. The significant share of the external liabilities (66.8%) in total public debt makes it the vulnerable to currency changes. The considerable share of the guaranteed debt (28.4%) creates the risk of the growth of the government obligations;
- non-transparency of the public finances. Partial disclosure of the information regarding the conditions of the state sector leads to the hidden misbalances of the state sector and growing of the state sector.

The Problematic budget - is the risk of the failure of the state to fulfill its obligations and brake the economic development.

Aims and objectives

The goal of the reform - the creation of the system of management of the public finances, aimed at ensuring the sustainable economic growth and guaranteed accomplishment by the state its social obligations through:

- reduction of the deficit and the rhythms of the public debt growth;
- increasing of the efficiency and flexibility of the fiscal expenditures;
- optimization of the management of the public finances

In order to achieve the above mentioned aims it is necessary to solve a number of the specific tasks:

- strengthen fiscal discipline;
- improve the management of the public debt;
- improve the efficiency of the capital expenditures;
- increase transparency of the public finances and enhance the analysis of the state sector;
- introduce medium term planning and improve the financial management of state enterprises;
- implement complementary reforms in energetic, infrastructure sectors, areas of tax and social policy.

Necessary steps

Stabilization of the deficit and public debt

- strengthening of the financial and fiscal discipline:
 - adoption of the laws on public procurement and state aid to enterprises in accordance with the EU standards and the WTO (Directive 2004/18/EU and 89/668/EU);
 - optimization of the number of the state target and budget programs;
 - strengthening of the financial control over the targeted and efficient use of the budgetary funds;
- adoption of the Law “On Public Debt”, which establishes the basic terms, principles and mechanisms of management of the public debt and defines the instruments of the state borrowings.

Improvement of the efficiency of the public expenditure

- improvement of the quality of the throughout budgeting:
 - implementation at the level of the main managers of the public funds of the medium-term investment plans within the limits of the medium-term budget of the projects which have passed the assessment procedures;
 - integration of the process of the investment projects creation in the overall budget process and the clear division of the responsibilities (preparation and implementation - manager; assessment - Ministry of Economy and Ministry of Finance; selection - The Cabinet of Ministers);
 - creation of the database regarding the status of the state resources and the effect of the new investments on this condition;
 - legislatively defining the criteria and principles of the distribution of the investment subsidies;
 - direction of the over the plan income and income from the privatization to the fund of the future generations to the financing of the priority investment projects and social reforms;
 - creation of the methodology and legislative framework of evaluation of the investment projects (including the analysis of the benefits and costs)
- increase of the transparency of the public finances:

- definition of the standards of the monthly publication of the information on the status of the implementation of the budget and out of budget funds, including the Internet;
- Extension of the information submitted with the budget during its adoption and together with the annual performance report: contingent liabilities, Quasi-fiscal operations of the state financial assets and liabilities, non-financial assets;
- introduction of anti-corruption mechanisms².

Improvement of the management of the public finances

- introduction of the medium-term planning:
 - amendments to the Budget Code aiming at the legislative determination of the principles and methods of the medium-term planning;
 - adoption of the Draft Law of Ukraine "On State Forecasting and Strategic Planning In Ukraine;
- integrated use of the special-purpose program (PPB) of budgeting for all budget levels:
 - amending the Budget Code in order to clear legislative definition of PPB;
 - introduction of the monitoring system and evaluation of the effectiveness of the budget programs;
- bringing the internal audit in accordance with the EU standards;
- introduction of the integrated complex system of the management of the of the public finances, improvement of the information systems of their management;
- strengthening the role of the Ministry of Finance regarding the control over the authorities involved in income and expenditures;
- introduction of the effective monitoring of the financial and business activity of the enterprises of the state sector;
- inventorying of the objects of the state property.

Stabilization of the budget also includes the reforms in:

- infrastructure and basic sectors (including restructuring of the state monopolies and leveling to the economic grounded level the regulated tariffs, the attraction of out of budget funds for the development of the infrastructure);
- social sectors aiming to improve the efficiency of the efficiency of the expenditures (the transition to the targeted social assistance, taking steps to stabilize the pension system, change of the principles and mechanisms of financing of the sector of healthcare and education);
- tax system, in particular regarding the improvement of the administration of taxes and broadening the tax base.

²Developed by the National Anti-corruption Commission.

Stages of the Reform

Stage I (by the end of 2010):

- adoption of the Law On Public Procurement, which will determine the competitive procurement procedures of the public procurement and will make the corruption practice in this sphere impossible;
- amendments to the Budget Code, which will create the legislative foundation of the application of the software based method; the strengthening of the procedure of the evaluation of the projects as the necessary condition for including the projects to the budget; introduction of the restrictions on the direction of the costs of the above the plan income and income from the privatization;
- development and the adoption of the Law “On State Debt”; the Law On Basic Principles of the assignment of the investment subsidies;
- creation of the procedure, legislative principles of the evaluation of the investment projects (including the analysis of the benefits and costs);
- introduction of the State Register of the investment projects and their monitoring;
- optimization of the amount of the government targeted and budgetary programs;
- development and adoption of the Law On Fund for Future Generations;

Stage II (by the end of 2012):

- development and adoption of the Law On State Assistance to the Real Sector (2011);
- approval of the strategy of the management of the debt for the medium term perspective;
- improvement of the reporting, financial management and the management on the level of the state enterprises.

Stage III (by the end of 2014):

- application of the special-purpose program as well as the medium-term planning in the budget process;
- implementation of the comprehensive integrated system of the management of the state finances, which applies to the budgets of all the levels, out of budget funds, resources of the state-owned enterprises;
- Introduction of the internal audit in accordance with the EU standards.

Success Indicators:

- reducing the budget deficit government sector (excluding recapitalization) to the special-purpose 5.3% of the GDP in 2010, then annually for at least 1% of the GDP and bring it to the level of 2% of the GDP in 2013-2014;
- stabilization of the public debt as the share of the GDP at the level not higher than 45% by the end of 2013-2014
- increase of the share of the capital expenditures of the consolidated budget not less than 4% of the GDP in 2011 and not less than 5% of the GDP since 2012

TAX REFORM

Challenges

An immediate tax reform is needed to improve the business environment and stabilize the state finance. The complexity of the tax system noticeably aggravates the competitiveness of Ukrainian economy, which is proved by the position of Ukraine in the international Doing Business ranking (181st place out of 183 on tax payment in 2010).

The main problems of the tax system are:

- significant time and cost spent by businesses to keep tax accounting and pay taxes;
- inefficient and expensive (both for state and business) system of administering taxes and duties, that is incapable to provide full inflow of finance into the state budget and to decrease the share of shadow economy while keeping the balance of tax payers' and tax body's rights and obligations;
- instability and inconsistency of tax system, that leads to high tax risks for business and limits the ability to plan for middle- and long terms;
- high level of tax evasion and uneven tax burden on enterprises of different size and some sectors of economy;
- tax system doesn't fulfill the role of flattening the social inequality

The reasons for the abovementioned problems are:

- sufficient amount of ineffective taxes and duties and insufficient length of basic tax periods
- unstable legal basis of taxation and contradictions in some legal norms
- irrational system of tax benefits that provides possibilities to avoid taxes and doesn't stimulate innovations and energy efficiency
- sufficient difference between tax accounting and bookkeeping
- property tax absence

Aims and Objectives

The tax reform is realized to ensure a sustainable economic growth based on innovations and investment with simultaneous increase of aggregate tax payments to the budgets at all levels and the governmental special-purpose funds. The corresponding strategic aims of the tax reform include:

- improving the positions of the national businesses in the international competition by reducing the share of the taxes in business expenditures and reducing the time used by taxpayers to calculate and pay the taxes
- increasing the effectiveness of tax administering
- developing an integral and comprehensive legal framework in taxation harmonized with the tax legislation of the EU
- establishing tax fairness to restore equal competition conditions in Ukraine's economy
- reducing the depth of social inequality

Necessary Steps

To decrease the level of tax burden for business and decrease the time the taxpayers use to calculate and pay taxes it is necessary to:

- to reduce the income tax gradually after 2012
- to transfer the tax pressure from the mobile production factors - labor and capital - to consumption, resource and environmental payments through gradual increase of excise tax rates on alcoholic and tobacco products as well as introduce an environmental tax
- to cancel a number of insignificant taxes and duties that do not bring the sufficient inflow to the state budget
- to reform the system of tax payments to the funds of mandatory state social security:
 - implement the single social tax;
 - gradually increase the single social tax for employees and decrease it for employers
- to introduce the accrual basis and matching concept in taxation of the corporate profit
- to improve the fixed assets and intangible assets depreciation procedure to encourage upgrade of fixed assets, in particular to implement accelerated depreciation of production equipment
- to introduce tax holidays for small businesses
- to cancel the plans for mobilization of tax payments for tax administration.

To increase effectiveness of tax administration system including the elimination of tax fraud and delays in VAT refund, it is necessary:

- to improve the risk-oriented tax control system, where the regulatory authorities focus their attention on tax evaders, while the contact of bona fide payers with the regulatory authorities is minimal
- to develop the tax administration functions of evaluating the risk for different groups of tax payers
- to increase the level of information support and implementation and automated systems in the state tax bodies to decrease the cost of administering the tax system
- to improve the procedure of tax payers' registration
- to approve the closed list of rights and obligations of tax payers and controlling bodies to avoid broadening the rights of one side and limiting the rights of the other
- to implement the transparent system of responsibilities of tax administration employees

Necessary steps on the way of establishing an integral and comprehensive legal framework and harmonizing the Ukrainian legislation with that of the EU include:

- to consolidate the tax legislation in a unified Tax Code
- to harmonize tax, currency, custom, foreign economic and civil legislation
- to improve the legislation on transfer pricing using the methods of Organization for Economic Cooperation and Development
- to approximate the excise tax rate and charging mechanism to the EU requirements as well as extend the environmental component in the excise tax by applying the European polluter pays principle “who pollutes more that pays more”
- to adopt the indexation mechanism of tax and duty rates established in the fixed value, to compensate for the inflation impact on the tax size

- to ensure a transition to the system of payments for production of mineral resources with application of the rental income principle to establish a fair price for the use of natural resources
- to change the current agreements on avoiding the double taxation to minimize the practice of avoiding tax payments, as well as stimulate investments to the Ukrainian economy

To ensure the fair taxation the system of tax benefits must be optimized by:

- removing from the simplified taxation system by, e.g.
 - change the criteria for implementation of simplified taxation
 - removing from the simplified taxation those types of activity which deliver high profitability or whose revenues are mostly passive;
 - removing from the list of mandatory payments replaced with a single tax, the property taxes, resource fees and contributions to the State Pension Fund
- canceling the corporate tax benefits for the transactions in the financial services market and shifting to the general taxation system in the insurance business
- decreasing the list of benefits on VAT

The following steps are needed to improve the redistribution function of the tax system:

- to introduce an immovable property (real property) tax
- to apply indirect methods to identify the tax obligations of payers

Reform Stages

Stage I (by the end of 2010):

- development and adoption of the Tax Code of Ukraine
- Convergence of tax accounting and bookkeeping
- Reimbursement of VAT debts by state securities and securing the timely VAT reimbursement starting August 1, 2010

Stage II (by the end of 2012):

- Further reducing of the number of ineffective taxes and duties
- Decreasing the sphere of application of simplified taxation system for small businesses
- introducing the single social contribution
- introducing an immovable property (real property) tax
- reforming the system and improving the method of administration of taxes (value-added tax is a priority) and duties
- introducing the environmental taxation mechanism

Stage III (by the end of 2014):

- step-by-step decrease of income tax
- transition to the system of payments for production of mineral resources with application of the rental income principle

Success indicators:

- Tax Code adoption in 2010
- Increase the position of Ukraine in the international rating of doing business by “tax payment” indicator not less than by 30 points till the end of 2014
- Decrease the shadow economy share by 30% in 2014 compared to 2010

FINANCIAL SECTOR DEVELOPMENT**Challenges**

The financial sector of Ukraine today does not perform properly the function of providing funds for sustainable economic development. The main its features include:

- reduced scope of financial services, in particular business and consumer loans;
- lack of long-term financial resources;
- low level of development and poor transparency of the stock market.

Although the instability of the financial sector was directly triggered by the slump of the national currency rate during the crisis (down by 40%), while the share of foreign currency loans in the overall loan portfolio of banks was high and the inflation pressure was strong, the majority of problems lie within the sector:

- retaining the fixed exchange rate of Ukrainian hryvnia for a long time (until May 2008);
- imperfect system for protection and securing of creditors and investors rights as well as increasing of the credit risks;
- a low stability of the financial sector in crisis, caused by low capitalization and high fragmentariness of the sector;
- a big share of the distressed assets in the portfolios of financial institutions;
- the lack of a system to address the issue of troubled financial institutions and assess stability of the entire financial system;
- the absence of necessary regulatory, legal and institutional conditions for stock market and various financial instruments development;
- the lack of independence and poor transparency of financial market regulators;
- the absence of obligatory accumulation system of pension provision and underdevelopment of the life insurance system lead to the lack of long-term financial resources.

Aims and objectives

The financial sector reform is aimed to raise the capacity of insuring sustainable growth of Ukrainian economy. A number of concrete objectives must be met to achieve the above aim:

- to ensure low inflation as well as flexible exchange rate;
- to increase capitalization of financial system;
- to enhance the scope of financial services in a view of toughening of financial risks assessment;
- to reduce the share of the distressed assets in the portfolios of banks and other financial institutions;
- to ensure annual increase of capitalization and trading in the organized stock market.

Necessary steps

The following actions need to be taken to retain low inflation:

- to determine the low inflation and maintenance of the financial system stability as the primary goal of the NBU;
- to gradually increase the effectiveness of using interest rates as the main tool of monetary policy and flexibly manage the exchange rates of national currency;
- to increase collaboration between the NBU and Cabinet of the ministers of Ukraine in maintaining price stability;
- to improve political independence, accountability, transparency and corporate governance of the NBU.

The following actions need to be taken to improve stability and increase capitalization of the banking system:

- to complete the recapitalization by public funds, reorganization or abandonment of banks, that lost the solvency in crisis;
- to enhance the requirements to the minimum size of the authorized capital of financial institutions;
- to amend the legislation in order to simplify bank merger;
- to reveal insufficiently capitalized banks, according to diagnostic test of credit portfolio, conducted by the NBU, draw and submit to banks the appropriate plans of completing capitalization.

The following actions need to be taken to enhance the scope of financial services, restore regular economy crediting as well as reduce risks of financial system:

- to reform the bankruptcy procedure;
- to improve normative regulation regarding insuring debtors fulfillment of obligations under credit contacts in order to enhance the protection of bank creditor and investor rights;
- to ensure a proper functioning of the credit history agency;
- to create conditions for an objective credit and solvency analysis of borrowers and credit security including the provision of the opportunity to the financial and credit institutions to check reliability of the data in financial reports and documents submitted by potential borrowers;
- to create new instruments of exchange risk reduction with participation of the NBU;
- to toughen the requirements to information disclosure by financial market players including information about beneficial owners of financial institutions;
- to implement international financial reporting standards (IFRS) in all financial institutions;
- to improve guarantees of household deposits by:
 - authorizing Deposits Insurance Fund (DIF) to remove ailing banks from the market in order to guarantee timely payments to depositors of liquidated banks;
 - improving finance of DIF by receiving credits from the NBU and the Cabinet of Ministers of Ukraine in extreme cases.

The following actions need to be taken to reduce the share of distressed assets:

- to select and implement the model of distressed assets restructuring, e.g. create distressed assets bank with participation of government;
- to simplify the mechanism of sales, transferring and writing-off of distressed assets, including within a pre-trial procedures;
- to enhance the prudential supervision of the banks' operations and implement the system of prudential supervision of non-banking financial institutions.

An important step for banking sector stability is the development and implementation of a state strategy on state financial institutions and banks in which the state became the principal owner as a result of recapitalization.

The following steps need to be taken to ensure growth and development of the stock market and financial services sector:

- to improve collaboration of financial sector regulators for the purpose of creating common strategy of financial markets regulation and systematic risks monitoring;
- to improve the institutional capacity and operational independence of the regulators of non-banking financial services and stock market;
- to toughen the requirements to risk management, transparency and information disclosure by financial market players;
- to increase capitalization of insurance companies, introduce the principles of insurance supervision in accordance with the standards of International Association of Insurance Supervisions and create the system of guaranteeing insurance benefits under life insurance contracts;
- to approve the legal framework for introduction of new financial instruments and redistribution mechanisms for the funds and derivatives;
- to improve mortgage market regulation as well as settle the problem of mortgage instruments circulation in Ukrainian mortgage market;
- to create a common system of securities depository accounting;
- to introduce common rules for calculation of the securities exchange rate, to prevent manipulation of the pricing in the securities market and enhance responsibility for use of insider information at the legislative level;
- to encourage increase of transactions with financial instruments in the organized segments of the stock market through sales at the stock exchange of shareholdings of up to 25 per cent in the authorized capital of the privatization targets.

