

Summary Report on the proceedings of the International Retreat “Ukraine: A Strategy for Reforms”, Kyiv, July 19-21, 2014

1. Introduction

The first international retreat “Ukraine: A Strategy for Reforms” took place on July 19-21, 2014 in Kyiv. Funded and organized by the International Renaissance Foundation (IRF), the retreat gathered together some 200 participants, primarily Ukrainian experts from inside the country and abroad, civil society leaders, international multilateral and bilateral donors and several prominent foreign policymakers with first-hand experience in implementing reforms. The Deputy Prime Minister and Minister for Regional Development Volodymyr Groysman, Minister of the Cabinet of Ministers Ostap Semerak, Ministers Pavlo Sheremeta (Economic Development and Trade), Oleh Musiy (Health), Yevhen Nischuk (Culture), Dmytro Shymkiv (Deputy Head of the Presidential Administration) and Vladislav Rashkovan, Member of the Board of the National Bank of Ukraine all attended some of the retreat’s sessions. The President of Ukraine sent his support message to the retreat. Strategic Advisory Groups (SAGs) that IRF has recently launched in several areas of reform were at the heart of the retreat, with SAG members actively discussing the reform priorities in thematic working groups. The retreat had an interactive rather than a regular conference format, with both plenary sessions and smaller working group breakout sessions, allowing participants to get to know each other and formulate concrete reform proposals within their respective area.

The retreat discussed the principles of a Ukrainian reform program, the current challenges facing the country, the vision of institutional and structural reform, specific priorities (based on the work of the sectoral working groups), European integration, regional reform experience (with former foreign governments’ leaders Nika Gilauri (Georgia), Ivan Miklos (Slovak Republic) and Gordon Bajnai (Hungary), the creation of a National Reform Council and international donor support.

2. Reform Principles

The broad principles of a comprehensive reform program were discussed on the first morning of the retreat, with participants reacting to a menu of principles derived from other countries’ reform experiences. Such principles, among others, include that the reforms be Ukraine born and owned, that reforms should be transparent and communicated well to the public, that a reform program has to be inclusive and have several layers of support. After a discussion,

retreat participants endorsed the attached key principles, with some additions and modification (see Annex 1). Gordon Bajnaj shared his views on principles – he argued that reforms should be centralized and have parliamentary majority backing them; he argued to not over-do reforms and fall into reform zealotry. Instead, he explained that 80% of reform impact comes from 20% of all implemented reforms. Therefore, he thought policymakers should focus on the crucial reforms and act fast to implement them first. Retreat participants also stressed the need for *quick-wins* in each area of reforms as a precondition for more substantive achievements in the future.

3. The Reform Vision

Retreat participants also discussed the vision of a reform program, and supported the idea that before embarking on a reform program all stakeholders should agree on a vision of what the program should achieve. In this case, they considered ideas to think of a Ukraine 2020 type program and outline a collective vision of how they would like to see the country by then (less corrupt, better governed, with economic and financial health restored, and growing at its potential, integrated into European market). The broad vision also included not only economic and good governance parameters but social and human development ones as well.

4. Key reform priorities

Eleven working groups composed of experts in each area as well as international policymakers, government officials (the Minister of Health attended the working group on Public Health) and donor and IFI representatives worked closely together in a smaller format for several hours on Saturday afternoon. Each group was asked to think about and agree on key priorities, paying attention to the substance of the reform (the What?) rather than the tools to implement it (the How?). This format proved highly successful, with working groups continuing their deliberations even after the allocated time. Each working group then presented its reform proposals on Sunday morning in a plenary session. All participants were given the chance to ask questions and comment on the proposals of all working groups. By then, cross-cutting themes had also begun to emerge, such as corruption, the rule of law, low government capacity and poor governance, the importance of European integration as a guideline for reforms in many areas.

Annex 2 lists the key reform priorities as identified in each of the 11 working groups.

5. National Reform Council (NRC)

Retreat participant had an extensive discussion on the NRC: its status (inside or outside the government), composition, functions (including to coordinate and monitor reform

implementation) and funding. Deputy Head of the Presidential Administration Dmytro Shymkiv and Vladislav Rashkovan of the NBU each presented how they see reform implementation. Each argued in their own way about putting in place a structure or platform that would bring together the different branches of power (executive, legislative and presidential), and would also include civil society, the business community and international stakeholders (donors and IFIs).

Even though there was some skepticism about the need for such a body amongst participants (who mainly came from civil society and the expert community) by the end of the conference there was much greater buy-in for the NRC. International donors – Bond (US), Rasbash (EU), Peterson (SIDA), Beltrani (Swiss) and Acuner (EBRD) – expressed support for the creation of an NRC but underlined that they need to get a clear request (and plan) from the government to financially assist it.

Annex 3 lists the key approaches to NRC formation as identified in the working groups and presented at the plenary.

