

- *Structural reforms are critical for raising productivity and increasing growth, incomes and standards of living.*
- *Ukraine has a vast reform agenda ahead to ease regulatory, institutional, governance and structural bottlenecks to growth.*
- *Strong communication and fair burden sharing are crucial for sustaining public support for reforms.*

Why Are Structural Reforms Important?

While restoring macroeconomic stability remains a key challenge, Ukraine's best bet for achieving robust and sustained growth lies in undertaking deep and comprehensive structural reforms. Structural reforms go hand-in-hand with macroeconomic stabilization and help to bring in investment, create jobs, boost incomes and improve standards of living in a sustainable manner. By alleviating the binding regulatory, institutional, governance and structural bottlenecks to growth, structural reforms create an environment that fosters a more efficient allocation of resources and thereby boost productivity i.e., higher output per unit of input. When productivity goes up, incomes and living standards also rise in a sustainable manner.

Ukraine's progress in structural reforms vs peer countries (higher score indicates poorer performance in a specific ranking)



Source: World Bank

What Are the Priority Reforms?

Structural reforms have been delayed for a long time in Ukraine and have led to a lackluster growth performance in the past few years. As the economic crisis intensifies, the pressing economic challenge in Ukraine today is to jumpstart growth. This is a pre-requisite for creating more and better jobs so that all Ukrainians can benefit. But what specific reforms are needed in Ukraine?

- Macroeconomic and financial sector stability are fundamental to sustained recovery and growth.
- Equally important are improvements in governance to increase efficiency in the use of public resources, reduce corruption, improve service delivery and enhance people's trust in the government.
- Utility and energy sector reforms are important for improving service delivery in a cost-effective manner while containing financial imbalances.
- Meanwhile, improving regulatory quality is critical for private enterprises to flourish, create jobs and grow in a sustainable way.
- While reforms are being undertaken, it is very important to strengthen and better target the social safety net so that the poor and vulnerable are protected.

These reforms need to be undertaken together and must be comprehensive. The World Bank is supporting these reforms through our policy-based loans and investment operations.

Reforms Supported by the World Bank

The World Bank worked with the government to support reforms that help: (i) promote good governance, transparency, and accountability in the public sector; (ii) strengthen the regulatory framework and reduce costs of doing business; and (iii) reform inefficient and inequitable utility subsidies while protecting the poor. The World Bank also provided support to the authorities in reforming the financial sector, focusing both on the immediate task of restoring public confidence in banks as well as a longer-term objective of making the sector more efficient and resilient to possible future shocks. Some of the key reforms supported by the World Bank include:

- The 2010 *Law on Public Procurement* was eroded by a series of amendments that expanded the number of exemptions from public procurement law. As a result, only 35 percent of public procurement by value used competitive methods in 2013, undermining value for money and creating opportunities for corruption. The World Bank, working with all stakeholders, supported amendments to the

legislation to reduce the scope for exemptions from competitive procedures, to provide for use of eProcurement, improve transparency of procurement processes by lowering thresholds for application of the procurement legislation, and to publish procurement information.

b) To strengthen prevention of corruption, the World Bank is supporting actions to set up *external verification of financial disclosures of elected and senior public officials* and to strengthen accountability for those who fail to comply with financial disclosure requirements. This reform is expected to improve accountability of elected and senior public officials by facilitating public scrutiny and reducing opportunities for illicit enrichment.

c) To help the private sector, the World Bank has supported enactment of legislation requiring *publication of monthly data on VAT refund processing* including claims, refunds, automatic refunds, and arrears; and to revoke order of the Ministry of Revenue and Duties that establishes targets for additional assessments and fines resulting from audits.

d) With support from the World Bank, the government also amended legislation to *ease business and property registration and reduce the number of permits*. Legislation on permits established a positive list of required permits and reduced the number of activities subject to required permits (the total number of permits has been reduced from 143 to 85). These modifications are expected to lead to simplified permitting procedures, including by improving internal coordination among state authorities involved in issuing permits to lower transaction costs for businesses.

e) The World Bank worked with the authorities to abolish the *State Land Bank*, thus removing a significant distortion and governance risk in the land market and banking system.

f) The World Bank also supported *residential gas and district heating tariff reforms* to improve service delivery, lower the fiscal burden and enhance energy security.

g) The World Bank also supported the government in enhancing *social safety nets* to mitigate the impact of tariff increases on lower income families. A new program adopted by the Cabinet will compensate the increase in gas and heating bills of the poorest 30 percent of the population.

h) Finally, in the area of the *financial sector*, the World Bank is supporting reforms to build up the capacity of the Deposit Guarantee Fund, to make banks more resilient through implementation of recapitalization and restructuring plans, and to strengthen the supervisory and regulatory framework for the banking sector.

In addition to these reforms, the World Bank is working with the authorities to deepen reforms in the areas mentioned above. Key measures include: amending the transfer pricing law, expanding audits to state budget revenue, strengthening public investment management, simplifying VAT refund processing, reducing the stock of non-performing loans, strengthening regulatory quality, depoliticizing tariff setting by making the regulators independent, restructuring Naftogaz and strengthening the social safety net.

Communication is Crucial to Sustain Public Support

Global experience has shown that for structural reforms to be sustained they need to be communicated clearly to the public. The rationale for reforms as well as a clear explanation of the expected benefits will be crucial. It is critical that reforms are perceived as fair by the public. To sustain their support, the burden of reforms should not fall mainly on the lower and middle income groups, while high-level corruption remains unchecked. In this regard, a strong and well-targeted social safety net system will help protect the poor and vulnerable.

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