Reform Stages

Stage I (by the end of 2010):

- to improve the independence, accountability and transparency of the NBU, confirm the goals of the NBU;
- to complete banks capitalization by results of credit portfolio audit;
- to select and implement the model of distressed assets restructuring;
- to complete the recapitalization by public funds, reorganization or abandonment of banks, that lost the solvency in crisis;
- to amend the laws and judicial practice in terms of protection of the creditor rights and fulfillment of obligations by borrowers

- to improve guarantees of household deposits;
- to improve the indicators, which limit the risks of financial institutions;
- to toughen the requirements to bank risks management, transparency of activity and disclosure of information by the financial market players, including information about beneficial owners of financial institutions, to enhance responsibility for use of insider information;

Stage II (by the end of 2012):

- to increase capitalization of banks through consolidation of the industry;
- to improve the system of prudential supervision of the financial institutions, to implement system of prudential supervision in all financial institutions on consolidation basis;
- to implement international financial reporting standards (IFRS) in all financial institutions;
- to privatize the banks recapitalized with participation of the government;
- to regulate issue and circulation of derivative securities at the legislative and regulatory level;
- to introduce common rules for calculation of the securities exchange rate.

Stage III (by the end of 2014):

- to develop and introduce the market instruments for accumulation and redistribution of long-term financial resources including the same as a part of introduction of the obligatory accumulative pension insurance.

Success Indicators:

- achievement of 5-6 % inflation rate by 2014 p., the absence of currency sharp fluctuations in 2011-2014
- reduction in the share of distressed assets in the general assets portfolio of banks and other financial institutions to 7-8% by 2011 and to 5 % by 2014
- increasing the medium size of the equity of banks not less than twice by 2014

REFORM OF INTERGOVERNMENTAL FISCAL RELATIONS**Challenges**

The intergovernmental fiscal relations reform is driven by the need to meet the following challenges:

- poor quality services provided by local authorities. In most village and settlement budgets current expenditure takes over 90.0%
- worn-out infrastructure and low investment at the local level. Accounting for one forth of the national fixed assets, the public utility infrastructure is over 60% worn out. Over the last decade a number of accidents went up 5 times. Potable water transportation losses make 30%. Around 90% of all public roads are local roads. At the same time, about 70% of motor roads need capital repair. According to the World Bank's projections, a need for investment at the local level during next 10 years will make USD 29 billion.

The **challenges** mentioned above are caused by:

- Poor financial independence. According to calculations of the Association of Cities, in 2009 the local expenditure was under-financed to the tune of UAH 12.1 billion. In 2006-2009, own budget revenue accounted for between 10.0 and 13.2% of total local revenues and tend to decrease. According to projections of local finance authorities for 2010 this figure will make UAH 16.7 billion. This lack of resources reduces the delegated powers of local authorities responsible for the quality of services provided;
- Flaws in allocation of investment subventions. Contrary to article 105 of the budget Code, there is no law that would fix investment subvention allocation principles and criteria. Subsidy alignment formula is complicated with set of factors reducing the predictability and stability of incomes of local budgets;
- Limited access to borrowings. Local budgets have a number of legislative restrictions that, in fact, make it impossible to use this source for investment.
- Unclear distribution and lack of authority. In the Budget Code Consumption powers are divided as responsibility for financing the budget institutions by types (schools, hospitals), not by social functions (education, medical care). Budgeting at the institution level is based on the sectoral regulations. Thus, local governments have limited opportunities to optimize resources;
- Lack of monitoring of the use of resources at the local level. De facto there is no external audit at the local level, while internal one is conducted with insufficient complexity and systematic.

Aims and Objectives

The reform is aimed at:

- Improving the quality of services provided by local budgets;
- Increasing the share of investment expenditures in the field.

To achieve the aims, the following objectives have been set for the reform period:

- to increase financial independence of the local budgets and the level of financial provision of delegated authority;

- to increase the autonomy of the local budgets expenditures and efficiency of budget funds spending
- to streamline relations between local and central budgets (optimizing the distribution of spending authority, improve the allocation of transfers);
- to increase investment resources of local budgets.

Necessary Steps

Increase of the local budgets revenues

- To reallocate revenues between the State Budget and local budgets, namely, to transfer to local budgets the following additional revenues:
 - fees for license, certificates and state registration
 - duty for special use of the natural resources
 - fees for leasing the ponds located in the basins of national rivers
- Increase of revenues that are not taken into account in determining the sizes of budgetary transfers by including them onto the list:
 - land fees in full
 - administrative fines and penalties
 - fees for the trade patent to conduct certain entrepreneurial activities

To review the list of local expenditures that are taken or not taken into account in determining the sizes of budgetary transfers (improving calculation methods of expenditures on delegated authority, organization of data collection on costs of services in the regions).

Improving effectiveness of the local money spend

- transfer expenditure powers to the local level, namely:
 - abolition of sectoral regulations governing the expenditure of local funds and of related reforms, including amendments of principles of financing education, health, as well as local authorities permit to optimize network of budgetary institutions and their staff;
- legislation changes aimed at creating mechanisms for pooling of local budgets resources within the financial and institutional cooperation at local level; optimization of division of powers between different levels of authorities;
- to ensure a stage-by-stage introduction of the program-based budgeting for local budgets
 - approval of documents that regulate introduction and application of the program-based budgeting method by local budgets, develop and introduce a program classification at the local level
 - inventory of state target programs executed by local budgets and adjustment with available resources
- improvement of monitoring and evaluation systems of budget means allocation, providing external audit of the local finances and adjustment of the related reforms on implementing internal audit due to international standards (INTOSAI)

To review the list of local expenditures that are taken or not taken into account in determining the sizes of budgetary transfers, namely, to move the following issues to the expenditures taken into account in determining the sizes of budgetary transfers:

- out-of-school education costs
- funding of social rehabilitation centers for children with disabilities and vocational rehabilitation for people with disabilities
- funding of centers of social-psychological rehabilitation of children, social hostels
- money compensation to people providing social services
- support to zoos
- to ensure transparency of development and execution of local budgets by amending frequency and completeness of publication of the information on local budget implementation;
- to ensure introduction of the medium-term planning at the local level which foresees:
 - to enact into law the regulations that would determine the medium-term planning procedure
 - to develop a methodical and instructional documents for the medium-term budgeting planning
 - to develop a medium-term regional development program

Increase of investments and renew of infrastructure of local budgets

- to create basic legislative principles of granting investment;
- to implement standard procedures for competitive selection of the budget-funded projects
- to facilitate access of local budgets to credit resources (improvement of the legislative basis regulating local budget allocation and straightening the creditors rights of timely local debt servicing)
- to expand sources of the development budget, including a portion of corporate tax (except for publicly owned and municipal undertakings) and single tax for small enterprises (to local ~~selfgovernment~~self-government budgets);
- to expand the base of revenues by way of reforming local taxes and duties (cancel of low potential taxes, change of administrative rules) including introduction of a real property tax
- reforming housing and public utilities sector (systematic increase of tariffs to economically grounded level).

The subsequent reforms of local budgets should be closely related to reforms of local self-governance and administrative territorial system, which will ensure establishment of a clear system of administrative units able to exercise in full their powers and perform duties

Reform Stages

Stage I (by the end of 2010):

- adoption of a range of amendments to the Budget Code, the Law of Ukraine “On Taxation System” to increase of financial resources of the local budgets
- adoption of amendments to the Budget Code to define principles of investment subvention allocation

- adoption of a legal framework, as well as procedures of estimation and selection of investment projects based on benefits and expenditures analysis
- inventory of the national special-purpose programs funded by local budgets
- introduction of legislative amendments to the Budget Code and drafting regulations on financial pooling for medical institutions and transition from budget financing to the funding based on state demand.

Stage II (by the end of 2012):

- introduction of medium-term regional development programs;
- adoption of regulatory and methodological framework for the program-based budgeting and medium-term planning at the local level;
- amendments to the laws to ensure financial and organizational cooperation at local level;
- legislative changes to introduce the external audit of local budgets .

Stage III (by the end of 2014):

- introduction of the medium-term planning in local budgets

Indicators of Success:

- Lack of non-resourced authority at the local level;
- Increase of share of the general fund of local budgets in the consolidated general state budget fund to 50% by the end of 2014;
- Increase of share of own revenues in general fund of local budgets by 10% by the end of 2014.

Improvement of Life Standards and Social Services

REFORM OF THE MEDICAL CARE SYSTEM

Challenges

Despite the principles, announced by Constitution of Ukraine, health care system does not provide equal free-of-charge access of the population to good medical services. It is evident in the following:

- medical services are of low quality. The expected life span of the Ukrainian population is 68.2 years which on average is 10 years less than in the EU countries. The coefficient of infant mortality is 2.5 times higher than in the “old” EU countries. The level of untimely death is three times higher than that in the EU countries, the level of tuberculosis mortality is 20 times higher;
- unequal access to medical care services. Poor layers of the population suffer from the lack of possibility to have proper medical aid. Departmental medical care makes it difficult to achieve the goal of equal access. There is a disproportion in the access to medical services between urban and rural territories. The burden of the population’s personal expenditures for medical care services is high. According to the official statistics expenditures of the population exceed one third of the total funding of the medical sector (40% in 2008), and such expenditures are undertaken right at the moment when the medical service are provided.

The above-mentioned problems are **caused** by the following:

- lack of connection between quality of medical services provided and expenses for their funding, as well as lack of motivation of medical workers for due labour;
- low level of preventive measures and the share of primary health care in the medical care structure;
- inefficient management of the budget financing of the health care sector. Per 100 thousand of population the number of hospitals in Ukraine is 5.6, whereas in the EU-10 it is 2.6; the patient capacity in Ukraine comprises 868 per 100 thousand of population, in the EU-10 – 644; the number of doctors per 100 thousand of people is 302, in the EU-10 – 261. 86% of budget funds assigned for medical care goes for medical institution maintenance and remuneration of medical staff;
- duplication of medical services at different levels of medical treatment, there is a lack of mechanisms of patient management at different levels of medical treatment;
- low autonomy of medical facilities in terms of financial resources management.

Aims and objectives

The key aim of the medical sector reform is to improve the health of the population, to ensure equal and fair access of all members of the society to medical services of proper quality.

In order to achieve the aim the following objectives are set:

- raise quality of medical services;

- increase access to medical services;
- improve state funding efficiency;
- create stimuli for a healthy lifestyle among population and healthy working conditions.

Implementation of reforms in the budget model of Ukrainian health care system financing will allow to prepare conditions for shift to the insurance model (social medical insurance).

Necessary steps

In order to raise quality of medical services it is necessary to:

- shift to contract basis of the state's purchasing of services from medical institutions³;
- improvement of material and technical equipment of medical institutions: make an inventory and development of the tables exemplary of medical institutions equipment;
- introduction of medical standards (uniform clinical protocols) to provide medical care based on evidence-based medicine;
- develop medical institution quality indicator system, create independent centers for estimation of medical service quality;
- creating economic motivation to improve the quality of health services, in particular by modifying payment of health care workers' by identification of two constituents: permanent one (based on the unified wage rate scale) and variable one – depending on the volume and quality of the medical aid provided;

In order to increase access to medical services it is necessary to:

- clearly differentiate the primary, secondary and tertiary levels of the medical aid, in particular through the creation of primary health care, hospital districts, highly specialized centers, university clinics and their resource support;;
- develop family doctor institute based upon strengthening of primary health care role;
- support private medical care sector development, ensure access to state financing at contest basis.

In order to improve funding efficiency it is necessary to:

- decrease the 4-level financing system to 2, 3-level through accumulation of financial resources: for primary medical and sanitary aid – on the district and town levels, for secondary and tertiary – on the oblast level (for state specialized centers and clinics of research institutes – on the state level);
- create the system of unified national economically based tariff for medical services, based on it medical institutions will be financed, shift from trial (estimate) budgeting to independent redistribution of funds;
- raise the share of primary medical aid in the total volume of medical service financing, stimulate carrying out preventive measures.

In order to create stimuli for healthy lifestyle among population its is necessary to:

³On primary level – payment for the number of population within the bounds of a particular territory; on secondary and tertiary level – depending on the volume, structure and quality of medical aid provided.

- shift to interdepartmental and intersectoral programmes for forming the healthy lifestyle and healthy working conditions;
- create healthy lifestyle conditions for the population by development the mass sports and active rest infrastructure;
- increase alcohol and tobacco excise-duties with their direction to a special state budget fund and their further use in financing health care measures.

Development of conditions for the shift to insurance health care model (system of social medical insurance) will be provided through achievement the financial stability of medical facilities, as well as optimization of their network, raising the autonomy of heads of medical facilities in managing their finance, and increase of competition in the medical care system.

Reform stages

Stage I (by the end of 2010):

- make legal changes to the Law of Ukraine "On Basic Legislation on Health Protection" and approve the Law of Ukraine "On Medical and Preventive Facilities and Medical Care for the Population" on this basis make amendments to the Budget Code of Ukraine, which provide:
 - consolidation of funds for provision of primary medical and sanitary aid on the district/town levels, secondary medical aid (specialized) and medical care on the oblast level, tertiary (high-specialized and high-technology) – on oblast and state level;
 - redistribution of financing for benefit of primary medical aid and preventive medical care;
 - transition from budget financing for public and state medical and preventive facilities on trial budget basis to contract basis;
- revise conditions of medical practice licensing, accreditation of medical facilities and medical staff attestation. Create independent centers (agencies) which will asses compliance of medical facilities with the license and accreditation requirements.

Stage II (by the end of 2012):

- starting from 2011 begin approbation of the changes proposed in 2 pilot regions;
- develop a complex of legislative and standard provisions on territorial differentiation of medical facilities, create hospital regions, provide medical staff remuneration depending on the volume and quality of service provided;
- develop and approve the complex programme "Healthy nation".

Stage III (by the end of 2014):

- shift all medical facilities to a system of contract relations between the customer and supplier of medical services;
- introduce a unified methodology of estimation of medical services costs to be covered by the state;
- introduce the system of monitoring, appraisal and social audit of social support programmes;
- prepare for introduction of compulsory social medical insurance.

Success indicators:

- reduction of the infant mortality general coefficient to 6.5%;
- reduction of maternity death to 13%;
- reduction of untimely death by 25%;
- reduction of deaths caused by tuberculosis by 30%;
- increase in the share of general practitioners in the total number of doctors from 4% to 8-10%;
- decrease in the share of households where any family member failed to receive medical aid, buy medicine and medical equipment during the year (from 20% in 2009 to 3%);
- decrease in the share of “shadow” payments in the system of medical care from 10-15 % to 5-7 %.

REFORM OF THE PENSION SYSTEM

Challenges

Ukraine is perhaps the last post-Soviet Union country to introduce the pension system reforms and create market oriented social security system for disabled people. Since 2004 – the year when the national pension reform was officially launched - a considerable number of problems has remained unsolved:

- pension payments for most pensioners are low, conditions of pensioning are unequal. 55% of the pensioners are paid not more than UAH 800, and their share of the total pension payments is as low as 38%. At the same time 12% of pensioners with comparatively high pensions (above UAH 1500) receive 28% of the total monthly pension payments. Only 3.2 thousand people receive really high pensions (above UAH 10 000), with one third of them being distinguished for prominent services to the country (Heroes of Ukraine);
- pension expenditures are increasing by priority rates compared to economic capacity: the specific weight of pension expenditures in Ukrainian GDP is one of the highest in the world and has a tendency to increase (in 2004-2007 – 12-14%, in 2008 – 15.8% of GDP). In 2009 – the year of crises – this index reached 18.0% of GDP, while the state budget provisions formed almost 40% of the Pension Fund income. High pension liabilities deflect economic resources from the development aims and put at threat the performance of the state's functions.

The challenges mentioned above are **caused by**:

- a large number of pension benefits on the basis of professions and work categories casts prejudice to pension system equality and decreases stimuli in its participation;
- insufficient engagement of the population in the retirement insurance – only $\frac{3}{4}$ of the employed people, or slightly more than half of working age population, make the payments. There are 9 pensioners for 10 people making the payments. Due to a high level of under-the-table payment of salaries and artificial underreporting of wages and salaries almost a third of the insured people make the payments out of wages which are less than minimum;
- insufficient diversification of mechanisms of pension provision. In Ukraine only joint level of pensioning functions in full, whereas the launch of II level (compulsory contribution system) is constantly postponed, voluntary pensioning development is limited by undeveloped stock market, low income level and people's mistrust for financial institutions;
- retirement age of women is 5 years lower than that of men, which is one of the reasons of their smaller pensions and is in conflict with the concept of gender equality in labor and social rights.

Aims and objectives of the reforms

The aim of the pension system reform is to improve the social security of the people who lost their earning capacity and guarantee well-deserved standards of living through sustainable development of the pension system, based on balancing the interests of pensioners and working people.

To achieve this aim the following objectives are set:

- to stabilize the joint (pay-as-you-go) pension system;
- introduce the compulsory contribution and develop voluntary contribution pension insurance;
- improve administration of the pension system.

Necessary steps

In order to stabilize of the joint (pay-as-you-go) pension system it is necessary to:

- increase the minimum period of pensionable service for retirement pension from the currently applied 5 years to 15 years;
- motivate to postpone retirement through introduction of a longer standard length of service from 20/25 to 30/35 years with simultaneous raise of the coefficient of each excess year of service register or each year of retirement postponement;
- release the joint (solidary) system from any extrinsic payments (particularly the financing of early and privileged pensions);
- limit the maximum rate of pension paid from the joint (solidary) system and/or from the state budget;
- ensure pension provision to all working pensioners by their age, in amounts set by the Law of compulsory pension insurance;
- redistribute (step-by-step) the rates of contribution for pension insurance from the employer to the employee;
- define conditions of participation of self-employed people in pension insurance; separate the social insurance contribution from the single tax;
- set equal conditions of pension indexation regardless of what law they are based on;
- decrease benefits with regard to premature retirement and contribution payment;
- leveling of retirement age for men and women (gradually, with annual increment 0.5 year within 10 year period).