A press conference took place after the close of the retreat on Monday, 21 July, where Dmytro Shymkiv (Deputy Head of Presidential Administration), Pavlo Sheremeta (Minister of Economy), Oleksandr Sushko and Alex Pivovarsky described what had happened during the weekend and announced that we would cooperate to launch the NRC. According to Shymkiv “it will be a forum uniting different institutions (the Presidency, Cabinet of Ministers, Parliament) and monitoring reform.”

Among the immediate outcomes of the retreat President Poroshenko issued a Degree № 614/2014 dated 23.07.2014 to establish National Reform Council (Annex 4). The Decree represents President’s office vision and reflections on the NRC idea delivered by the retreat initiators and participants. Retreat’s Steering group started further communication in order to keep practical involvement into the NRC setup process, according to the Decree.

6. General recommendations/next steps:

The retreat concluded with a strong call from participants for quicker and more comprehensive reform. Over the three days Ukrainians living in the country, and in global capitals, often expressed disappointed that more radical changes in legislation, procedures, administration and staff had not taken place since the government under Prime Minister Yatseniuk took office. According to the Reanimation Package of Reforms group, in the five months ten laws have been passed, out of which only three seek to combat corruption. Lack

of progress cannot be easily blamed on one party as Ukraine is stymied by an inadequate constitution, uneasy three party coalition government, deeply divided parliament (where the party that backed the former President Yanukovitch is still the second biggest), entrenched bureaucracy, weak political parties, conflict in the southeast and a broader struggle with Russia about Ukraine's future. Local Ukrainians and international experts argued that in this situation strong leadership from the top is necessary to overcome the obstacles and move reform forward. At the same time decision making should be transparent and take into consideration recommendations made by independent experts and civil society representatives who continue to nurture the Maidan's flame. Focus should not only be on the text of reforms but also on the steps needed for implementation.

The International Renaissance Foundation, with the support of the Open Society Foundations, expects to continue supporting the government and Presidency in preparing a national reform program and setting up a National Reform Council. It will also continue to assist line ministries with the provision of Strategic Advisory Group (SAGs) made up primarily of Ukrainians to give policy advice on reform issues, and maintain its work with civil society groups.

The retreat reminded all present of the urgency of reform as well as the rich intellectual resources available to design and implement change. Even though the breakup of the coalition government a few days after the retreat will make it difficult to set up a fully functioning NRC before the fall elections, these months may be used to prepare a comprehensive reform program and secure buy-in from a maximum number of stakeholders. Ivan Miklos explained how his political colleagues used a similar waiting period in Slovakia to prepare for sweeping reforms. The OSF and IRF look forward to building up this momentum with many of the retreat's participants in the coming weeks and months.

Annex 1: Principles of a Reform Program

The reform program should be:

- Written and owned by the Ukrainian policy community;
- Based on an inclusive transparent approach, include multiple stakeholders, especially civil society;
- Informed by the best lessons learned from other reform processes;
- Comprehensive, including all the main sectors of policy reform;
- Non-partisan and based on the values of a state defined by democratic practice, the rule of law, respect for human rights, especially minority rights;
- Interaction between government and civil society is very important for reform going forward;
- Supportive of the country's EU integration process, guided by the commitments and promises of the Association Agreement;
- Reflective of challenges determined by Ukraine's geo-strategic location, in particular, the need for sustainable and peaceful engagement with Russia (on the basis of international law and recognised borders) and the importance of economic links with all neighbours;
- Address issues of political economy and implementation, including administrative and judicial reform as well as decentralisation and political reform as they relate to the feasibility of implementing the entire program;
- Leadership needs to be strong to implement reforms and having a strong political mandate helps.
- Governments should avoid falling into the trap of 'reform zeal' – reform for the sake of reform.
- Reforms and reformers should be able to adapt to change.
- Focussed on medium-term reform but aiming to identify priority areas and longer-term objectives when appropriate;
- Able to sequence and prioritize reforms;
- Consistent with realistic fiscal resources;
- Mindful of the international community's support (including in the context of the IMF programme) and contains inputs from the international financial institutions.
- There needs to be a central person in government focused only on reform and getting reform passed. Reform has to be centralised in order to work.
- Reform programme has to be front-loaded. If you do the difficult things first (as soon as possible) you will gain credibility in the international finance community and be in a better position to have sustainable reform.

- Manage expectations and communications. Avoid classic short-term promises, face the music and communicate to the country that this will be a difficult time. Being open and honest with the public will increase support for tough reform programmes.
- Show solidarity. The country has to feel like everyone is in it together. Symbolic actions in times of austerity like cutting minister salaries will help bring everyone together to get through the tough times.
- A roadmap is a must-have. There has to be a sense that the government knows where it is going. The role of IFIs is not to dictate the programme; they are external auditors who legitimise the programme.

Annex 2:
Reform proposals
(Based on group discussions at the retreat held on 19-21 July)

1. Good Governance

1.1 Constitutional reform: objectives and principles

- To restore legitimacy of the Constitution;
- To remove conflict among the branches of power;
- To open the way to full-fledged decentralization;
- A successful constitutional reform means implementation of the current Constitution;
- Changes to the Constitution should not block future reforms; should be comprehensive; should introduce principles and values;
- The reform process cannot depend on external pressure.

1.2 Public administration reform: principles and actions

- Without reforming the government (Cabinet of Ministers and line ministries) no other reform is possible;
- Move to a concept of a “service state”
- Change the government’s decision-making process (move to policy analysis and response techniques); mandatory public consultations;
- Reduce the number of administrative functions (i.e. state interference);
- Regulate administrative procedures;
- Remove some regulations from state agencies and transfer them to self-regulating organizations.
- Reform the civil service on the principles of patriotism, professionalism, political neutrality and efficiency, with adequate salaries for civil servants
- Create a transparent instrument (special fund and/or additional budget support) to support the implementation of the most important reforms;
- Involve experts with the support of international donors and the business community.

1.3 Decentralization: reservations and proposed actions

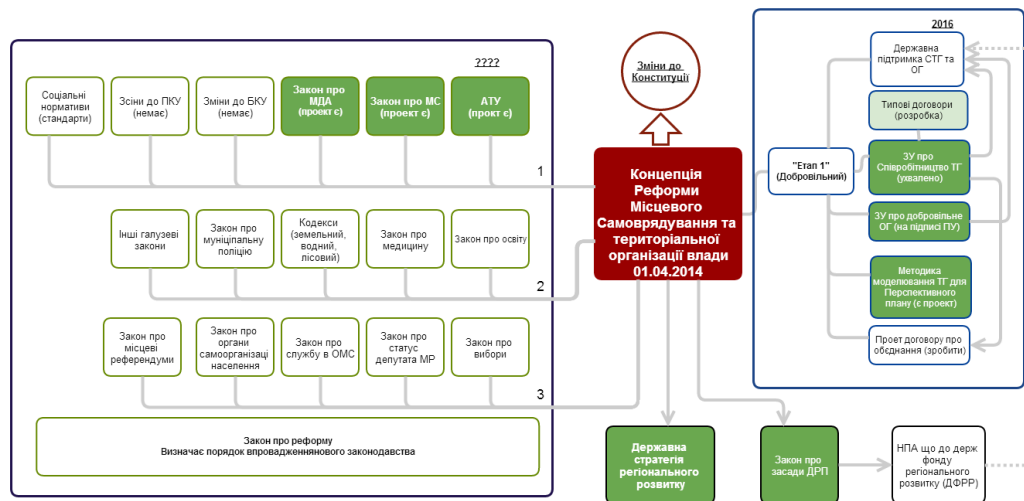
- The introduction of regional self-governance is premature;
- Introduce checks and balances to prevent the fragmentation of territories and excessive concentration of power in the regional Chair’s hands;
- Local state administrations should be transformed into oversight and control bodies; functions duplicating those of local self-governance should be eliminated;

- The heads of local administrations, who are fully subordinated to the government, also carry out necessary tasks of representing the President in the region.
- Build effective and responsible governing bodies in the territories;
- Implement logically the concept of reform from 1 April 2014;
- Reach a clear understanding within the Government of the limits and processes of decentralization and the reform as a whole;
- A community should be the key empowerment level of local self-government;
- Ensure a balance of resources, the powers and responsibility between local self-governance bodies at the district and region levels should meet the subsidiarity principle;
- Start with supporting several pilot projects of uniting communities that are ready to reform;
- Develop self-organization of the population at the level of new communities.

1.4 E-governance

- Create a system of formulation of public administration decisions, their implementation and control by the government and civil society;
- Create a possibility to provide long-distance e-services regardless of an agency's physical location;
- The implementation of e-governance needs to be synchronized with reforms in other areas in order to enhance their effects and results; it needs to take into account the possibilities of modern technologies and ICT development;
- All that is not secret should be made public (i.e. published on the internet sites of government agencies);
- Open (publish on government websites) primary data for secondary processing by citizens;
- Create the technical conditions and approach to a unified e-governance system throughout the public administration;
- Implement citizens' rights through e-governance mechanisms (elements of direct democracy via the use of ICT)

Decentralization Action Plan Proposal



2. Anti-Corruption and Transparency

2.1. Short-term reforms (6 months)

- Institute mandatory jury trials for criminal felony cases (Constitution);
- Establish an Anti-Corruption Agency;
- Add illegal enrichment provisions to the Criminal Code and confiscate assets;
- Abolish the Commercial and Administrative Sanctions Codes;
- Reform of disclosure and campaign finance;
- Generate public support for the passage of the law reforming the General Prosecutor's Office;
- Outsource customs services for 2-3 years (e.g., to Crown Agents as in Bulgaria);
- Implement subsequent reform of the State Customs Service.