In order to introduce and develop contribution components of the pension system it is necessary to:

- specify conditions for introduction of the II level of the pension system (including the amount of contribution, estimation of one year of pensionable service in the joint system for participants of two-level system, etc.);
- align retirement age for II level participants of the pension system⁴ with European standards (65 years);
- move to the Pension Fund of Ukraine the function of collection and administration of II level funds, conducting the system of unified pensions accounts;
- provide the opportunity to engage private companies for asset management and channel in-payments of the II level to non-state pension funds at the discretion and choice of the insured parties;

⁴Individuals which won't be older than 35 by 2012.

- provide premature or increased pensions for special categories of professions connected with hazardous or specific conditions of work, at the expense of corporate (professional) pension schemes;
- diversify the schemes of private non-state pension insurance.

In order to improve administration of pension system it is necessary to:

- introduce of unified social contribution;
- improve management of endowment pension funds, including transfer to prudent control based on estimation and analysis of risks degree;
- ensure regular reporting of compulsory social insurance funds; regularly inform citizens about their rights regarding payments from insurance funds.

Reform stages

Stage I (by the end of 2010):

- set a fixed rate of pension contribution for business entities that pay taxes according to a simplified system;
- introduce fixed amount of pension contribution for commercial entities working on simplified tax system;
- develop the system of informing people on the pensionable service period and the coefficient of the wages/salaries;
- limit maximum pensions;
- specify conditions for introduction of the II level of the pension system, fulfill organization and preparation work.

Stage II (by the end of 2012):

- create stimuli for postponement of retirement and increase of minimum pensionable service period to receive pension by age;
- improve the procedure of pension assignment and indexation;
- cancel unjustified benefits on premature retirement and on contribution payments;
- start gradual equalization of women's and men's retirement age;
- introduce unified social contribution;
- start step-by-step redistribution of the pension insurance contribution payments from the employer to the employee;
- improve the effectiveness of control over endowment pension fund;
- introduce accumulative system of the compulsory state pension insurance;
- introduce compulsory corporate pension schemes for financing premature and special pensions for special categories of professions connected with hazard to life.

Stage III (by the end of 2014):

- complete the transition to payment of full amount contributions to pension security by all categories of payers;
- set up mechanisms of development of the non-government pension security ;
- develop tools of prudential supervision over operations of the Pension Savings Fund;
- diversify the schemes of private pension insurance, its economic stimulation, introduce programmes of joint investment, etc.

Success indicators:

- replacement rate (the ratio between average pensions and salaries/wages) is not less than 45%, including from joined (solidary) system – 40%;
- the ratio between average women's and men's pensions is not less than 75%;
- pension insurance contribution rate is not more than 35%;
- the ratio between pension expenditures and GDP is not more than 12 % by 2014.

EDUCATION SYSTEM REFORM

Challenges

The situation in the sector of education is characterized by the following problems:

- quality of the education does not meet the contemporary standards. Ukraine is not present in any international best university ratings. About 20% of employers indicate that proficiency of the employees does not meet their position requirements. Ukraine takes about 100th position in the world rating by application of information and communication technologies in the educational process;
- insufficient accessibility of education. In 2009 only 57% of children attended preschool educational facilities. Almost 50% of kindergartens have the number of children exceeding their capacity. 15.5% of pupils in the rural area live at the distance of over 3 kilometers away from school. Only 91.5% of them are provided with transportation (including 67.4% - according to the state programme “School bus”). Availability of quality education remains limited for children with special needs. Abundance of preferential categories results in limited access to higher education for the university entrants with high level of education;
- improper mechanism of state funding of education system. In spite of increase in budget expenditures for education (from 4.2% of the GDP in 2000 to 7% of the GDP in 2009, whereas in developed countries this figure comprises 5% of GDP at the average), the efficiency of these funds utilization remains extremely low. The level of provision of non-vocational schools with modern means of education (biology, physics, chemistry class-rooms) comprises 29.3% of the required level. The situation in vocational technical schools and higher educational facilities is similar. The main budget expense items are still associated not with improvement of the quality of education but with salary and public utilities costs (more than 70% of the total funding);
- aggravation of structural disproportion in training of specialists and demand for them on the labour market. Higher educational facilities plan the students intake based on maintaining the number of students and instructors. In 2009 46 thousand of University graduates and 27 000 of vocational technical school leavers were registered in the employment centers;
- lack of unified educational area. Nowadays higher educational establishments are subordinate to 27 central executive power bodies, which contradicts the world practice.

The abovementioned problems are **caused** by:

- lack of unified system of the education quality management and its monitoring;
- lack of proper state norms for estimation of cost of educational services at Universities and non-vocational educational facilities; ineffective standards of budget financing of pre-school, non-vocational and out-of-school educational facilities;
- limited autonomy and lack of real incentives for more efficient use of budget and attracted funds by the educational facilities (in particular when the number of pupils decreases);
- great number of rural schools with incomplete number of pupils due to adverse demographic situation;

- inefficient monitoring of the labour market needs, fail of vocational and higher education system to consider today's needs of employers; lack of coordination between state agents when planning the requirement in specialists.

Aims and objectives

The aim of education system reform is to improve competitiveness of the Ukrainian education, integrate the Ukrainian education system in the Common European educational area.

To achieve this aim the following objectives are set for the reform period:

- create common educational area, improve education management system;
- improve quality of education;
- ensure accessibility to quality education, coordination of different levels of education (pre-school, primary, secondary, out-of-school, vocational, higher, postgraduate, life-time education);
- improve efficiency of education funding.

Necessary Steps

In order to improve educational system management it is necessary to:

- development of comprehensive education policy, provide succession between levels of education;
- increase autonomy of educational facilities in management financial resources;
- optimize the network of educational facilities with consideration of demographic and economic conditions and necessity to improve quality of education (create educational regions, optimize schools chain; reform the system of boarding schools; transfer the function of vocational schools management to the local level; create consolidated (enlarged) regional universities);
- revise out-of-date typical staff standards.

In order to improve quality and competitiveness of education it is necessary to:

- create new State standards of primary, base and complete secondary education; introduce standards based on competences in vocational education;
- develop a national system of estimation of the education quality, create independent qualification centers, in particular in order to confirm qualifications in European standard system; stimulate creation of independent national ratings of schools, vocational technical schools, universities;
- introduce obligatory pre-school education for children of pre-school age;
- create conditions for early identification of creative inclination of a child, and make sure that environment in child care/education facilities' contributes to preservation of health; conduct full medical examination of students in secondary educational establishments;
- arrange broad implementation of the information and communication technologies in educational facilities;
- coordinate qualification characteristics, standards and educational programmes with educational and qualification requirements of jobs;

- motivate employers to participate in development of educational programmes, coordination of educational and professional standards, reorientation of educational plans towards increase of the importance of practical components; implement probation training programmes at work on the large-scale basis;
- distribute academic and practical profile programmes in Universities, develop vocational higher education.

In order to provide accessibility of education it is necessary to:

- increase state support of pre-school and out-of-school educational facilities development;
- develop and introduce new approaches to and solutions of the problem of mentally and physically disadvantaged children social integration;
- implement professional grouping in non-vocational schools;
- introduce the National qualification framework;
- stimulate life-time education system development.

In order to improve education funding efficiency it is necessary to:

- develop and shift to unified standard of one pupil/student training cost;
- shift the funding mechanism from maintenance of educational institutions to forming their budgets on the basis of number of students/pupils enrolled and the standard of one pupil/student training cost;
- diversify sources of funding educational facilities by legalization the institute of “endowment” – charitable target non-commercial funds; provide grant support for research projects and education innovations; extend the range of paid services rendered by educational institutions;
- increase the level of autonomy of schools, vocational education facilities in utilizing material, financial and staff resources;
- change the approach for formation of a public order for training specialists in conformity with the economy needs (those of a region).

Reform stages

Stage I (by the end of 2010):

- make legal changes to the Budget code aimed at increase of educational facilities financial autonomy;
- optimize the number of budget financed programmes in the sector of education;
- approve the provision on the educational region;
- work out recommendations for local councils as to optimization of non-vocational education facilities.

Stage II (by the end of 2012):

- improve legislative basis for diversification of education funding sources, increase universities autonomy in educational, scientific, financial and economic activities, introduction of the national “endowment” mechanism;
- take part (for Ukraine) in international estimations (TIMSS 2011 and others);
- improve legislative support for education (the Programme of development of pre-school education in 2011-2017, the Programme of natural science and mathematical education quality, the programme “One Hundred Percent” - large-scale introduction of information and communication technologies, new typical staff standards for all levels of education);
- approve the National qualification framework;
- create methods of standards development based on competences in vocational education, where the mechanism of employers participation is clearly defined;
- finalize transfer of functions of administration of vocational schools to the local level where the state ownership will be preserved;
- develop a methodology to forecast demand for skillful employees in the labor market, adopt a procedure of formation and placement of government order for training of experts and workers with due regard to the labor market demand, and overseeing proper execution of the government order.

Stage III (by the end of 2014):

- implement the National qualification framework;
- create new State standards of primary, base and complete secondary education; introduce standards based on competences in vocational education.

Successful reform implementation indicators:

- achievement of coverage of 75% of under-school age by the pre-school education (currently – 57%);
- achievement of coverage of 100% of pre-school age by the pre-school education (currently – 93.5%);
- provision of transportation services to 100% of rural area pupils who live at the distance of over 3 kilometers away from school, within the framework of the “School bus” state programme (currently – 67,4 %);
- increase in the number of day-time students per one instructor to 18 people (currently – about 13);
- development of professional standards and modular educational programmes aimed at formation of competences, for not less than 150 professions (currently – 5 under experiment);
- equipment of 100% of non-vocational educational facilities with modern computer complexes (currently – 95% by out-of-date equipment), their connection to the Internet, overcoming “digital inequality” of children, teenagers, instructors regardless of their place of living;
- inclusion of Ukrainian universities in major international best university ratings.

REFORM OF THE SOCIAL SUPPORT SYSTEM

Challenges

Social support of the population manifested in three main forms (social incentives, social care and subsidies) is quite ramified and holistic. The existing problems of social support system are:

- insufficient coverage of the poor population with social support. Only 56,8% of the poor (according to the subsistence minimum criteria) receive some type of social support;
- low targeting while providing social support. Unfair state social transfer distribution: less than 23% of the total amount is received by the poor, other (almost 17 billion a year, i.e. nearly 6% of the budget income) is given to not poor;
- mechanism of allocation of housing allowances and benefits for housing and communal services built on overstated consumption rates does not prompt households to use public utilities thriftily, which leads to ineffective use of budget funds.

The above-mentioned problems are **caused** by the following:

- most types of social support are given without taking into account the income level of social support recipients and property at their disposition. Distorted philosophy of social security: social support is focused on maximum coverage of the population;
- lack of adequate information for recording and monitoring of actually consumed social support and appraisal of incomes of candidates for its reception;
- lack of stimuli for effective use of funds allocated for social support system, overstated rates of public utilities consumption for the population. Thus, exceeded, in particular 32% of housing allowances recipients exceed the rates of electric power consumption. Thus, in Ukraine annual water consumption rate is 108 cubic meters per one person, while in European countries it comprises 73 cubic meters.

Aims and objectives

The aim of reform is to expand the social support coverage of the needy tiers of the population with efficient spending of budget costs.

To achieve this aim the following objectives are set for the reform period:

- Increase targeting of social support delivery;
- Improve efficiency of administrative decisions in the social support system;
- Introduce incentives to enhance economically responsible behavior in recipients of welfare payments .

Necessary steps

In order to improve targeting of all types of social support the following steps are necessary:

- analyze and assess efficiency of all types of welfare payments;

- unify (on principles of targeting and considering income level of citizens) approaches to entitlement to all types of welfare payments (except for birth or adoption grants, persons disabled since childhood and disabled children) while giving due regard to income levels of welfare payment recipients;
- upgrade the housing subsidies program by improving award mechanisms and adherence to social norms for utilities consumption;
- introduce indirect income appraisal methods for those citizens who claim for social support reception;
- consider the income level while providing all types of benefits (with the exception of benefits for the people having exceptional merits to the Motherland).

In order to improve efficiency of social support system administration the following steps are necessary:

- create a unified database of recipients of all types of social support, create unified information environment for the bodies of Labour and Social Security, Pension Fund, State Taxation Administration, Ministry of internal Affairs, Civil registration bodies;
- create State Agency of Social Inspection within the Ministry of Labor and Social Policy to check legitimacy of assigning of welfare benefits and, together with other social services, support socially vulnerable families (from employment support to social support at home);
- introduce the system of monitoring and appraisal of social support programmes on regular basis.

In order to develop economically responsible behavior of social support recipients the following steps should be taken:

- develop and introduce a system of economically and socially grounded rates for consumption of housing and public utilities, transportation and other services with their further application to determine size of the social support;
- install technological metering devices to monitor actual consumption of services (including transportation services);
- systematically bring regulated tariffs for the population to the economically grounded level and determine the scope of welfare aid based on economically justifiable rates.

Reform stages

Stage I (by the end of 2010):

- make changes to legislation as to standardization on social support service consumption;
- create methodology of social monitoring and audit of social support programs, appraisal of income of candidates for social support with the use of direct and indirect methods of their income determination, as well as taking into account the property at their disposition;
- create a matrix of social support types and arrange audit of aid and benefits types.

Stage II era (by the end of 2012):

- transfer to targeting principle for all types of social support, with the exception of child birth or child adoption support, support for disabled from childhood and disabled children, as well as people having exceptional merits to the Motherland;
- provide complete registration in the system of providing and consumption of thermal energy, cold and hot water for participants of housing subsidies programmes, installation of technological equipment required for registration of transportation service consumption;
- integrate housing benefits in the system of housing subsidies;
- create a unified social agency (on the basis of Ministry of Labour and Social policy bodies) on complex service for people who need social support.

Stage III (by the end of 2014):

- set up the State Agency of Social Inspection within the Ministry of Labor and Social policy.
- introduce monitoring of social programs and audit of the public welfare programs;
- ensure full accounting in the system of heat and hot and cold water transportation and consumption for recipients of housing subsidies; installation of necessary devices to keep track of consumption of public transportation services;
- introduce social support cards.

Success indicators:

- increase in specific weight of social support funds to be received by poor population to 50%;
- decrease in specific weight of not poor population among social support recipients by 1/3;
- decrease in natural gas rates consumption of social support recipients by 15 % by 2014;
- decrease in other resources consumption rates minimum by 3% per annum by 2014.

Improving the Business Climate and Raising Investments

DEREGULATION AND DEVELOPMENT OF ENTREPRENEURSHIP

Challenges

The entrepreneurship potential cannot be fully realized in Ukraine due to an unfriendly business climate.

This is demonstrated by results of two highly authoritative international surveys, the World Bank's Doing Business 2010 report and the World Economic Forum's Global Competitiveness Report. Ukraine ranks 142nd on the ease of doing business out of 183 countries. In particular, the country ranked 181st or at the very end of the list in terms of efficiency of its taxation system.

The unfavourable business climate is the main factor that hampers investments. In addition, the crisis has significantly limited internal sources of investments, and international financial resources have become practically inaccessible. Many foreign investors have to assess the country risks more carefully. The low investment image of Ukraine makes it less attractive for foreign capital in the post-crisis period.

The reasons for the abovementioned problems are:

- macroeconomic instability, inefficient regulatory and taxation systems, a high level of corruption⁵;
- non-developed public-private partnership (PPP) mechanisms;
- lack of efficient tools for attraction of investments and protection of investor rights.

Aims and objectives

The reform is aimed at improving business climate and creating a favourable environment for investments and accelerated economic development.

Necessary steps

1. Permit system

The key objectives of the permit system should be as follows:

- significant reduction in the types of activities and works requiring permits;
- simplification of the permit issuance procedures;
- reduction of the time and cost associated with the issuance of permits;
- expansion of the list of works (services) which can be carried out on the basis of a declaration.

This requires:

⁵ Systemic problems covered in other reform areas

- approving an exhaustive list of permit documents in the legislation and reducing it to the minimum in the future;
- switching from a permit-based to a declaration-based approach to start-ups with the exception of activities having direct effect on national security, health, safety and the environment.
- streamlining the process of obtaining permit documents by means of:
 - reduction of the list of documents which must be submitted to obtain permits (only the documents that confirm the ability of a business entity to carry out the corresponding activity must be submitted);
 - removal of multiple duplications in the process of submission and review (approval) of the documents at each stage of the permit procedure;
 - maximum delegation of the powers to issue permit documents from the central and oblast(regional) levels to the local level;
- increasing the responsibility of officials of the permit bodies for violation of the legislation regulating the issuance of permit documents;
- simplifying the permit system in the construction sector:
 - codification of the construction legislation in the Urban Planning Code
 - reduction of the number and the issuance time of permit documents required to perform construction and assembly works;
 - simplification of the procedure of allocation of land plots for construction purposes.

3. Licensing

The key changes in the area of licensing shall include:

- reduction of the time necessary for obtaining licenses;
- reduction of the number of types of economic activities subject to licensing (by 30% by the end of 2010 with further gradual reduction), by their direct cancelling, by using other forms of state control, and through a wider use of self-regulation;

Necessary steps:

- unification of principles and procedures for obtaining licenses;
- legislative recognition of the criteria used as a basis for the decision to introduce licensing of specific activities;
- review of the types of economic activity subject to licensing based on the above criteria and abolition of licensing of activities which do not pose a threat to national security or human life or the environment;
- linking the license fees to the actual license issuance costs.