2.2. Medium-term reforms (18 months)

- Create a registry of beneficiary owners;
- Reduce the number of taxes and simplify the Tax Code;
- Adopt an Administrative Procedural Code to govern the behaviour of civil servants;
- Start the re-qualification (*perattestatsiya*) of judges;
- Civil service reform to be included in a new civil service law (examine salaries & functions as well as labour protections).

2.3. Long-term reforms (>18 months)

- Fundamental reform of the legal system, including the judiciary, law enforcement and legal education.

3. Judiciary, Law Enforcement and Police Reform

3.1 Priorities for reform

- Professionalism and virtue;
- Effective systems of judges;
- Responsibility and independence;
- Reform of the Public Prosecutor's Office;
- Governmental responsibility for the introduction of reforms

3.2 Professionalism and virtue

- Reappoint of judges (at least Supreme Court judges) by introducing changes to the Constitution;
- Ensure unity of jurisdiction by motivated court decisions;
- Enhance the professional training of judges and prosecutors (human rights, EU law);
- Undertake an overall reform of legal education.

3.3 Effective System of Courts

- Establish a three-tier court system;
- Special order of court budgeting;
- Salaries level of the apparatus workers;
- Reduce the workload of the judges;
- Introduce a system of magistrates.

3.4 Responsibility and Independence of Judges

- Define judges' responsibility first and foremost;
- Eradicate the practice of political influence over judges;
- Introduce proper self-governance of judges;
- Create a single body of judges' self-governance;
- Establish clear criteria and procedures for selection, transfer, prosecution and involvement of civil society.

3.5 Reform of the Public Prosecutor's Office

- Eradicate the practice of general supervision;
- Demilitarize the Public Prosecutor's Office and ensure its procedural independence;
- Reduce the number of prosecutors;
- Establish clear criteria and procedures for selection and career growth of prosecutors.

4. Competitiveness, Innovation and Development of Entrepreneurship (including industrial and trade policies)

4.1 Deregulation

- Cut permits and licenses to achieve 70% fewer permits and licenses; eliminate unnecessary inspection bodies;
- Simplify and reduce the tax burden, tax administration and arbitrary tax decisions;
- Create a mechanism for quick or automatic VAT return for exporting companies;
- Lift industry barriers, i.e. lift the moratorium on the sale of agricultural land, carry out a tender for a 3G license, etc.
- Simplify customs procedures, introduce risk-based assessment for customs purposes (use Singapore's system as a benchmark)

4.2 Business Climate

- Guarantee safer and enforceable property rights;
- Introduce two separate groups of property companies (vs. 6 now);
- Simplify the rules of establishment and operation for smaller companies;
- Harmonize Ukraine's legislation with EU regulations.

4.3 Innovation and International Trade

- Ensure stronger protection of intellectual property rights (i.e. strengthen enforcement);
- Invest into innovation by merging education and research, and creating linkages with the private sector;
- Develop a foreign economic strategy for Ukraine, which will focus on diversifying Ukraine's export markets and enhance export and FDI promotion; minimize the role of government and encourage the leadership of the private sector in export and FDI promotion.

5. Agribusiness and Land Market

5.1 Vision

- The agrarian sector has diverse forms of ownership and structures of production;
- The sector is focused on efficiency and added value;
- Rural areas are comfortable for living (but are not a “culture and spirituality reservation”), with a major component of alternative incomes

5.2 Priorities: Land

- Lift the moratorium on trading in agrarian land, with minor exceptions;
- Deregulate land lease relations;
- Simplify the procedure of registration of land plots and ownership/use rights. Merge the land cadastre and property rights registers.

• Underlying principles and organizational steps

- Transparency and openness of the registration and cadastre system;
- Make an inventory of land plots, setting the boundaries;
- Improve the management of state-owned and communal land plots;
- Set the boundaries of administrative-territorial units.

5.3 Priorities: Market Infrastructure

- Introduce in practice agrarian promissory notes;
- Improve agrarian risk insurance legislation;
- Introduce a derivatives market for agrarian products;
- Build a system of export loans and insurance for agricultural produce;
- Build a system of guarantees for credit re-payment – to create production by family farms
- When making legal amendments, ensure they are in line with the EU-Ukraine Association Agreement.

• Organizational steps

- Liquidate the State Agrarian Inspection;
- Liquidate the State Land Agency;
- Create a single competent food safety agency;
- Create a competitive market of laboratory and certification services;
- Delegate part of functions to self-regulated organizations.

5.4 Priorities: Rural Areas and Social Policy

- Radically reduce the regulation of food prices; introduce direct subsidies from the budget to those who need them;
- Support small business through compensation of microcredit interest rates in rural areas;
- Restore the agrarian potential of Eastern regions.
- **Organizational steps**
- Create passports of rural settlements

6. Macroeconomic Policy

6.1 Priority 1

Reform the taxation system: tax administration

- Consolidate taxes;
- Simplify tax administration;
- Review some tax rates (e.g., single social contribution), local taxes.

6.2 Priority 2: Monetary policy: introduce inflation targeting

- Coordinate fiscal and monetary-credit policies;
- Enhance the independence of the National Bank of Ukraine;
- Deepen and develop financial markets.

6.3 Priority 3: Monetary policy and public finance: transparency, openness, accountability, communication

- Publish current information, policy intentions (Green and White Books);
- Bring “internal” economic documents in line with international obligations;
- Create effective mechanisms for limiting budget deficit, debt burden, expenditure control, etc.

6.4 General conclusions

- Overarching macroeconomic goal: target economic growth;
- Introduce changes in package with institutional and structural reforms;
- Administrative reform (public administration);
- Civil society participation (civic control).

7. Financial Sector

7.1 Vision: Future 2020

- Stable, more resilient, and less fragmented financial sector – fewer but better banks, insurance, non-bank credit, pension, capital markets institutions;
- A market with deeper financial penetration (assets, loans, deposits to GDP) and financial inclusion (services and products used by householders, SMEs and corporates) to support economic growth and shared prosperity;
- Adherent to international standards and practices, including EU/AA, BIS, IOSCO, IAIS, IFRS, IPO, IADI, CPPS, OECD Governance, consumer protection etc, enabling higher transparency, soundness, efficiency and confidence in the financial sector by domestic and international investors and depositors;
- With more diversified markets, institutions, products and skills, to better serve the needs of the knowledge- and innovation-led growth and support economic modernization - with products tailored to support MSMEs, exports, longer-term project and infrastructure financing.

7.2 Key Reform Objectives

- Stabilize the financial sector – stop runs on banks, reduce systemic risks and negative impact on economy (savings, payments, social services etc.) to help macro-stabilization;
- Resume lending to support economic growth/modernization and prevent economic contraction;
- Restore financial system health and investor/depositor confidence to set the stage for longer-term sustainable financial sector development;
- Clean up the financial system (capitalization, exit of insolvent banks, return to profit) and develop sound regulatory/supervisory framework;
- Resume proper functioning of the banking sector in a more transparent, efficient, competitive manner, and in better compliance with best international practices;
- Increase developmental impact of the financial sector – reforms to improve access to finance, markets, services for growth and inclusiveness (banks, capital markets, other non-bank financial institutions and services, equity/FDI, risk capital, risks management and reduced risk of lending/investment in Ukraine etc.)

7.3 Immediate Priorities and Quick Wins

- **Short-Term Strategic Actions**
- Put insolvent banks into resolution and clean up the financial system;

- Effectively manage bank resolution (decisions, costs, process, contagion) to minimize costs and restore trust;
 - Capitalize deposit insurance and build capacity;
 - Reform financial regulators (NBU, SEC, NBFIR – integrity, competence, independence, collaboration - lustration);
 - Adopt IFRS reporting for FIs;
 - Do inventory and rationalize all state subsidy/intervention programs for SME/sectors support;
 - Enhance the role of Ukreximbank (as wholesaler/guarantor) to foster export finance, guarantees and promotion programs for export development.
- **Fast Measures**
 - Adopt banking sector reform strategy;
 - Create Financial Stability Committee;
 - Enforce full public disclosure of information on real owners for all financial institutions, public JSC and public interest companies;
 - Enforce related party lending limits;
 - Liberalize FX controls;
 - Enforce OECD principles of corporate governance of FIs and public interest or large corporates;
 - Streamline capital registration;
 - Adopt debt/equity swap and NPL restructuring procedures;
 - Revise deposits early withdrawal terms/penalty framework;
 - Adopt legislation for risks hedging/derivatives.

7.4 Medium-Term Priorities

Lower-importance priorities but quick wins

- Enhance consumer protection and enforce responsible lending;
- Enhance sub-national debt financing framework.

Medium-importance priorities

- Increase convergence with EU directives in financial markets/services (AA);
- Consolidate and increase information sharing with credit bureau;
- Development credit enhancement mechanisms /solutions for SME finance;
- Revive assets-based financing instruments (including warehouse receipts, leasing, factoring etc) to foster SME financing;
- Enhance capital markets infrastructure and listing requirements;
- Revise tax treatment of securities investments to encourage capital investments.