3. Administrative services

The activity of public authorities associated with the provision of administrative services borders on a commercial activity. In addition, public authorities delegate to economic entities the functions, for which public funds are allocated. In order to create order in the sphere of public services provided by public authorities, the following tasks must be fulfilled:

- adoption of the Law of Ukraine on administrative services which must, in particular, define the principles for the delegation of public powers, paid or free administrative services, the procedure for the determination of tariffs for paid administrative services;
- reviewing the paid public services approved by the government with their further division into administrative (public) and commercial;
- creating a unified electronic database for administrative (public) services provided by executive authorities and local self-government bodies.

4. Starting and winding up businesses

The key objectives in the area of starting and winding up businesses (establishment and termination of business entities) must be:

- simplification of the business start up and winding up procedures;
- resolution of the issue of accreditation of representative offices and branch offices of international companies on the basis of the declarative principle.

Necessary steps:

- introduction of state electronic registration of corporate business entities and individual entrepreneurs and exchange of information between all participants of the state registration process;
- simplification of the procedure of voluntary winding up of corporate business entities and individual entrepreneurs;
- reduction of the time of bankruptcy procedures; ensuring equal protection of interest of debtors and creditors, establishment of an efficient mechanism for restoring debtors' solvency and prevention of manipulations with property.

5. State supervision and control

The key objectives in the area of state supervision and control must be:

- completing the development and introducing the criteria which will be used to assess the level of risk from business entities' economic activity and the frequency of scheduled activities organized by state supervision and control authorities;
- changing the state supervision approaches from direct control to prevention of violations of the legislation;
- abolishing duplicated control functions with further abolishment of the controlling authorities that are no longer needed.

Necessary steps:

- reduction of the number of the state control functions based on their audit and analysis;
- identifying a list of issues for carrying out scheduled supervision (control) activities depending on the risk level;
- establishing the liability of the state supervision (control) authorities for damages incurred by economic entities as a result of their unlawful actions/violation of the state supervision (control) procedure.

6. Food safety (sanitary and phytosanitary norms)

The key objectives of the reform:

- introducing integrated control over safety of food products based on the principle “from farm to table”;
- simplifying the food product marketing;
- reducing the administrative burden on food producers;
- ensuring wider access of Ukrainian products to external markets, in particular in the EU;
- improving the protection of customer rights.

Necessary steps:

- bringing the system of sanitary and phytosanitary standards in compliance with the EU law;
- cancellation of all requirements for foodstuff producers to obtain approvals, certificates, conclusions and other documents, which are do not apply in the EU law. Reducing the time for issuing documents to market operators to the minimum;
- ensuring transparency in the work of authorized bodies by obligating them to plan control and supervision activities based on criteria which allow to verify their effectiveness and efficiency;
- encouraging companies to introduce the Hazard Analysis and Critical Control Points (HACCP) quality control system by simplifying the state control and supervision over certified companies;
- reducing the number of institutional laboratories to a minimum acceptable level; providing technical equipment for the laboratories which are of critical importance for the state to fulfil its functions in the food safety sphere and ensuring the accreditation of these laboratories by the National Accreditation Agency of Ukraine in accordance with ISO 17025; the authorized bodies must acknowledge results of research undertaken by any laboratories accredited by the NAAU in accordance with ISO 17025;
- removal of contradictions in the legislative requirements to product marking and bringing these requirements in compliance with the EU legislation.

7. Technical regulation

In the area of technical regulation, the main goal is to create a modern system of technical regulation approximated to the EU and WTO requirements, which can increase competitiveness of domestic products, ensure efficient control over product safety and help achieve mutual acknowledgement of the conformity assessment results with trade partners of Ukraine.

Necessary steps:

- division of the functions of standardization, compliance control and market supervision between different authorities to avoid conflicts of interests;
- switching from state production control to a system of state supervision over the safety of products already offered on the market;
- cancellation of the requirement for producers/suppliers to register declarations of product conformity with the central executive authority responsible for technical regulation issues;

- switching to voluntary application of national and regional standards on a voluntary basis with the exception of the standards referred to in technical regulations;
- adoption of technical regulations on the basis of the EU Directives on the New and the Global Approach, as well as other EU Directives;
- modernization of testing and metrological laboratories in accordance with EU requirements;
- excluding the products subject to conformity assessment in accordance with technical regulations and low-risk products (services) from the list the products subject to compulsory certification in Ukraine.

8. Reform of customs procedures

Today Ukraine ranks 139th out of 183 countries in the Doing Business 2010 ranking of the World Bank as regards international trade. This low position reflects the substantial financial costs and time currently required for the customs procedures.

The following steps are necessary to simplify, improve and speed up the customs clearance procedures:

- creating and using a high-quality risk management system together with efficient post-entry inspection procedures;
- implementation of the Kyoto Convention, in particular the Authorized Customs Operators Concept, and further upgrade of the customs legislation based on the EU legislation, in particular the EU Customs Blueprints;
- simplification of the procedure for determining the customs value and bringing this procedure in compliance with the WTO requirements:
 - introduction of a procedure for determining the customs value in accordance with the WTO and EU recommendations;
 - abolishing the plans for the mobilization of taxes and levies for customs stations and customs clearance centres;
 - improvement of professional training for customs inspectors on the customs value determination rules and procedures.
- transferring the authority to issue the EUR1 certificates of origin to the State Customs Service of Ukraine.

9. Creation of infrastructure facilitating the development of entrepreneurship

In the area of attraction of investments and facilitation of entrepreneurship the key objectives must be as follows:

- expansion and support of the activity of the network of business centres, business incubators, innovations centres, technoparks and other elements of the entrepreneurship support infrastructure;
- ensuring the efficiency and transparency of public-private partnership (PPP) mechanisms. Adoption of the Law of Ukraine on PPP. Establishing a methodology for the evaluation of project efficiency, ensuring a transparent bidding mechanism, introduction of an efficient system of motivation and control in the public bodies responsible for the implementation of PPP projects;

- creating conditions for development of self-regulated organizations and gradual transferring of some functions of state regulation and control to such organizations;
- providing information and organizational support to foreign investors;
 - In all regions of Ukraine create favorable environment for investments, conditions for fair competition between cities (regions) in the investment market, namely, in the market of FDI originated by multinational corporations and having high added value;
- establishing special investment attraction regimes on certain territories:
 - development of a logistics and communications infrastructure on the territories which have been identified as priority territories for investments;
 - creating at the local level a “single investment window” which will allow investors, in particular those who implement innovation and infrastructure projects, to communicate with the authorities on the issuance of licenses, permits, authorizations, resolution of land issues, etc.;
 - stimulating the creation of compact business location territories, i.e. clusters with a developed infrastructure and pre-issued packages of permits and authorizations to start the activity;
- development of guarantees and insurance for export operations;
- establishing a single authority for facilitation of investments, whose territorial bodies will ensure interaction between investors and public authorities, as well as comprehensive support measures for projects that require foreign investments.

10. State regulatory policy

The reform of the state regulatory policy will require the following:

- introduction of a unified approach to the development and adoption of regulations by local self-governments, as well as to the mechanism used to secure and protect the rights of business entities in the sphere of implementation of the state regulatory policy;
- defining a mechanism for regular review of regulations of all branches of power, including the regional level, with a view to revoking inefficient regulations.

11. Create enabling environment for FDI.

Main tasks:

- shaping and implementation of the government policy in the area of FDI promotion;
- ensuring high institutional capacity of the single investment promotion authority, through which local regions and territories will work and which will accommodate their requests for search of investors and promote Ukraine’s position in the international investment markets;
- have each territory determine priority areas of development having need for FDI ;
- train specialists of industrial and regional entities active in the area of FDI promotion;
- improve regulatory framework in the area of FDI promotion (lawmaking activities);
- compile a data base of potential investees and investment projects;
- full stock taking of land and compilation of a data base of land plots suitable for realization of projects with involvement of strategic FDI;

- setting up a mechanism to provide investors with a comprehensive set of high quality services (“one-stop investment shop”);
- ensure follow-up support to strategic (top priority) investment projects and provide assistance to existing investors;
- set up an efficient facility of pre-trial regulation of investment disputes;
- interaction with local executive authorities in the formation and realization of a consistent strategy of encouraging FDI on the regional level;
- assist in building infrastructure and ensuring support to regional institutions in the area of FDI promotion, and in marketing local regions in the investment markets;
- information and analytical support to the targeted marketing strategy of building a positive investment image of Ukraine and its regions abroad/

Reform stages**Stage I (by the end of 2010):**

- taking measures which will ensure a quick effect:
 - reducing the number of activities which are subject to licensing by 30%;
 - dramatic reduction of the number of activities and works which require permits including abolition of the compulsory certification of services;
 - introduction of the declarative principle in the issuance of permit documents;
 - division of the standardization, compliance control and market supervision functions (adoption of the Law on market supervision and amending the current standardization laws);
 - amending the Law on accreditation to strengthen the powers of the national accreditation authority and to facilitate its international recognition; adoption of laws on the general product safety and liability for damages caused by defected products;
- creating a single authority for investment facilitation;
- adopting the new version of the Law “On Restoring Solvency or Declaring Bankruptcy of Debtors”.

Stage II (by the end of 2012):

- making the business climate more attractive:
 - recognizing EU technical standards, harmonizing the technical regulation system with EU Directives, abolishing obsolete DSTU (state standards);
 - simplifying customs procedures and increasing their transparency;
 - regulating the inspection procedures: reducing the number of inspection authorities, dividing companies by risk zones;
 - bringing the food quality control system, including certificates, approvals, conclusions and other documents in compliance with EU Directives;
 - legislative encouragement of the development of self-regulated organizations;
- establishing special investment attraction regimes on certain territories.

Success indicators:

- moving up the position of Ukraine in the World Bank international rating Doing Business 2012 by 40 positions, from 142nd to 102nd out of 183 countries;
- ensuring an annual increase in foreign direct investments of \$0.5 billion and achieving a total of foreign direct investments in the Ukrainian economy of \$77 billion by 2014.

PRIVATIZATION AND STATE PROPERTY MANAGEMENT

Challenges

- privatization is rather considered in Ukraine as a source of revenues to the state budget and is not sufficiently linked to the comprehensive strategic development of the economy based on integrated programs for the development of key sectors (infrastructure, including the housing and municipal sector, electricity, coal industry, oil and gas sector);
- privatization has not fulfilled the role of a market transformation tool in Ukraine. Today the share of the public sector in the GDP of Ukraine is 37 %⁶, which is higher than in most developed countries of the world (about 15% in Canada, UK, Italy; about 20% in the U.S. and Germany; 25% in Poland);
- the state property management function is not exercised efficiently – more that 500 enterprises out of the 4000 enterprises in which the state holds more than 50% are at the verge of bankruptcy, and in more than 400 enterprises the state has insufficient corporate rights for their efficient management. The operation of state-owned companies and their corporate governance are non-transparent, hard to control and inefficient.

The reasons for these problems are:

- in the recent years, privatization has become non-systemic and is carried out on a selective basis by excluding companies from the list of assets which are not subject to privatization;
- due to unjustified privatization bans, state-owned property is not used in accordance with its purpose, it is destroyed or alienated through illegal schemes, and, as a result, it loses investment attractiveness. The state budget receives insufficient revenues as the state has no clear position on the sale of privatization assets together with the land plots;
- the pre-privatization preparation of assets is not efficient; there is no clear procedure for holding privatization actions or criteria for using different options to reduce the state share (e.g. share issuance, sale of a shareholding, transferring assets into management). The process is not transparent, and the state does not receive the maximum price for privatized assets;
- state property is managed by line ministries which also exercise the regulatory function. This results into a conflict of interests.

Aims and objectives

The objectives of the reform are to attain an optimal degree of state ownership in the economy by way of privatization and efficient management of state property.

The following task must be fulfilled in order to achieve the said objectives:

- optimizing the structure of the public sector of the economy and completing privatization as a wide-scale socioeconomic project;
- increasing transparency of the privatization process and reducing the likelihood of corruption;
- increasing efficiency of the state property management;

⁶ According to Eurostat (including the social sector)

- protecting the rights of the state in the state property management.

Necessary steps

The following is necessary to optimize the structure of the public sector and to complete privatization as a wide-scale socioeconomic project:

- identifying priority sectors for privatization and the sectors which will mostly remain in the state ownership (primarily the assets that enable the state to fulfil its main functions and guarantee national and economic security). Drawing up for each sector a limited list of assets which are not subject to privatization or confirming that there are no such assets in a given sector, and lifting the ban on privatization of such enterprises;
- development of programs for the preparation of specific sectors to privatization;
- introducing changes in the land legislation to simplify the process of land privatization by decreasing the time necessary for the issuance of land documents;
- introducing changes in the legislation on joint-stock companies in order to facilitate the sale of small state-owned portions of stock, which is not popular among buyers, by way of obligating majority (at least 75%) shareholders to offer minority shareholders to purchase the rest of the shares or to listing shares on an exchange to ensure their liquidity;

The following is necessary to increase transparency of the privatization process and to reduce corruption:

- revision of the existing regulations of the Cabinet of Ministers, the State Property Fund of Ukraine and other executive bodies in order to ensure an open and transparent privatization process, as well as fair competition in the privatization process, and to mitigate the possibility to use non-transparent non-privatization schemes for withdrawing assets from the state ownership and transferring certain property and property complexes into lease;
- sale of shareholdings not exceeding 25% of the authorized capital of privatized entities through a stock exchange.

The following is necessary to improve the efficiency of state property management:

- a clear legislative definition of the State Property Fund of Ukraine as a central executive body;
- transferring of the state property management function to the State Property Fund of Ukraine, reforming the structure of the State Property Fund and enhancing its staff;
- switching to the management of state-owned enterprises through Boards of Directors which shall include independent directors;
- filling the management positions of state-owned companies with professional managers on a competitive basis;
- clear division of the privatization and state property management functions within the State Property Fund;
- increasing the authorized capital of joint-stock companies by the value of the privatized land plots on which they stand.

The following is necessary to protect the rights of the state in the process of state property management:

- optimizing the management of state corporate rights and preventing of dilution of the state-owned share in the authorized capital of economic entities before its full privatization;
- revision of legislation that concerns the management of joint-stock companies in which the state holds a majority interest and introduction of changes aimed at increasing the protection of state interests in the process of corporate management (including by means of reducing the existing quorum threshold from 60% to 50%+1 share);
- revision of legislation to prevent companies in the public sector from alienating assets that constitute separate privatization assets;
- monitoring the efficiency of state property management, increasing the liability of managers for inefficient management of state property.

Reform stages**Stage I (by the end of 2010):**

- adoption of the Law on the State Property Fund;
- development and approval (or amending) of sectoral programmes for reform and development of strategic sectors with the definition of the timescale, conditions and methods of privatization of enterprises in these sectors;
- revision of the criteria used to identify state-owned assets which may not be subject to privatization and adoption of a law aimed to significantly reduce the number of such assets;
- introduction of changes in the land legislation in order to reduce the time necessary for issuing land documents;
- introduction of changes in the current regulations that will ensure a transparent privatization process;
- introduction of changes in the management of joint-stock companies to improve the protection of state interests in the corporate management process by reducing the existing quorum threshold from 60% to 50%+1 share.

Stage II (by the end of 2012):

- privatization of enterprises in the strategic sectors of the economy in accordance with the sectoral development programmes (including the privatization of the banks which have been recapitalized by the state);
- transferring the functions associated with the management of companies in the public sector of the economy from the authorized management bodies (ministries and agencies) to the State Property Fund. Establishment of state associations and holdings in order to improve state property management.

Stage III (by the end of 2014):

- completing privatization as a large-scale socioeconomic project for transformation of the state property;
- shifting the focus of the State Property Fund's activity to the accounting and management of property in the public sector of the economy;

- attracting private investments for state-controlled assets.

Success indicators:

- reducing the share of the country's public sector in the GDP from 37% to 25-30%;
- securing revenues to the state budget associated with privatization and state property management in the amount of UAH 50-70 billion by 2014;
- tripling the capitalization of the remaining state-owned assets.

DEVELOPMENT OF THE R&D AND INNOVATION SECTOR

Challenges

Ukraine still has a large-scale scientific complex capable of producing world-class results in an efficient manner. However, the R&D and innovation sphere does not properly fulfil its role of a source of economic growth due to the following key problems:

- the growth rates and the structure of the R&D and innovation sphere do not meet the economy's demand for advanced technologies;
- proposed world-class scientific results are not used in the economy due to low sensitivity of the entrepreneurship sector to innovations;
- the R&D and innovation sector continues to lose qualified staff, its material and technical base continues to shrink.

There is a risk that the domestic science may switch to the innovation development of other countries and that Ukraine may turn into an exporter of low value-added goods and services, including in the intellectual labour sphere.

The reasons for the above problems are as follows:

- reduced funding of the R&D and innovation sector. In 2000-2009, the total R&D expenditures to the GDP (GDP research intensity) of Ukraine decreased from 1.16% to 0.95% (including 0.41% from the state budget). At the same time the average GDP research intensity in the EU is 1.9 %, in Finland and Sweden – 3.7 %, in the U.S. and Germany – 2.7%;
- inefficient operation of the system of state budget funding for Ukrainian science:
 - the system is not designed to achieve final practical results⁷;
 - the funds are scattered among 36 main administrators of public funds and scientific entities, and some of them are not working efficiently;
- legislative constraints that hamper the funding of the scientific sphere:
 - clients, including foreign ones, often refuse to cooperate with Ukrainian research and higher educational institutions since they are funded based on a complicated procedure through special accounts managed by the State Treasury;
 - state contracting authorities that procure R&D and design works must, in addition to competitive selection, apply the public procurement competitive bidding procedures.
- lack of efficient economic incentives for economic entities to carry out technological modernization of their enterprises by way of active implementation of new R&D achievements.