High-importance priorities

- Adopt financial markets consolidation strategy;

- Foster NPL resolution and streamline enterprise restructuring/insolvency (corporate and personal) and refinancing;
- Enforce consolidated supervision;
- Complete regulatory reform;
- SOE/Naftogaz debt restructuring;
- Review the mandates, governance and performance of state banks (lower fiscal exposure, higher efficiency and stability);
- Launch a pension reform;
- Adopt a clear strategy for state debt/securities issues (volumes, maturities, pricing);
- Reduce barriers to entry/issue and enhance investment instruments (including covered bonds) for pension funds, insurance companies, and deepen financial markets;
- Enact a law on derivatives and/or develop hedging instruments framework/regulations.

7.5 Long-Term Priorities

Lower-importance priorities but quick wins

- Increase financial capability/literacy of households and SMEs

Medium-importance priorities

- Adopt an exit strategy for nationalized banks
- Develop legislation for risk capital (venture capital, angel investments)

7.6 Why Reform the Financial Sector

- It is one of the main elements of the “emergency reform package” – it supports economic growth and underlines the ability of the economy to attract investments;
- Financial sector plays an important role in economic revitalization and enterprise modernization;
- Finance-constrained firms cannot sustain growth and jobs, cannot afford modernization and improved quality/productivity
- Need to revive health of the sector to resume lending and services, create a level-playing field;
- Must restore trust in the system to increase depositors’ and investors’ confidence.

7.7 Elements of Inter-dependence of reforms

- Rule of law and judiciary;
- Rules of the game – regulations, institutions;
- Transparency;
- Corruption, forbearance and non-level-playing field;
- NBU reform.

8. Health Care

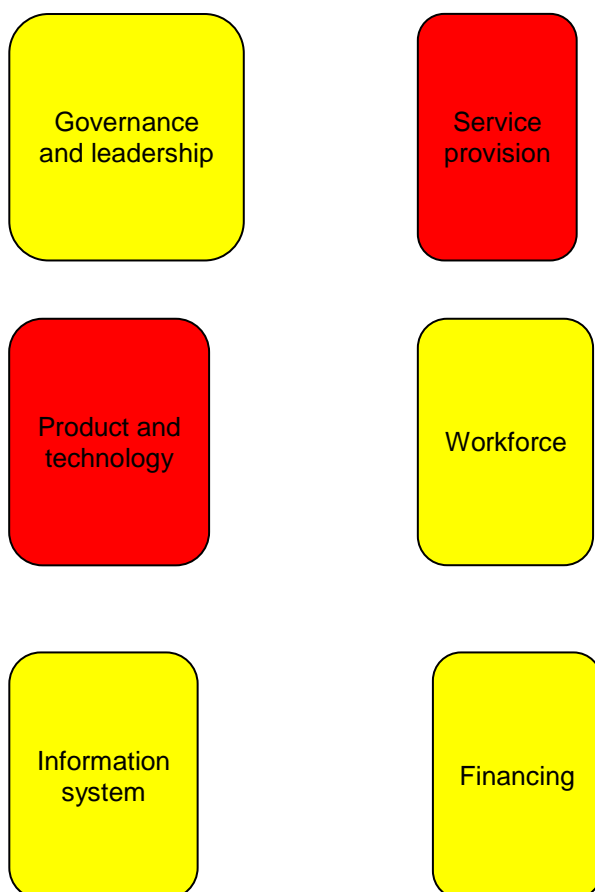
8.1 Guiding principle

*“Introducing approach “Health-in-all-Policies” should be the key to the success of the reforms and the gradual integration of Ukraine into the European Network of Health Care”,
Art. 427 of the Ukraine-EU Association Agreement*

8.2 Vision

- Health is recognized as a renewable resource, the investment in which is profitable;
- The health-care system is guarding the interests of individual citizens and society as a whole;
- Essential package of health services and public-private partnerships exists.

8.3 Health System Blocks and Principles



Health care

- PHC strengthening;
- Autonomy of medical institutions;
- Emergency care;
- Access to essential services;
- Equality of service providers.

Public Health

- Respond adequately to epidemiological and other health threats;
- Access to services for MARPs and minorities;
- Primary and secondary prevention;
- Socially significant diseases (AIDS, TB, hepatitis, drug addiction).

8.4 Challenges

- Lack of political commitment and intra-sectoral approach;
- Populist principle on Free Medical Care (100% coverage);
- Top-down decision making and over-regulated system;
- Outdated statistics;
- Ineffective financing and budgeting system;
- Process-oriented system rather than result-oriented system.

8.5 Next Steps

- Finalise a Strategy and roadmap for implementation;
- Universal health coverage introduction (coverage with essential services + financial protection);
- Alignment with administrative reform;
- Legislation (Law on medical facilities, Law on pilot reform regions, UN report on human rights, etc.);
- Introduction of new financing models/facility autonomy;
- Public Health Reform;
- **Drastically reduce corruption in the system.**

9. Education, Culture and Ethnic Relations

9.1 Values

- Freedom;
- Responsibility;
- Openness;
- Tolerance;
- Equal opportunities;
- Quality;

9.2 Vision

- Solidarity and consensus about goal and values;
- Autonomy of major actors in the implementation of values;
- The state as a an agent which establishesthe underlying rules and standards with the assistance of society;
- Other actors are free to choose the way of pursuing the goal and values.

9.3 Priorities

- Decentralization;
- Deregulation;
- Autonomy;
- Self-governance.

9.4 Challenges

- Economic crisis;
- Passive attitude of major actors;
- Institutional inertia;
- Lack of solidarity;
- Lack of trust;
- Lack of strategic thinking (at the societal level).

9.5 Interconnections

- Territorial and administrative reform;
- Public administration/civil service reform;
- Changes in tax and labour legislation.

10. Energy Security and Energy Efficiency

10.1 Priorities

- Energy security;
- Pricing reforms (increase of prices) and a reform of the social subsidies system;
- Reform of energy market and European integration;
- Reform of public administration of the energy sector (Ministry, etc.).

10.2 Energy Security

- Improve energy efficiency and increase energy saving;
- Substitute gas with other energy sources (including economic stimulus to start using energy sources other than gas);
- Start using modern energy technologies. Atomic energy usage;
- Re-orient towards the usage of Ukrainian energy resources.

10.3 Pricing and Subsidy Reform

2 options:

- Shock therapy (single-momentum reform); or
- Step-by-step approach.

- Decisions depend on resources and socio-political factors

10.4 Reform of the Energy Market and European Integration

- Gas sector;
- Electricity;
- Coal sector.

10.5 Reform of public management of the energy sector

- Reform of the general system and optimization of the Ministry's duties and regulators;
- Reform of the energy regulator's work principles;
- Reform of the public property management system;
- Reform of rental relations

10.6 Necessary pre-conditions

- Ensure transparency (including transparency of financial flows in the sector);
- Needs' inventory (existing and prospective) and a creation of a total energy balance;
- Deregulate the energy sector;
- Undertake an information campaign about the prices, tariffs and the need for gas substitution, introduction of energy-saving technologies, etc.

10.7 Needed Actions as a result of the Russian aggression

- Protect important energy infrastructure (also in case of a direct military aggression);
- Protect property rights (including the commercial extraction of the Black Sea shelf reserves);
- Coordinate with the European Commission changes in planned gas flows through the Russian-Ukrainian border;
- Substitute natural gas with alternative energy sources (where possible);
- Solve the issue of safe disposal of nuclear waste fuel.

11. Infrastructure

11.1 Reform Goal: a transport system that is based on modern standards and suits the needs of citizens and business

11.2 Priority 1: Reform the price-setting mechanism of railway transport

- Introduce multiparty tariffs on cargo/commercial transportation;
- Raise tariffs to the economically feasible level;
- Plan the elimination of cross-cutting subsidies (in a multi-sectoral context);
- Review pay exemptions;
- Introduce public subsidies for passenger transportation.

11.3 Priority 2: Automobile road development

- Increase the effectiveness of expenditure on automobile roads (FIDIC for building and fixing, OPRC for maintenance and exploitation);
- Adopt a long-term plan for fuel excise tax increases;
- Withdraw the special roads fund from the State Treasury;
- Introduce additional sources of financing (e.g., fee for trucks);
- Strengthen vehicle size and weight controls.

11.4 Priority 3: Private-public partnerships

- Prepare the privatization/concession of port infrastructure;
- Introduce a mechanism for compensation of private business investment into public infrastructure.

11.5 Priority 4: Development of air travel and airports

- Develop a model of ownership and management of airports;
- Establish a cooperation mechanism between the public and private sectors; establish fees for using the infrastructure created using public finances;
- Develop a concept of transit transportation;

- Develop a concept of regional airports and transportation development.

11.6 Priority 5: Public transport

- Transfer of authority over the pricing methodology to the local level;
- Undertake a thorough review and monetization of exceptions.

11.7 Necessary legislative changes

- Law on Automobile Roads;
 - Law on Railway Transportation;
 - Law on Automobile Transportation;
 - Law on Marine Ports;
 - Law on Private-Public Partnership;
 - Air Travel Code
-
- Introduce international experience in case of donor assistance.
 - Incorporate into new legislation EU transport regulations, standards and directives.