Aims and objectives

The objective of the reform is to make innovation processes in the economy more active and to ensure full use of the scientific potential in the process of technological modernization of the economy.

⁷ Most R&D efforts stop at the final, most resource-intensive stages of prototype testing and become morally obsolete as the researchers wait to receive further funding.

The following tasks must be fulfilled to achieve this objective in the reform period:

- increasing the competitiveness of the R&D sector, ensuring its integration into the European Research Area;
- increasing the efficiency of the state funding for the R&D sector;
- use the domestic R&D potential to satisfy the actual innovation development needs of the Ukrainian economy and to offer high-technology goods and services;
- take immediate measures on increasing the efficiency of the national innovation system.

Necessary steps

Increasing the competitiveness of the R&D sector and ensuring its integration into the European Research Area as follows:

- increasing the funding for the renewal of the material and technical base of research and higher educational institutions;
- enhancing the programme of grant funding for young scientists and professors who conduct research, preparing Ukrainian scientists to efficient competition for grants under the EU Framework Program;
- conducting negotiations with the European Commission to define the conditions of accession of Ukraine into the European Research Area (ERA)⁸.

Raising the efficiency of the state funding of the scientific and investment spheres as follows:

- optimization of the system of state-funded scientific institutions based on objective criteria of their R&D performance;
- increasing the share of the state budget funds used to finance fundamental science and applied scientific and technical developments;
- prioritized use of the state budget funds for state targeted scientific and R&D programmes based on competitive principles, government contracts in the scientific sphere and innovation products, also grants from the State Fundamental Research Fund;
- applying the single supplier procedure for state-funded R&D works when contractors are selected on a competitive basis in accordance with the legislation;
- increasing the financial autonomy of scientific and higher educational institutions in the management of funds received for R&D works from clients with different forms of ownership.

Using the domestic R&D potential to satisfy the actual innovation development needs of the Ukrainian economy and to organize manufacturing of high-technology products as follows:

- introducing public and private partnership in the R&D and innovation sectors;
- developing and introduction tools and principles of state support for innovation activities.

Raising the efficiency of the national innovation system:

- developing the innovation infrastructure (business incubators, technology transfer centres etc.);

⁸ The aim of the ERA concept is to create a common European research market with mobile scientists, to carry out Pan-European research initiatives, and to ensure efficient coordination of national and regional research projects, programmes and strategies.

- bringing the Ukrainian legislation on intellectual property into conformity with the European Union legislation;
- improving the state regulation and economic stimulation for economic entities in the technology transfer sphere.

Reform stages

Stage I (by the end of 2010):

- defining the principles of public and private partnership in the R&D and innovation sector;
- defining the principles and mechanisms of state support for investments in innovative activities;
- conducting negotiations with the European Commission concerning the accession of Ukraine into the European Research Area.

Stage I (by the end of 2012):

- developing the innovation infrastructure;
- implementing modern mechanisms of state support for innovative activities;
- increasing the financial autonomy of scientific and higher educational institutions in the management of funds received for R&D works from clients with different forms of ownership;
- switching to international criteria in the assessment of scientists' work, optimizing the structure of the state R&D sector;
- increasing the share of the state budget funds used to finance fundamental science and applied scientific, technical developments and innovative activities.

Stage III (by the end of 2014):

- renewing the material and technical base of scientific and higher educational institutions.

Success indicators:

Objective achievement indicators in 2010-2014:

- increasing the share of innovation-active industrial enterprises from 10.7% to 25%;
- using all sources of financing to increase the GDP research intensity from 0.95% to 1.5%.

INTERNATIONAL INTEGRATION AND COOPERATION

Challenges

The following problems prevent efficient integration of Ukraine into the global economic space:

- lack of a systemic approach to international integration and cooperation;
- insufficient level of access of the Ukrainian goods and services to external markets;
- low diversification of Ukrainian exports (both in product and geographic terms);
- low efficiency of the preparations for the integration of Ukraine into the EU;
- insufficient use of the potential for trade and economic cooperation with the CIS countries, other prospective trade partners and regional integration associations;
- low efficiency and poor coordination of the attraction and use of foreign aid.

The reasons for the above problems are as follows:

- Ukraine has no consistent foreign economic policy based on strategic economic development priorities or efficient mechanisms for coordination of foreign economic cooperation. This leads to uncoordinated positions of different agencies in the dialogue with trade partners, inconsistencies between internal reforms and foreign economic policy priorities, insufficient economic justification for the participation of Ukraine in the integration processes, incomplete use of trade protection tools;
- existence of tariff and non-tariff foreign trade barriers, internal regulatory and structural constraints of foreign economic activity, namely an inefficient technical regulation system, sanitary and phytosanitary measures, and insufficient harmonization of customs procedures limit the access of Ukrainian goods and services to external markets, their competitiveness as well as investment attractiveness of the economy;
- insufficient level of systemic reforms and adaptation of the legislation to EU norms prevents the integration into the EU internal market and the advancement of the dialogue between Ukraine and the EU on the introduction of a visa-free regime;
- inconsistency of the effective bilateral and multilateral agreements in the CIS framework with the need to deepen the economic cooperation and WTO norms. Lack of clear strategies and programmes for the development of trade and economic cooperation with key trade partners with identified priorities and sources of financing. Insufficient attention to rapidly growing markets;
- lack of an efficient mechanism for the interaction between the authorities, business and the civil society in the sphere of international integration limits the awareness of the national business and consideration of interests of business and society in the making of foreign economic decisions.

Aims and objectives

The reform in the sphere of international integration and cooperation is aimed at developing an integral and balanced foreign economic policy, increasing the competitiveness and investment attractiveness of the Ukrainian economy.

The reform has the following objectives:

- improvement of the trade conditions on external markets for domestic producers in order to increase the volume of exports, their geographic and product diversification, including with higher value-added products;
- integration of Ukraine into the EU internal market by creating a Free Trade Area “plus” (FTA) with the EU. The integration a strategic reference point for the external and internal economic policy of the country will serve as a mechanism for ensuring internal systemic socioeconomic transformations and wider access to EU and third countries’ markets;
- cancellation of exemptions and limitations in the free trade regime with the CIS countries and deepening the cooperation with prospective trade partners and regional integration associations.

The following tasks must be fulfilled to achieve these objectives in the reform period:

- ensuring a systemic approach to international integration and cooperation, which includes the development of efficient decision making mechanisms in the foreign economic sphere;
- implementing sectoral reforms and adapting the legislation and regular practices to EU norms in the framework of the creation of the FTA with the EU;
- introducing a visa-free regime between Ukraine and the EU (for short-term visits of citizens) as the first stage of creating of preconditions for free access to the EU service market;
- modernization of bilateral and multilateral trade and economic agreements in the CIS framework in accordance with the WTO norms;
- conclusion of economically justified FTA agreements with key trade partners;
- introducing a strategy for attraction, efficient use and monitoring of foreign aid;
- widening the format of cooperation with international organizations and international finance ~~ior~~organisations~~organisations~~.

Necessary steps

Development of an efficient decision making-system in the foreign economic sphere:

- establishment of a permanent Foreign Economic Council as a mechanism for systemic coordination of international economic cooperation. The main tasks of the Council will be as follows: coordination of decisions and preparation of recommendations in the sphere of international integration and cooperation, ensuring the coordination of priorities in the frame of multilateral and bilateral trade and economic agreements and negotiations, analysis of decisions in the foreign economic sphere in accordance with the national strategy in the foreign economic policy area, establishment of a structured dialogue between the authorities, business and the civil society in accordance with EU practices.

Creation of the FTA and introduction of a visa-free regime with the EU

- implementation of sectoral reforms and adaptation of the national legislation and regulatory practices to EU standards in the spheres related to the creation of the FTA and association relations between Ukraine and the EU (in accordance with the Ukraine-EU Association Agenda). For example in such spheres as technical regulation, sanitary and phytosanitary norms, customs, competition policy, public procurement, services, cooperation in the energy sector, etc.;

- developing a set of measures to boost advantages and minimize potential negative consequences for Ukraine’s economy resulting from setting up a free trade zone with the EU;
-
- implementing a set of reforms in the migration sphere to introduce a visa-free regime between Ukraine and the EU:
 - development of a migration legislation system, in particular drafting and adoption of the Law on the principles of the state migration policy;
 - development of the institutional mechanisms used to manage migration processes;
 - ratification of the Council of Europe documentation package, adoption of the Law of Ukraine “On Protection of Personal Data”;
 - further introduction of the integrated border management system, improving interagency cooperation and technical possibilities of state border guard units, development of the Concept for Integrated Border Management;
 - creating a legislative basis for the issuance of biometric passports in accordance with the ICAO and EU standards;
 - finalizing the procedures to make the international agreements that regulate international cooperation between law enforcement authorities, cooperation in the sphere of combating of international crime and administrative offences binding for Ukraine.

Improving trade conditions on external markets for domestic producers:

- promotion and protection of economic interests of Ukraine using WTO mechanisms;
- creation of favourable trade and investment regimes, including by way of concluding economically justified agreements on free trade with key partners. Analysis of potential benefits and risks associated with the FTA creation, modelling optimal FTA parameters in the framework of negotiations with the involvement of experts;
- introducing mechanisms for state financial support of small and medium businesses through the provision of guarantees for and insurance of export operations;
- developing the cooperation with international organizations, including financial ones (in particular, the OECD, the World Bank, the IMF, the European Bank for Reconstruction and Development, the European Investment Bank, etc.), drawing up a national road map for more active cooperation with the OECD and OECD membership in a mid-term perspective.

Widening the free trade regime with the CIS countries and deepening the cooperation with prospective trade partners and regional integration associations:

- conclusion of a new FTA agreement between the CIS member countries based on WTO norms and rules. Development and adoption at the national level of the Action Plan for the implementation of the Economic Development Strategy of the CIS Countries until 2020;
- development and adoption of a new programme for long-term trade and economic cooperation with the Russian Federation which will include specific cooperation projects in the priority sectors of the economy;

- development and implementation of strategies and action plans on the development of trade and economic cooperation with prospective trade partners and key regional economic associations, in particular in specific sectors and at the interregional level.

Introduction of a strategy for the attraction, use and monitoring of external aid with the purpose to coordinate all foreign aid, increase its efficiency and transparency of the project selection and further supervision of their implementation:

- establishment of an advisory board involving representatives of the central executive authorities, NGOs and donors;
- ensuring the co-financing of international assistance projects by Ukraine, which is a decisive precondition for receiving international resources.

Reform stages

Stage I (by the end of 2010):

- preparation and commencement of the implementation of comprehensive sectoral reform programmes necessary for the creation of the FTA and the association between Ukraine and the EU in accordance with the Ukraine-EU Association Agenda. Making the steps to reform the technical regulation system, sanitary and phytosanitary norms, customs procedures, state aid and public procurement, which are described in the sections “Deregulation of Business Activity and Development of Entrepreneurship”, “Stabilization of the State Budget”, as well as in other sections;
- signing the Road Map for a visa-free regime with the EU, developing the legislative and institutional basis necessary for the introduction of a visa-free regime between Ukraine and the EU;
- establishing a foreign economic council;
- introducing a strategy for the attraction, efficient use and monitoring of external aid;
- development of a national road map that will envisage more active cooperation with the OECD and international finance institutions.

Stage II (by the end of 2012):

- finalising the negotiations with the EU on the FTA agreement which will become a part of the Association Agreement between Ukraine and the EU. Implementation of the sectoral reforms and adaptation of the legislation and regulatory practices in the spheres related to the creation of the FTA and the association between Ukraine and the EU;
- fulfilling the provisions of the Road Map for a visa-free regime between Ukraine and the EU;
- development and implementation of the Action Plan for the implementation of the Economic Development Strategy of the CIS Countries until 2020;
- conclusion and implementation of an FTA agreement between the CIS member countries based on WTO norms;
- development and implementation of a programme for long-term trade and economic cooperation with the Russian Federation;
- development and implementation of strategies and action plans on the development of trade and economic cooperation with prospective trade partners and regional economic associations

Stage III (by the end of 2014):

- further harmonisation of the regulatory environment and customs procedures in accordance with the EU norms to ensure the functioning of the FTA with the EU;
- creation of economically justified FTAs with key trade partners;
- implementation of measures leading to the OECD accession.

Success indicators:

- conclusion of the Association Agreement and creation of the FTA with the EU;
- introduction of a visa-free regime between Ukraine and the EU;
- conclusion of a new FTA agreement between the CIS member countries based on WTO norms;
- adoption of a programme for long-term trade and economic cooperation with the Russian Federation.

Modernization of Infrastructure and Primary Sectors

REFORM OF THE ENERGY SECTOR

Challenges

Ukraine has one of the most energy intensive economies globally: it spends 3 to 5 times more energy per unit of GDP than any other Eastern European country. This results in growing burden for the central budget due to the need to subsidize purchase of excessive volume of energy resources, including natural gas, increases air emissions, and limits long-term competitiveness of the economy, in view that the internal prices for electricity are likely to inevitably catch up with the world market prices.

Ukraine's energy sector has unique reserves of power generation capacity; however, sustainable power supply to the economy by these capacities is constrained due to the following:

- outdated and physically obsolete fixed assets of power companies (thus, almost 80% of assets of Thermal Power Stations (TPS) and 60% of fixed assets of power distribution companies are fully worn-out and depreciated) as a result of scarce government funds and the sector's lack of appeal for private investment;
- inefficient power generation and transmission (consumption of energy at the time of generation is 35% higher and level of losses during transmission is two times bigger than in OECD countries);
- critically poor financial and economic condition of thermal generating and distribution companies, and high debts between energy market operators.

Such poor condition of the energy sector has been **caused by** the following factors:

- opaqueness and inconsistency of regulatory policy, excessive administrative intervention into operations of the market and its subjects, insufficient independence of the Regulator (authority and composition of NKRE is defined and approved by the CMU);
- numerous distortions in pricing and rates/tariff formation in the energy market (economically unjustified rates for energy generation and transmission, practice of cross-subsidizing between groups of consumers and consumers from various sectors). These distortions do not provide economic incentives neither for producers, nor for consumers to improve energy efficiency;
- contradictions between "Ukraine Energy Strategy for the Period until 2030" and latest tendencies in the Ukraine's economy's development (the current strategy emphasizes increase of energy generation output, rather than improvement of energy efficiency);
- no competitive coal market for thermal energy sector;
- inefficient management of government-owned assets.

Aims and Objectives

The issues of energy efficiency of the economy and the abovementioned internal issues of development of the energy sector are closely interrelated and may not be addressed individually. That's why, main goals of the reform are:

- creation of an effective energy sector capable of ensuring competitively-priced quantities of reliable power supply required for the development of the economy;
- improvement of specific energy efficiency of the economy through price incentives for consumers and implementation of energy saving technologies in the sectors of power generation and transmission.

Successful achievement of these goals will create conditions to address issues related to facilitation of systematic technical and technological modernization of existing capacities of the energy sector and effectively handle environmental problems.

Necessary Steps

Ensuring transparency, consistency and predictability of the regulatory policy:

- assuring true independence of the regulator;
- implementation of a quality rating system for power distribution companies;
- addressing issues of taxation of electric power losses;
- adjustment of the “Ukraine’s Energy Strategy for the Period until 2030”, particularly, determination of the effective government’s vision and stance in relation to volumes of output of energy; economically viable exports of electricity; the extent of Ukraine’s integration with the EU; percentage distribution of nuclear, hydro and thermal power generation; target level of environmental requirements and sources of funding to meet them; development of the national energy efficiency standards; implementation of the government monitoring system for the country’s fuel and energy balance.

Systemic introduction of economically justified rates/tariffs, which would stimulate cost reduction and facilitate inflow of investment into the sector through:

- abolishment of the moratorium for power prices increase;
- liquidation of cross-subsidies:
 - liquidation of the pricing mechanism of subsidizing all categories of industrial and communal consumers;
 - phasing out of pricing subsidies for households, with simultaneous establishment of a system of targeted assistance to the most socially vulnerable categories of population;
 - cancellation of flat tariffs system.
- shift to formation of retail tariffs based on the recovery of economically sound costs associated with power generation, networks and distribution, giving full regard to end-consumers’ interests and energy saving stimuli;
- development and implementation of a “stimulating pricing” methodology, which would ensure incentives for better energy efficiency, facilitation of investment and replacement of fixed assets;

Reform of electricity and fuel resources markets should ensure clear and transparent operation rules for these market, reduce room for administrative intervention into the markets, ensure predictability of revenues, which is crucial for making investment decisions. In order to do that, the following is needed:

- develop a plan of transition from the “single customer” model to the model of direct contract and balanced market with gradual opening of the market for qualified consumers;

- regulate in legislation the principles of operating and development of the electric power market of Ukraine;
- ensure free access to competitive fuel resources markets, including to the market of energy coal;

More effective management of the energy sector:

- improve efficiency of management of government-owned generation companies⁹ by means of corporatization and adding transparency to their operations;
- step-by-step privatization of energy distribution and thermal energy generating companies in order to facilitate investment into facilities upgrade;
- simplification of the approval procedure for investment projects and increasing the role of private investors in power sector entities;
- addressing the issue of connecting consumers to the grid.

Creation of additional, non-pricing incentives to improve energy efficiency:

- fulfill industry-specific Programs of Energy Efficiency for 2010-2014;
- implement energy saving technologies in the sectors of electric power generation and transmission;
- implement the program of installation of metering devices for supplied electricity, gas and heat (see Reform of the Housing and Utility Sector).

Reform stages

Stage I (by the end of 2010):

- cancellation of all exemptions/benefits for certain manufacturing sectors;
- lifting the Moratorium for privatization of energy sector entities; preparation of power supplying and thermal power generating companies to privatization;
- boosting payment discipline:
 - rescind clauses in Ukraine’s legislation and regulatory acts which prohibit power supplying companies to discontinue supply of electricity to debtors;
 - introduce on the legislative level consumers’ economic liability for delays in payment for consumed electricity and received communal services.
- adjustment of the “Ukraine’s Energy Strategy for the Period until 2030”, particularly, determination of the effective government’s vision and stance in relation to volumes of output of energy; economically viable exports of electricity; the extent of necessary integration into EU; percentage distribution of nuclear, hydro and thermal power generation; target level of environmental requirements and sources of funding to meet them; development of the national energy efficiency standards; implementation of the government monitoring system for the country’s fuel and energy balance;
- design a system to provide target assistance to the most needy people;
- begin bringing tariffs for population to economically viable levels.

Stage II (by the end of 2012):

- ensuring independent status for the regulator;

⁹ Sectors to remain in government ownership: nuclear and hydro power generation, trunk transmission and dispatch

- design and implementation of a new tariff system based on the methodology that stimulates investment and improves efficiency of power companies;
- liquidate flat tariffs;
- begin transition from the single customer model to the model of direct sales and balanced market with gradual opening of the market for qualified consumers;
- fully bring tariffs for households to economically viable level, with concomitant unfolding of the system of target assistance to the most needy people;
- privatization of power supplying companies and beginning of privatization of TPS on conditions of attracting investments for facilities upgrade.

Stage III (by the end 2014):

- complete transition from the single customer model to the model of direct contract and balanced market with gradual opening of the market for qualified consumers;
- complete privatization of TPS.

Success indicators:

- tariffs for households brought to an economically viable level by the end of 2012 ;
- privatization of power supplying and thermal power generating facilities complete by the end of 2014;
- market up and running based on the new model beginning from late 2014 p.;
- specific energy efficiency of the economy improved by at least 20% by the end of 2014.

REFORM OF THE COAL SECTOR

Challenges

Disregarding large natural deposits of coal, the Ukrainian coal industry is in the state of stagnation. Major challenges of the industry are as follows:

- tremendous load on the state budget due to the subsidies to support loss-making coal production and procrastination with shutting down non-operational mines
- in certain regions, coal mines remain the only source of employment;
- high production cost of coal which most often exceeds the price of imported coal.

This situation may be **caused by** the following:

- lack of incentives to reduce costs due to the existing government support program for enterprises of the industry (compensation of costs);
- slow privatization and limited scale of efforts to close exhausted/loss-making mines, which results in scarce investment resources for facilitation of the technical revamp of mines.

Aims and objectives

Main goals of the reforms are:

- creation of economically viable and at least, break-even coal industry, which would supply the economy with raw material at prices competitive in the world market;
- efficient relocation of redundant labor resources to other sectors of the economy.

To achieve these goals, the following objectives should be met:

- liberalize the coal products market, distribution and pricing mechanisms;
- privatize viable enterprises of the industry and shut down hopelessly loss-making mines;
- redirect cost compensating subsidies to retraining and enhancement of mobility of redundant employees;
- develop capacity of the national labor market by reallocation of work force between industries that demonstrate growth, and into rapidly developing regions.

Reform of the coal industry must be closely connected with the development of linked industries, primarily, electric power sector.

Necessary steps

Liberalization of the coal products market and distribution and pricing mechanisms:

- elimination of the requirement to purchase energy coal by state-owned heat generation companies only from the state-owned company “Coal of Ukraine”;
- liquidation of the “Coal of Ukraine” following breaking down of mines into promising and those that must be shut down, with handing the former over to the State Property Fund of Ukraine;
- establish supply vs. demand approach to pricing for coal products, shift to selling coal via auctions;

- liberalization of import of coal;
- demonopolize supplies of coal mining machinery.

Improve the state support mechanism:

- shift to the system of direct subsidies to hopelessly loss-making mines, for the period while efforts are made to employ and socially adapt their employees;
- phased cessation of subsidizing operating costs of the state-run coal mines with the growing financial support to closing down of the coal mines and the social support to redundant employees, along with maintaining the total sum of the government aid to the industry on the level not exceeding the current one
- allocation of the governmental grants for the technical upgrade of the coal mines only within the scope necessary to maintain labor safety standards, after review of investment memoranda of coal enterprises by the Ministries of Coal Industry and Finances
- corporatization of state-owned coal enterprises and raising level of transparency of their financial reporting.

Privatization of the economically viable enterprises of the industry:

- breakdown of enterprises as per the level of their industrial and economic potential, coal output volumes, capacities, production costs, availability of coal reserves, into the following groups:
 - promising enterprises which will be investment-attractive in the course of privatization
 - potentially promising enterprises which may have investment appeal provided special favorable conditions are created
 - no-prospect enterprises.
- creating terms for privatization of potentially promising enterprises, including state aid to redundant employees, with the government accepting their social infrastructure objects on its balance sheet;
- development of the industry privatization program including list of assets to be privatized, priority order and the mechanism of privatization of coal mining enterprises
- design of the public/private partnership (PPP) mechanism to be used at the potentially promising mines until their privatization, as set forth in the privatization program.

Restructuring of hopelessly loss-making coal mines:

- creation of the system of social support, re-education and employment of redundant employees by means of facilitating new jobs creation and self-employment (support of small businesses and development of “coal” cities) or promotion of migration to other regions;
- speed up the process of shutting down of mines that are already in the process of closing: setting target employment limits, establishing goals and monitoring the progress made towards full closure of mines and deadlines met, allocation of sufficient funds for their closure;
- estimate the maximum possible volume of imported coal, based on throughput capacity of the existing infrastructure (sea port and railroad capacities, and alike) and regulate the pace of coal mines closure keeping in mind this estimate, to maintain Ukraine’s energy security;

- organizational support of coal mines restructuring to have the process completed by 2016;
- allocation of financial resources for coal mines restructuring (including direct subsidies to loss-making mines, costs associated with physical closure of mines and payout of social benefits) within the 2010 limits of subsidies for the industry and gradual reduction of the amount of funding as government’s social liabilities get fulfilled.

Ensuring market’s capability to efficiently redistribute workforce:

- improve performance of state employment service, orienting it towards redistribution of human resources in the regional and interregional context, employing best international practice in this area;
- design measures to improve regional and interregional mobility of workforce, e.g. by removing limitations for receipt of state services, ensuing from the resident registration institute;
- amend the mechanism of allocation of government support for gradual shift of the purpose of subsidies from production cost compensation to re-training and improvement of mobility of redundant employees;
- strengthening capacity of the national staff retraining system (discussed in more detail in the Section “Reform of the Education System”).

Reform stages

Stage I (by the end of 2010):

- breakdown of enterprises into groups and development of the privatization program
- preparation of the enterprises to privatization;
- development of an action plan to increase mobility of redundant employees;
- development of changes to the government support mechanism to have subsidies channeled to retraining and social adaptation of redundant employees.

Stage II (by the end of 2012):

- liberalization of the coal market:
 - bringing coal prices of state-run mines to the market levels;
 - deployment of direct contracts and development of the framework for selling coal via auction;
 - liberalization of coal imports;
- shift to the system of direct and transparent subsidies to loss-making mines and liquidation of “Coal of Ukraine” state-owned enterprise;
- privatization of viable mines;
- liquidation of coal mines which are already in the state of closing/conservation/reserves depletion;
- implementation of an action plan to improve mobility of redundant employees;
- change the purpose of subsidies from production cost compensation to retraining and adaptation of redundant employees;

- improve performance of state employment service, orienting it towards redistribution of human resources in the regional and interregional context, employing best international practice in this area.

Stage III (by the end of 2014):

- phased cessation of subsidizing the operating costs of the state-run coal mines with the growing financial support to coal mines under restructuring and the social support to the redundant employees (by 2016)

Success indicators:

- 100 % potentially profitable enterprises privatized by 2014;
- 80% reduction in subsidies for production costs of coal mining enterprises by 2014 and increased allocations for social adaptation, while maintaining the overall government support of the industry on the level not higher than the level of 2009.

THE REFORM OF GAS AND OIL INDUSTRY

Challenges

Principle challenges dealt with by gas and oil sector in Ukraine:

- the country's high dependency on import of oil and gas given the low level of the national production (which amounts about one-third of the total amount of consumption, which is 60.9 billion cubic meters of gas¹⁰ per year)
- the risk of reduction of oil and gas transit through the territory of Ukraine due to deterioration of oil and gas networks
- major pressure on the state budget as a result of critical financial situation of “Naftogaz of Ukraine” National Joint-Stock Company (deficit of financial resources of “Naftogaz of Ukraine” NJSC was 2.5% of VAT in 2009)
- small amount and low quality of oil refining.

The reasons for the abovementioned problems are:

- insufficient investments into prospecting and extraction of the national stock of hydrocarbons and modernization of oil and gas networks:
 - high risks of investments into oil and gas production, including due to non-transparent and changeable terms of issuing licenses to prospecting and development of coal fields, the risk of license invalidation without compensation of expenses incurred, uncertain conditions of access to oil-and-gas pipelines;
 - the requirement of the mandatory sale of internally-extracted gas to the population at discounted prices, which do not cover the cost of extraction, discouraging any attempt by “Naftogaz of Ukraine” NJSC to invest in extraction and modernization of internal and by-pass gas infrastructure;
- economically unsubstantiated tariff policy, as a result of which the tariffs established for a part of consumers are considerably below cost;
- large amount of industry indebtedness of both gas consumers to suppliers, and of suppliers to gas owners, and the absence of effective mechanisms of stimulation of timely payments by consumers;
- ineffective management structure of “Naftogaz of Ukraine” NJSC;
- absence of effective system of petroleum products' quality control.

Aims and objectives

Implementation of systemic reform of oil and gas industry should reduce dependency from imports, ensure the stable gas supply to consumers in Ukraine and continuous transit of oil and gas through Ukraine to European partners, the efficient and break-even level of operation of oil and gas industry, liberalization of gas market (extraction and distribution) and implementation of energy-saving technologies to reduce consumption and losses which are normally incurred during gas transportation.

To reach the mentioned objectives, it is necessary to:

¹⁰ By the Order of the Cabinet of Ministers of Ukraine of 29.12.2009 No.1679-p

- create the conditions for attraction of private investments and competition development in the process of gas and oil production;
- reform the structure of industry in order to attract investments into each and every segment (recovery, transportation, storage, distribution);
- orderly increase gas tariffs for all consumer groups up to the level of covering the economically-substantiated expenses and investment component, and to protect the “below-the-poverty-line” social classes;
- reduce the level of receivables and payables across the industry;
- increase the level of petroleum products’ quality through introduction of European quality standards.

Necessary steps

To attract the private investments and to develop the competition in extraction of gas and oil, it is necessary to take the following steps:

- implementation of differentiated rates of rental payment to create favorable terms of hydrocarbon extraction at low profitability fields and fields with difficult development conditions
- revocation of the mandatory requirement for all gas producing enterprises to sell locally-produced gas to “Naftogaz of Ukraine” NJSC at the regulated prices;
- ordering permitting procedures for field development and production of hydrocarbons to reduce investor risks (using transparent and competitive tender procedures for issuing licenses, extending the term of licenses, establishment of the complete list of terms for revocation of licenses, establishment of the rules for converting a license for prospecting into a license for development, prohibition to cancel a license without refund of expenses incurred and enhancing the control after compliance with the license conditions);
- making changes to the Law of Ukraine “On the Agreements on Distribution of Products” in order to increase investments in gas and oil production (enhancing the clarity and transparency of tender procedures; specific determination of the role and level of responsibility of the state according to agreements regarding distribution of products).

In order to reform the structure of industry and to attract investments into each of its segments, the following steps shall be necessary:

- to restructure “Naftogaz of Ukraine” NJSC:
 - spinning off bulk transportation network and depositories (“Ukrtransgaz”) from “Naftogaz of Ukraine” NJSC into the separate company, 100% of which remains in the state ownership;
 - providing external organizations with equal access to bulk transportation network of Ukraine, where transportation rates of natural monopoly are regulated by the government allowing both to modernize gas transportation system, and to enhance its efficiency;
 - resolving the issue of the model of usage of gas distribution networks (signing the long-term operating agreements or privatization, provided that the tariffs are regulated by the state).

The process of orderly increase of tariffs for the public and enterprises should include:

- the development of action plan with the view to switch from the existing mechanism of price differentiation within the separate categories of consumers to establishing the uniform prices for natural gas;
- improvement of the system of price determination, according to which prices for transportation, storage, distribution and delivery of the natural gas shall be determined separately;
- ensuring the level of prices for the natural gas and tariff for its transportation, which would recover all economically-substantiated costs of production, transportation, storage, distribution and delivery (giving due consideration to investment component) to all consumer groups;
- revocation of bargain prices for gas for separate industries;
- reforming social assistance system and enhancing its addressness (see “Reform of Social Assistance”).

To reduce the level of receivables and payables in the industry, it is necessary to:

- develop and implement the program for providing gas meters to consumers;
- develop and implement the mechanism of cutting off debtors from rendering services (except for certain categories of consumers, such as hospitals, strategic locations, etc.).

To enhance the quality of petroleum products, it is necessary:

- to develop the schedule for transition to EC standards of quality;
- to create the system of control over the quality of petroleum products.

Reform stages

Stage I (by the end of 2010):

- revocation of bargain prices for gas for separate industries;
- development of pricing methodology, according to which the tariffs for transportation, storage, distribution and delivery of natural gas are calculated separately, and are economically substantiated;
- development of the program for modernization of internal (transit) gas transportation system;
- development of the program for restructuring of “Naftogaz of Ukraine” NJSC;
- revision of the existing system of rental payment at low profitability fields and fields with difficult development conditions;
- improving the system for granting permits for field development and extraction of oil and gas, establishment of equal rules for the national and foreign investors;
- making changes to the Law of Ukraine “On the Agreements regulating distribution of products”;
- revocation of the norm on mandatory sale of “Naftogaz of Ukraine” NJSC’s own-produced gas for all gas manufacturers at regulated prices.

Stage II (by the end of 2012):

- fulfillment of transition from the existing mechanism of price differentiation inside the separate categories of users to uniform prices to gas;
- orderly increase of natural gas tariffs to economically-substantiated level;

- reforming the system of social assistance and enhancing its addressness;
- restructuring “Naftogaz” NJSC;
- development and implementation of the program for supplying as meters to the population.

Stage III (by the end of 2014):

- modernization of oil and gas bulk transportation network;
- implementation of the model for usage of gas distribution networks (depending on the decision that was made: signing long-term exploitation agreements or privatization, provided that tariffs are regulated by the state);
- implementing EC quality standards for petroleum products and modernization of processing facilities.

Success indicators:

- beginning of gas bulk transportation network modernization prior to 2013
- price subsidization of users stopped by 2014;
- the volume of oil and gas condensate production increased to 4.7 million tons per year, natural gas - to 23 billion m³ per year by 2014;
- complete restructuring of “Naftogaz of Ukraine” NJSC by 2014.

REFORM OF HOUSING AND UTILITIES SECTOR**Challenges**

The need for reforming the housing and utilities sector (HUS) is caused by building-up of the problems in the sector, the key ones among which are the following:

- housing and utilities service providers are in a critical financial and economic state (losses in 2009 amounted to UAH 1.93 billion)¹¹
- the public indebtedness before housing and utilities service providers grew considerably which causes summing-up of the sector enterprises debts (as of 1 March 2010 accounts receivable and payable of the sector were UAH 13.4 billion and UAH 13.5 billion respectively)
- the system of the house exploitation management by housing and utilities service providers, as well as regulation of the natural monopolies is obsolete and inefficient
- capital assets are in a critical state (for example, the share of emergency plumbing systems equals 36.4%)
- the housing and utilities services quality does not correspond to either consumer needs or technical standards (e.g., potable water in more than 260 residential places is below the quality mark).

The causes of the grave financial and economic condition of the sector are the following:

¹¹Hereinafter – according to the Ministry of Housing and Utilities Sector

- low level of the current tariffs does not provide for covering expenses of housing and utilities service providers
- lack of mechanisms of collection of debts for consumed housing and utilities services leads to growth of defaults of payment on the part of the public
- monopolization of the housing and utilities services market and the lack of private operators serving condominiums causes ineffective cost management
- lack of efficient owner of condominium
- unfavorable conditions for attracting investments into the sector have led to technological lag and capital assets obsolescence

Aims and objectives

The principal goal of HUS Reform is upgrading the quality of housing and utility services for all categories of population and also putting an end to subsidization of this sector.

To reach this goal, it is necessary to:

- to provide for profitable performance of the housing and utilities service providers
- to cut down the average level of accounts payable and receivable in the sector
- to create competitive environment in the market for HUS services
- to foster technical re-equipment and raise resource-efficiency of the housing and utilities sector.

Necessary steps

The necessary steps to ensure profitable operation of the HUS are the following:

- regulation of tariffs to HUS services should be transferred to the central authorities through creation of a sole independent regulator, which would enhance the efficiency and transparency of industry regulation
- bringing tariffs for housing and utilities services to the level that would cover economically justified expenses
- reduction of expenses and stimulation of resource and energy efficiency of both suppliers and users by means of transfer to stimulation pricing model
- improvement of the procedure for adjusting tariffs for housing and utilities services in case of change of prices of energy resources, and tax and duty rates
- reformation of the system of social assistance and enhancing its addressness.

For the purpose of lowering the indebtedness level in the HUS the following is necessary:

- development and implementation of the program for providing water, electricity and gas meters to consumers
- abolishment of a prohibition to collect penalty interest on overdue payment
- legislative definition and launching a mechanism for cutting off debtors from rendering services (except for certain categories, such as hospitals, strategic objects, etc.)

For creation of competitive environment in the market for housing and utility services, it is necessary to provide for:

- legal enforcement of mandatory creation of Condominium owners' associations (COAs) as of the beginning of 2014;
- creation of the center for facilitation and support of COAs, including the development of condominiums superintendents' training system;
- creation of a fund for joint financing by the state and COAs of the first overhaul of an apartment building
- legislative definition of the procedure for access of thermal energy producers and suppliers to heating systems.

For acceleration of the technical re-equipment and raising the resource-efficiency of the housing and utilities services the following is necessary to provide for:

- development of the mechanisms for state and private partnerships in the area of HUS with the view to re-equip infrastructure;
- attraction of financial resources of the Ukrainian and international financial organizations for implementation of investment projects in the area of HUS, and improvement of the system of local borrowings for realization of projects of re-equipment of housing and utilities infrastructure (together with energy saving projects for apartment buildings).

To provide for the quality housing and utilities services the following is necessary:

- development of the utilities services quality standards and ensuring the technical possibility of their assessment by consumers
- reporting on financial and quality performance by housing and utilities service providers.

Reform stages

Stage I (by the end of 2010):

- development of the tariff regulation methodology for increasing tariffs to economically-substantiated level
- drafting and approval of the law on independent regulator in the market for HUS services.

Stage II (by the end of 2012):

- delegating the regulation of tariffs for the housing and utilities services to the central authorities (by the end of 2011) and increasing tariffs to economically-substantiated level
- reforming the system of social assistance and increasing its addressness
- creation of the housing and utilities services market (increase of the number of Condominium owners associations (COAs), development of private housing-utilities administrator offices (ZhEK) and managing enterprises), attraction of private companies using the state-private partnership (SPP) mechanisms to render HUS services and to re-equip the infrastructure.

Stage III (by the end of 2014):

- technical re-equipment and increasing resource-efficiency of housing and utilities sector
- mandatory implementation of Condominium owners associations.

Success indicators:

- level of payment for housing and utilities services by population is not less than 95 %
- HUS tariffs cover economically-substantiated expenses with due consideration of investment component
- increased number of COAs in houses of five or more floors up to 70%
- reduced percentage of obsolete and hazardous heat supply systems from 15.7 % to 12 %
- reduced consumption indicators for natural gas to 15 % in 2014
- reduced consumption indicators for the rest of resources by 3 % annually prior to 2014
- recording 100 % of consumed services.

TRANSPORTATION INFRASTRUCTURE DEVELOPMENT

Challenges

The development of transportation infrastructure is a catalyst for economic growth.

Insufficient funding of re-equipment and construction of infrastructure objects on behalf of the state (slightly higher than 1% of GDP in 2009, which makes only 30 % of the average level of infrastructure expenses in comparison with other countries), as well as small private investments have caused significant depreciation of fixed assets. For instance, depreciation of railway transport means makes 85 %.

Transit potential of the country is not used to the full: commodity traffic between Europe and Russia through Belarus in five times higher than through Ukraine. As a result, no new jobs are created, and the state budget lacks additional sources of revenue. Ukraine holds 102nd place for its Logistic Performance Index among 155 countries¹² (Russia – 94, Romania – 59, Poland – 30) considerably “due to” ineffectiveness of its customs procedures (135th place of 155)¹³, due to which many countries choose to ship their cargoes by-passing Ukraine.

Principal **reasons** of the current challenges are the following:

- insufficient state subsidies which do not cover the needs for support and development of transportation infrastructure
- weak development of mechanisms for attraction of private investments into infrastructure projects
- administrative constraints of railway tariffs’ growth, which impede the accumulation of funds for capital investments
- inefficiencies of legislative and regulatory framework;
- unrealized program of reforms in the sector of rail road transport and Ukrainian State Rail Road Company (Ukrzaliznitsia);
- insufficient carrying capacity of maritime ports
- concentration of local transportation infrastructure assets under central authorities.

Aims and Objectives

The purpose of the reform is in improvement of the present and construction of the new objects of transportation infrastructure for satisfaction of the needs for economic development and improvement the quality of life of population. To meet the objective of the Reform, the following tasks should be fulfilled:

- increase of the volume of funds allocated for development of the state portion of the infrastructure
- creation of favorable terms for attraction of private investments
- improvement of the management of railway and road-transport sectors

¹²According to World Bank’s rating of Logistics Performance Indexes

¹³ The issue of increasing the effectiveness and transparency of customs’ operations will be tackled in “Deregulation”.

- development and implementation of complex program on privatization and development of maritime ports
- increasing the responsibility of the local authorities for the situation with the local infrastructure assets.

Necessary steps

To increase the volume of funds allocated to infrastructure development, it is necessary to take the following steps:

- to approve nation-wide infrastructure projects, to provide for their funding by the state, the World Bank, the EBRD, and by other donors and private investors
- to increase state budget funding of modernization and development of transportation infrastructure objects by 10 % each year
- to expand the sources of contributions to the Road Fund
- to liquidate the industrial discounts on cargo railway shipment and implementation of regulated tariffs that provide for coverage of economically-substantiated expenses and investment component
- to provide for independent operation of the National Commission for Transport Regulation (“*the NCTR*”).

In order to create the favorable conditions for attraction of private investments, it is necessary to implement the mechanism of state-private partnership, to create the authority that provides for institutional support of SPP projects.

In order to improve the management in railway and road-transport sectors, it is necessary to take the following steps:

- distribution in railways and “Ukrzaliznytsia” functions of the state and economic management;
- realization of reforming of railway taking into consideration its functioning specifics;
- enhancing the efficiency of corporate governance
- allocation of non-core assets and further partial or full privatization of segments that are not natural monopolies
- providing private operators with non-discrimination access to infrastructure networks.

For development of maritime ports and airports potential, it is necessary to:

- develop the program for cluster development of maritime ports and gradual privatization of maritime ports and airports;
- development and introduction of transparent mechanisms on access for private investors to use infrastructure that is not subject to privatization (eg, berthing wall area, shipping canals and navigational equipment - for ports, runways, navigation equipment, airports, etc.)

To increase the investment attractiveness of the sector and service quality in intraurban passenger transportation it is necessary to:

- develop and implement measures that will promote consolidation of operators and create healthy competition in the intraurban passenger transportation;

- reforming the system of tariff formation in order to bring tariff to the economic grounded level, assignment social support of the poor population (see section "Reform of Social Support)

To enhance the responsibility of local authorities for the local infrastructure assets, it is necessary to:

- delegate authorities and responsibilities with regard to management of local roads, metropolitan railway, and other local infrastructure objects
- delegate the respective funding to the local authority, to increase the accountability by the local authorities.

Reform Stages

Stage I (end of 2010):

- approval of the list and implementation plans of nation-wide infrastructure projects;
- set up an agency to manage implementation of the nation-wide infrastructure projects;
- optimize roles and duties of the Ukrainian Roads Administration (Ukravtodor);
- liquidation of discounted tariffs for cargo shipments
- improve legislation underpinning operations of the rail road transport .

Stage II (end of 2012):

- segregation of functions of economic and state industrial regulation on the rail road transport;
- adjust the Program of Reforms in the rail road transport sector and methodologies of regulating prices for access to the part of infrastructure treated as natural monopoly;
- design a program of development and planned privatization of sea ports and air terminals;
- design and implement transparent mechanisms for private investors' access to sea and air ports infrastructure not subject to privatization;
- providing for independency of NCTR
- systematical implementation of economically-substantiated tariffs
- beginning of realization of large infrastructure nation wide projects
- delegating local infrastructure projects and corresponding state funding to local authorities;
- reform pricing system in the sector of inter-city passenger transportation.

Stage III (end of 2014):

- accomplish reforms in the rail road transport sector and complete restructuring of Ukrzaliznitsia;
- develop competitive environment in the market of rail road transport services not related to natural monopolies.

Success indicators:

- improvement of Index of Ukraine’s logistic performance from 102nd to 60th place by 2014
- increased state funding of modernization and development of transportation infrastructure objects by 10 % each year
- reduced depreciation of railway transport means - from 85 % to 65 %
- increase of carrying capacity of maritime ports by 50 % (from 200 to 300 million tons).

AGRICULTURAL SECTOR DEVELOPMENT AND LAND REFORM

Challenges

By its natural resources and agrarian potential Ukraine occupies a prominent place among the world countries. However, that potential is used extremely inefficiently and the agro-industrial complex of Ukraine by the level of its development lags very much behind the world leading countries and the EU. The main problems are as follows:

- low competitiveness of agricultural products and their noncompliance with the international standards of quality and safety
- low level of attracting investments into the agricultural sector, increasing dependence on the state funding (UAH 3.3. billion in 2004, UAH 11.2 billion in 2008)
- low economic efficiency of the agricultural production in comparison with the other countries¹⁴, usage of obsolete technologies;
- domination of primary products, of which only a small amount is treatable when exported;
- disastrous drop of soil fertility and increase of soil erosion.

The principal **reason** for such situation is low investment attractiveness of the sector due to:

- unpredictability of administrative regulation of prices and restriction of export;
- inefficient mechanisms of state support of agricultural production, which include the protection of domestic market from import of low quality products, system of standardization, and also sanitary and phytosanitary measures, system of subsidizing and of other instruments of financial support;
- absence of the market for land of agricultural designation.

Goals and objectives

Carrying out systemic reforms in the agro-industrial complex shall ensure the technological re-equipment of the agricultural industry and its transformation into efficient economy sector that is competitive both on domestic and foreign markets.

To reach the outlined goals it is necessary to create conditions for attracting investments, which will enhance the effectiveness of agricultural production, in particular the following should be accomplished:

- providing for predictability of regulatory policy of the state
- improving land relations
- improving the mechanism of state support of agricultural producers
- improving the effectiveness of state management

¹⁴While in 2008 grain cropping capacity of Ukraine at all categories of farms was 34.6 centners per ha, in EC countries this indicator was 51.6, of which in Germany – 70.7, Great Britain – 71.7, in the U.S. – 65.4 centners per ha. Milk yield per cow in Ukraine – 3793 kg, in the above-mentioned countries 6107, 6794, 7186, 9343 kg respectively. Meat production per 100 heads (slaughter weight) in Ukraine – 51.7 centners, in the above-mentioned countries – 227, 191, 453 i 105 centners.

Necessary steps

Predictability of regulatory policy of the state:

- abandoning the practice of administrative interference into pricing for agricultural products and usage of anti-monopoly legislation by the state in cases of abrupt fluctuations of agricultural prices
- abandoning the practice of restrictions of export of agricultural productions by the state.

Improving the land relations:

- creation of preconditions for efficient operation of land market, specifically, by taking stock of land resources, completing issuance of land titles, physical allocation of land plots and so on;
- improve methodological approaches to monetary evaluation of lands of various categories with the purpose of ensuring their real market value;
- creation of electronic nationwide cadastre of land and of corresponding land informational data base, land inventory;
- set up an efficient land market infrastructure;
- design mechanisms to regulate land market and effective transactions with farmland
- simplifying the mechanism for land plots allocation for construction (see “Deregulation of Business and Fostering Entrepreneurial Activities)

Improvement of the state support mechanisms:

- improvement of the system of subsidies for improvement of competitiveness of the sector in compliance with the WTO Agreement of Agriculture (reallocation of “green box”-targeted subsidies according to WTO methodology)
- harmonization of the system for agricultural products standardizing with the norms applied at the EU
- protection of Ukrainian commodity producers from import of low quality agricultural production by using technical regulation permitted by WTO;
- development of crediting and financial mechanisms of support of agricultural producers, which include leasing of agricultural equipment.

To improve the efficiency of the state governance of agricultural complex and the role of local executive authorities, it is necessary to re-allocate authorities and funds, which are necessary for complex development of rural areas, to the benefit of local authorities.

Reform Stages

Stage I (by the end of 2010):

- ensuring predictability of the government policy by declaring the guarantee of the government non-interference with regulation of agricultural goods prices and declaring no restrictions on export;
- coordinating with WTO and to implement the technical regulation of import for restricting import of low quality goods;
- improving the system of subsidizing bringing it into compliance with the requirements of WTO.

Stage II (by the end 2012):

- creation of transparent market for land of agricultural designation on the basis of Uniform Land Cadastre System
- creation of the effective professional state services responsible for maintenance of Cadastre and registration of ownership to the land
- harmonizing the system for standardization and technical regulation of agricultural products with the EU standards.

Success indicators:

- enhanced labor capacity of agricultural sector (at least by 20 % by the end of 2014);
- operation of the market for land of agricultural designation

Appendix: necessary amendments to legislative acts; Passing the bills;

1. State budget stabilization

- Draft law of Ukraine On State Forecasting and Strategic Planning in Ukraine (regarding defining of legal, economic and institutional framework for developing integral system of state forecasting and strategic planning of Ukrainian progress; establishing general principles of creating, approval of relevant document as well as rights and liabilities of members of state forecasting and strategic planning);
- Draft law of Ukraine On State Aid to Real Economy Companies;
- Draft law of Ukraine On Amendments to the Law of Ukraine On Investment Activity (regarding introduction of the state registration of the investment projects, that require state support and evaluation of their economic efficiency);
- Draft Law of Ukraine On Basic Principles of The Assignment of the Investment Subventions;
- Draft law of Ukraine On Amendments to the Budget Code (regarding enhancement of the budget system at all levels, creating backgrounds and stimuli of improvement of the public finances management);
- Draft law of Ukraine On Public and Publicly Guaranteed Debt of Ukraine (regarding regulation of relations occur during the implementation of the debt policy and government debt instruments transactions, regulation defining the principles of public debt management, increase transparency and accountability of the executive decision on debt, creating an effective mechanism);
- Draft Law of Ukraine On Fund for Future Generations

2. Tax reform

- Draft Tax Code.

3. Financial sector development

- Draft law of Ukraine ON Amendments to Certain Legislative Acts of Ukraine relative to activity of the National Bank of Ukraine (regarding confirmation the goals of the NBU, establishment requirements to the NBU officials);
- Draft law of Ukraine On Amendments to Certain Legislative Acts of Ukraine relative to supervision on the consolidated basis (regarding requirement to parent bank of banking group, responsible person for combined banking group);
- Draft law of Ukraine On Amendments to Certain Legislative Acts of Ukraine relative to enhancement of the creditors rights protection (regarding the limitation of the rights of the individual person to manage the funds, which are on the new accounts set up by the person, in case if the person is indebted under the credit agreement, etc.);
- Draft law of Ukraine On Amendments to the Law of Ukraine On Banks and Banking Activity (in regard to specific nature of the corporate governance in banks; adjust banking legislation in accordance with the Law of Ukraine On joint-stock companies, enhancement the role of supervisory board to clarify division of power between administration and control authorities of banks);

- Draft law of Ukraine On Guarantees of Personal Deposits;
- Draft Law of Ukraine “On Amendments to the Article 3 of the Law of Ukraine “On the Principles of the State Regulatory Policy in the Sphere of Economic Activity” (regarding the cancellation of the requirements of the harmonization of the regulatory acts of the specially authorized executive body in the sphere of the regulation of the financial services market and the State Commission on Securities and Stock Market with the specially authorized executive body on the issues of the state regulatory policy);
- Draft Law of Ukraine “On Amendments to Certain Legislative Acts of Ukraine regarding the Circulation on the Secondary Market of the Mortgage Securities” (regarding the permission for the State Mortgage Institution to replace, reverse repurchase or transfer the mortgage assets, which were included into the mortgage area);
- Draft Law of Ukraine "On the Derivatives (regarding the improvement of the legal and organizational conditions of the issue and circulation of the derivatives in order to stimulate the development of the fixed date market);
- Draft Law of Ukraine "On Amendments to the Law of Ukraine “On mortgage bonds” (regarding the improvement of the mechanisms of the emission and circulation of the special-purpose bonds);
- Draft Law of Ukraine “On Amendments to Certain Legislative Acts of Ukraine regarding the Special-Purpose Bonds (regarding the improvement of the mechanisms of the emission and circulation of the special-purpose bonds, providing the market regulator with the sufficient powers for ensuring the protection of the legal rights of the investors);
- Draft Law of Ukraine “On Amendments to the Law of Ukraine “On Securities and Stock Market” regarding the Ukrainian Depositary Receipts”;
- Draft Law of Ukraine “On Amendments to the Laws of Ukraine “On Companies” and “On Securities and Stock Market (regarding the disclosure of the information of the stock market)”;
- Draft Law of Ukraine “On the System of the Depositary Registration of the Securities” (regarding the regulation of the issue of the creation and functioning of the Central Depository of the Securities in Ukraine, prevision of the clear procedure of the possibility of the transfer of the functions of the depository services the turnover of the government securities from the National Bank of Ukraine to the Central Depository);
- Draft Law of Ukraine “On Amendments to the Law of Ukraine” On the State Regulation of the Securities Market in Ukraine” (regarding the authority of the State Commission on Securities and Stock Market, the possibility to their realization of the prudential supervision on the stock market)
- Draft Law of Ukraine “On Amendments to the Law of Ukraine “On the Institutions of the Joint Investment (Share and Corporate Investment Funds) (new edition) (regarding the improvement of the system of the management of the collective investment institutions, focusing of the norms, which regulate the activity of the corporate investment funds in one law);
- The Draft Law of Ukraine “On Amendments to Certain Legislative acts of Ukraine (regarding the raising of the demands to the statutory funds of the banking and non-banking financial institutions)” (amendments to certain laws of Ukraine regarding the increase of the demands to the statutory fund of the professionals of the stock market and financial institutions).

4. Reform of intergovernmental fiscal relations

- The Law of Ukraine On Amendments to Budget Code of Ukraine (related to improvement the procedures of local budgets approving and implementation; expanding revenue base and streamlining expenditure powers of local self-government; enhancement of intergovernmental fiscal relations).

5. Reform of the medical care system

- Draft law of Ukraine On Compulsory State Medical Insurance (relative to introduction additional sources of health care financing; introduction of contract relations and purchasing of medical services by public expenses; guaranteed level of gratuitous knowledgeable medical care in the amount specified by law);
- Draft law of Ukraine On Basic Principles of Health Care Activity (regarding legal, economical, organizational and social basics of health care in Ukraine aimed at harmonious development of physical and moral courage, high working ability, long active life of citizens, preventing and reduction morbidity, disability and mortality, heredity improvement as well as regulation of social relations in this sphere);
- Draft law of Ukraine On Health Care Institutions (relative to enhancement of medical care for citizens and health care institutions performance, improvement quality of medical services, introduction contract relations between the customer and supplier of medical services, creating mechanism of sustainable use of financial, human, material and technical resources of the sector);
- Draft Conception of the Law of Ukraine On National Emergency Medical Care system (regarding basic principles of state emergency medical care policy for creating national emergency medical care system in Ukraine, which is a part of national security).

6. Reform of the pension system

- Draft law of Ukraine On Collection and Accounting of Unified Social Contribution (regarding consolidating all similar functions of the funds in one body, namely: registering of insurers, the formation and maintenance of the State Social Insurance Registry, ensuring accountability, monitoring the completeness and timeliness of payment of a single social contribution);
- Draft law of Ukraine On Amendments to Certain Legislative Acts of Ukraine (relative to stability of funding the pension system)
- Draft law of Ukraine On Introduction of Accumulative System of the Compulsory State Pension Insurance;
- Draft law of Ukraine On Obligatory Professional Pension System.

7. Reform of the social support system

- Draft law of Ukraine On Amendments to Certain Legislative Acts of Ukraine (relative to normalize the amount of benefits of travel by urban and suburban transport for certain categories of people);
- Draft law of Ukraine On Amendments to Certain Legislative Acts of Ukraine (relative to combine all types of state support into a unified state social support system, increase the level of support, enhance its targeting and use indirect methods of property status evaluation for those who claim for social support reception);

- Draft law of Ukraine On Amendments to Certain Legislative Acts of Ukraine relative to benefits of payment for housing and public utilities services for certain categories of people;
- Draft law of Ukraine On Amendments to Certain Legislative Acts of Ukraine (regarding benefits of payment for telecommunication services related to definition that benefits of payment for telecommunication services for certain categories of people are granted within established norms).

8. Education system reform

- Draft Law of Ukraine On Amendments to Certain Legislative Acts of Ukraine (relative to enhancement of vocational education management);
- Draft law of Ukraine On Amendments to the law of Ukraine On pre-school education (regarding obligatory pre-school education for children of five years);
- Draft law of Ukraine On Amendments to Certain Legislative Acts of Ukraine in part of introduction of integrated and inclusive education in general education institutions (regarding ensuring autonomy of general education institutions; providing the facility of vocational training in general education institutions; possibility of creation educational okrugs as voluntary communities of educational institutions of secondary education system; promote prestigiousness of teacher's profession);
- Draft law of Ukraine On Higher Education (new edition) (regarding adaptation Ukrainian legislation to requirement of Bologna process; adjusting provisions of law to modern economy requirements).

9. Deregulation of activities of small and medium businesses

- Draft Law of Ukraine “On making changes to the Law of Ukraine “On the System for licensing economic activities” and the Ukrainian Code of Administrative Offences (on increasing the responsibility of licensing authorities for violating licensing legislation);
- Draft Law of Ukraine “On making changes to the Law of Ukraine “On the restoration of paying capacity of a debtor or recognizing it bankrupt» (on the new language of the Law);
- Draft Law of Ukraine «Urban Planning Code of Ukraine»
- Draft Law of Ukraine “On making changes to some laws of Ukraine regulating acquisition of the right to take certain actions related to business activities or types of business activities on the grounds of declaration of legal compliance of material and technical base”;
- Draft Law of Ukraine “On making changes to some laws of Ukraine on bringing laws in compliance with the Law of Ukraine “On making changes to the Law of Ukraine “On the system for licensing economic activities”, including the revocation of licenses that are inappropriate and economically unsubstantiated”;
- Draft Law of Ukraine “On the list of permits, licenses, approvals in the area of economic activities” (on the approval of permits, licenses, approvals that give the right to exercise certain actions with regard to business activities, and also to determine the objects with regard to which permits, licenses, approvals are issued);
- Draft Law of Ukraine “On making changes to some acts of law of Ukraine providing on the reduction of the number of types of licensing”;

- Draft Law of Ukraine “On making changes to some acts of law of Ukraine with regard to simplification of the mechanism of state registration of business entities’ termination” (on the introduction of efficient mechanism of sharing knowledge by the state statistics authorities, state tax authorities, the Pension Fund of Ukraine, the social security funds, that would confirm the absence or the presence of taxes or duties payable by the individual/ legal entity, payments to general mandatory state social and pension insurance and other payments to the Pension Fund of Ukraine and the social insurance Funds);
- Draft Law of Ukraine “On making changes to some legislative acts of Ukraine” (on the introduction of the system of electronic state registration of business entities);
- Draft Law of Ukraine “On making changes to the Law of Ukraine “On the principles of state oversight (control) in the sphere of business activities” (on the approval of certain provisions);
- Draft Law of Ukraine “On making changes to the Law of Ukraine “On the safety and quality of food substances” (on establishing the duty to comply with the respective provisions of the Law of Ukraine “On the principles of the state policy regulating business activities” with regard to sanitary and phytosanitary activities, and also all aspects of providing users with the information on quality of food substances);
- Draft Law of Ukraine “On the official control with the purpose of inspecting the compliance with the laws regulating food substances” (on establishing the mechanisms for coordination and integration of national, regional and local controlling authorities);
- Draft Law of Ukraine “On introduction of changes and amendments to some laws of Ukraine” (harmonization of the Ukrainian and European legislation with regard to the list of permits, licenses, approvals, certificates, reconcilements, and conclusions that should be received by manufacturers of food substances);
- Draft Law of Ukraine “On making changes and amendments to some laws of Ukraine” (on administrative and criminal responsibility for violation of legal requirements as to safety of food substances and informing consumers about their qualities);
- Draft Law of Ukraine “On the general requirements towards objects and materials in contact with food substances” (new wording);
- Draft Law of Ukraine “On informing users on the qualities of food substances” (new edition);
- Draft Law of Ukraine “On making changes to some laws of Ukraine on informing the population on the content of genetically modified organisms (GMO) in food substances”;
- The draft law of Ukraine “On the market monitoring” (on the legal and organizational principles of monitoring the compliance of the circulating production with safety and consumer protection requirements based on EU principles);
- Draft Law of Ukraine “On making changes to some laws of Ukraine (on voiding the registration of producer’s declaration of compliance)”;
- Draft Law of Ukraine “On general product safety ” in compliance with the Directive 2001/95 (on establishment of legal and organizational principles of introducing into circulation safe products only and placing them in the Ukrainian market);
- Draft Law of Ukraine “On the supplier responsibility for defective product”;
- Draft Law of Ukraine “On the metrology and metrological activities” (new wording);

- Draft Law of Ukraine “On the development and support of small and medium businesses of Ukraine” (on provision of favorable conditions of development of small and medium businesses; development of small and medium businesses with a view to create competitive environment in the Ukrainian economy and provide for its competitiveness);
- Draft Law of Ukraine “On handicraft workers activities” (on the principle targets of state support of handicraft workers activities, interaction between state authorities, local self-government authorities and handicraft workers organizations; legal status of handicraft workers’ organizations; criteria of classifying profession as handicraft);
- Draft Law of Ukraine “On self-government organizations” (on the realization of the ability of the citizens of Ukraine to directly participate in governing state affairs, as provided in the Constitution of Ukraine, by delegating respective authorities to the professional self-government and self-regulatory associations);
- Draft Law of Ukraine “On making changes to some laws of Ukraine in order to bring them in compliance with the Law of Ukraine “On the principles of regulatory policies in the sphere of business activities” (on the procedure for development, review and approval of regulatory acts);
- Draft Law of Ukraine “On the quick analysis of review of regulatory acts adopted by the local governments and officers, with regard to their compliance with the principles of state regulatory policy in the sphere of business activities”.

10. Privatization and state property management

- Draft Law of Ukraine “On the State Property Fund of Ukraine” (on the fundamental principles of activities of the State Property Fund of Ukraine, its status, functions, authorities and performance procedures);
- Draft Law of Ukraine “On the State Privatization Program” (on the objectives, priorities and terms of privatization for the subsequent years);
- Draft Law of Ukraine “On making changes to some legislative acts of Ukraine regulating privatization” (formation of specific and effective legal framework regulating privatization);
- Draft Law of Ukraine “On the list of state-owned legal objects that are not subject to privatization» (on the necessity to preserve the state ownership of the objects that provide for exercising its principal functions by the State and guarantee the national security);
- Draft Law of Ukraine “On making changes to some acts of law of Ukraine regulating privatization and land relations” (granting privatization authorities with all the powers required to form land relations subject to sale together with privatization object, or paid to statutory capitals of business associations);
- Draft Law of Ukraine “On making changes to the Law of Ukraine “On governing state-owned objects” (transferring the management of enterprise and property complexes representing the state-owned sector of economy, from the authorized managing bodies to the State Property Fund, and concentration of these functions by the latter);
- Draft Law of Ukraine “On making changes to some legislative acts of Ukraine (regarding concessionaire rights)”;
- Draft Law of Ukraine “On the founding principles of interaction between the state and the private partners”.

11. Development of scientific, technical and innovation areas

- Draft Law of Ukraine “On making changes to the Law of Ukraine “On innovation activities” (establishing the principal subjects of innovation infrastructure that render services to subjects of innovation activity);
- Draft Law of Ukraine “On making changes to some laws of Ukraine regulating technological estates” (on boosting the activity of technological estates, stimulating the realization of innovation projects, enhancing the responsibility of technological estates for legal compliance, and specifying the implementation of some provisions of the Law).

12. International integration and cooperation

- Draft Law of Ukraine “On ratification of EC Convention for the protection of individuals with regard to automatic processing of personal data and Additional Protocol to with regard to supervisory authorities and transborder data flows”;
- Draft Law of Ukraine “On Ratification of EC Convention on Action against trafficking in human beings”;
- Draft Law of Ukraine “On the Protection of personal data” (on creation of proper legal and institutional base for Implementation of the system of personal data protection in accordance with international and European standards);
- Draft Law of Ukraine “On making changes to some laws of Ukraine (on the principles of the state migration policy)” (on creation of a uniform migration service, whose jurisdiction would include key tasks of migration management, as well as creation of the proper mechanism of inter-departmental cooperation between migration services and all law-enforcement agencies, including without limitation for the purpose of data sharing and mutual access to corporate databases).

13. Electric utility industry reform and enhancing energy effectiveness of economy

- Draft Law of Ukraine “On the state regulation of electric utility industry of Ukraine” (on improvement of the system for state regulation and establishing the independent status of regulator of electric utility industry);
- Draft Law of Ukraine “On the basis for functioning of the market for electrical energy in Ukraine” (regulation of the principles of functioning and development of the market for electrical energy of Ukraine, including the transfer to exercising direct agreements);
- Draft Law of Ukraine “On making changes to the law on natural monopolies” (on establishing the status, rights and liabilities of natural monopolies’ regulation authorities; implementation of the methodology of formation of tariffs for subjects of natural monopoly, which stimulates the optimization of expenses. Deletion of provisions according to which the tariffs for subjects of natural monopoly are cost-based according to tax legislation);
- Draft Law of Ukraine “On making changes to some laws of Ukraine” (on implementation of economic responsibility of consumers, including the population, for overdue payments for consumed electrical energy and received housing and utility services; voiding the provisions of the laws of Ukraine that restrict power supply companies’ authorities to cut off debtors from power supply, including the population; regulating the issue of payment for connecting users to electrical grids);
- Draft Law of Ukraine “On the land plots used by objects of electric energy industry and the legal regime of special zones of electric energy industry’s objects” (on seizures of

the land plots for public needs related to construction of objects of electric and heat power engineering and simplification of the procedures for land allocation and connecting to electrical grids);

- Draft Law of Ukraine “On making changes to the Law of Ukraine “On the measures directed at provision of stable operation of fuel and energy enterprises” (on regulation of indebtedness between the entities represented in the wholesale market for electrical energy, making changes to the procedure for settlement of accounts);
- Making changes to the Decree of the President of Ukraine of 17.11.2008 #1046/2008 “On additional measures related to overcoming the financial crisis in Ukraine” (cancellation of moratorium on increase of retail tariffs and tariffs for natural monopolists);
- Revision of the General Agreement between the Cabinet of Ministers of Ukraine, All-Ukrainian Federation of organizations of employers and entrepreneurs, and all-Ukrainian trade unions and professional associations, regulations on agreeing with the representatives of the trade union of the decision on changing effective tariffs for electricity, gas, etc. for the population, which are approved by the central executive authorities pursuant to their powers.

14. Coal industry reform

- Draft Law of Ukraine “On the State Support of Coal industry enterprises” (provides on the procedure for allocation of funds in the form of allowances, subsidies and governmental grants in compliance with WTO regulations);
- Draft Law of Ukraine “On privatization of Coal industry enterprises” (provides on the procedure for privatization and investor preferences);
- Draft Law of Ukraine that sets forth the basis for operation of market for coal products (provides on the rules for gradual transition from the model of a single operator market to the model of direct business contracts in coal products, establishes basic principles of pricing of coal products).

15. Gas&Oil industry reform

- Draft Law of Ukraine “On making changes to the Code of Ukraine “On the subsurface resources” (new wording);
- Draft Law of Ukraine “On making changes to some legislative acts of Ukraine” (on the measures directed at provision of stable operation of fuel and energy complex enterprises).

16. Housing and utility sector (HUS) reform

- Draft Law of Ukraine “On the peculiarities of leasing out and concession of the objects of centralized water and heat supply and of drainage system in community ownership”;
- Draft Law of Ukraine “On the National Commission for regulating the market of communal services of Ukraine” (on establishing the legal principles of organization and activity of the National Commission for regulating the Ukrainian market for utility services);
- Draft Law of Ukraine “On making changes to some legislative acts of Ukraine with regard to increasing the responsibility for legal violations in housing and utility sector

- (HUS)” (on enhancing the responsibility of natural persons and legal entities for violations in HUS, and also on defining controlling authorities in the said sector);
- Draft Law of Ukraine “On making changes to some laws of Ukraine on exercising of state control (oversight) in housing and communal sector” (on bringing the by-laws of the Ministry of Housing and Utility Sector in compliance with the Law of Ukraine “On the basic principles of state oversight (control) in housing and community sector);
 - Draft Law of Ukraine “On recognizing invalid the Law of Ukraine “On the temporary prohibition of collecting penalties for overdue housing and utility sector payments from Ukrainian citizens”.

17. Transportation infrastructure development

- Draft Law of Ukraine On Maritime Ports;
- Draft Law of Ukraine On navigation in inland waterways;
- Draft Law of Ukraine On International Ships registration;
- Draft Law of Ukraine On fuel (local) fees;
- Draft Law of Ukraine On State private partnership ;
- Draft Law of Ukraine On Amendments to Air Code (new edition);
- Draft Law of Ukraine on Amendments to Merchant Shipping Code (new edition);
- Draft Law of Ukraine on Amendments to Certain Legislative Acts of Ukraine, in particular:
 - Land Code
 - Air Code;
 - Law of Ukraine On transit of goods
 - Law of Ukraine On auto roads;
 - Law of Ukraine On Local State Administrations;
 - Law of Ukraine On Financing sources of public road system;
 - Law of Ukraine On rates of excise duty and import duties imposed on certain goods (products);
 - Law of Ukraine on obligatory insurance of legal liability of the owners of vehicles;
 - Law of Ukraine On automobile transport;
 - Law of Ukraine On railway transport;
 - Law of Ukraine on traffic;
 - Law of Ukraine On the list of private property, not subject of privatization;
 - Law of Ukraine On concessions;
 - Law of Ukraine On investment activity;
 - Law of Ukraine On delegation of Objects of a Right of State and Community Property;
- Draft Law of Ukraine On metropolitans.

18. Agricultural sector development and land reform

- Draft Law of Ukraine On Land Market
- Draft Law of Ukraine On State Land Cadastre;
- Draft Law of Ukraine On principles of sustainable development of agricultural areas;
- Draft Law of Ukraine On Amendments to the Law of Ukraine on State Support for Agricultural Sector (on settlement of obtaining documents of compliance);
- Draft Law of Ukraine On Commodity market (new edition);
- Draft Law of Ukraine on Derivatives and Term Contracts (in regard to futures contracts and options, whose underlying assets are particular types of grains and oilseeds).

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