Annex 3

Approaches to NRC formation and functioning

Basic Points:

- Cabinet of Ministers (politicians) is a political leader of reforms
- Cabinet of Ministers bears political responsibility for drafting and implementing reforms
- Cabinet of Ministers «procures» reforms from the expert community
- NRC does not take over the political responsibility
- Reforms in individual spheres (specific sector) is the responsibility of relevant ministers (leaders)
- NRC is not a representative body
- Amend the Regulations of the Cabinet of Ministers and ministries to speed up the movement of pro-reform documents

1. NRC status: a technical advisory body under the Cabinet of Ministers

2. Composition: a limited number of participants, representatives from the Government (the President) + expert community + civil society

3. Prime Minister's trust for NRC

4. NRC functions:

- Consultative – advisory,
- Coordination (cross-cutting issues of reforms),
- Promoting dialogue on reforms in the society,
- Ensuring feedback;
- Monitoring of drafting and implementation of reforms

5. NRC tasks:

- Ensure sustainability of reforms as a process ,
- Support shaping a consensus vision on key issues of reforms,

6. NRC operational structure:

A) Council – the top level;

B) Working (technical) groups (task forces) – at the level of ministries, agencies, etc. Chaired by ministers. Co-chaired by

experts. Chairman of the group is not necessarily a member of the Council;

C) «Local» level – NGOs, local initiatives, etc

Annex 4

Press release of the Press office of President dated 23.07.2014

The National Council of Reforms was established - President's Decree

The President of Ukraine has established the National Council of Reforms. Decree №614/2014 "On ensuring the holding of unified state policy of reforms in Ukraine" stipulates that the body will have an Executive Committee of Reforms and the Advisory Council of Reforms. Its main purpose will be strategic planning and coordination of positions on the introduction and implementation of unified state policy of reforms in Ukraine.

The Chairman of the National Council of Reforms in Ukraine is the President of Ukraine. The Council will consist of: the Chairman of the Verkhovna Rada of Ukraine (upon consent), the Prime Minister of Ukraine and other Ministers (in agreement with the Prime Minister), Head of the National Bank of Ukraine, heads of the committees of the Verkhovna Rada, 4 representatives of civic associations and representative of the Advisory Council of Reforms (upon consent).

Deputy Head of the Presidential Administration of Ukraine Dmytro Anatoliyovych Shymkiv is appointed to the post of Director of the Executive Committee of Reforms.

The Executive Committee of Reforms is to elaborate for consideration a draft Strategy for Sustainable Development of Ukraine until 2020 in three months.

Presidential Decree № 614/2014

On ensuring the unified state reform policy implementation in Ukraine

Unofficial translation by SAG Secretariat

Aiming at ensuring the implementation of the unified state reform policy in Ukraine and establishing an effective interaction mechanism between the state institutions and the civil society in the reform implementation process; with the aim to involve representatives of the international community to the reform

process; to introduce systemic approach to the strategic planning, to coordinate the positions and monitoring of Ukraine's sustainable development reform implementation as the important precondition of the continuous improvement of the wellbeing of its people, reaching the European standards of human and citizen's rights protection, according to the paragraph 28 of the Article 108 of the Constitution of Ukraine, is decided:

1. To create:

National Reform Council as the special consultative and advisory body under the President of Ukraine is assigned the duties of strategic planning, coordination of positions regarding the introduction of unified reform policy and the reform's implementation in Ukraine;

Advisory reform council as the consultative and advisory body under the President of Ukraine, is assigned the duties to submit proposals regarding the reform implementations in Ukraine based on the prominent international experience and to provide assistance with their implementation.

The Executive Committee as the subsidiary body under the President of Ukraine is assigned the duty to prepare the proposals on reform's strategic planning, their coordinated implementation and reform, realization monitoring.

2. To establish that:

The Head of the National Reform Council is the President of Ukraine. The National Reform Council is composed of: the Speaker of the National Parliament (upon agreement), Prime Minister of Ukraine and other members of the Cabinet, that chair the ministries – upon the agreement with the Prime Minister; and upon their agreement: Chair of the National Bank of Ukraine, Chairs of the Parliamentary Committees, four Representatives from the civil society and a Representative of the Advisory Reform Council.

The Executive Committee is composed of: Deputy Head of the President's Administration, the jurisdiction of which includes implementation of reforms and a Representative of the President of Ukraine in the Cabinet and two other members proposed by the Prime Minister, two representatives proposed by the Parliament's Speaker and one representative proposed by Head of the National Bank of Ukraine;

The personal membership of the National Reform Council, Advisory Reform Council and the Executive Reform Committee is approved by the President of Ukraine;

The Heads and members of the National Reform Council, the Head and members of the Advisory Reform Council, director and members of the Executive Reform Committee participate in the work of National Reform Council, Advisory Reform Council and the Executive Reform Committee on the voluntary basis.

3. To appoint SHYMKIV Dmytro Anatoliyovych, the Deputy Head of President's Administration, as the director of the Executive Reform Committee.

4. The director of the Executive Reform Committee:

is to develop draft Provision (Rules on Proceedings) for National Reform Council, Provision on Advisory Reform Council, and a Provision on Executive Reform Committee and submit these drafts with the two-week term in the prescribed manner;

to conduct consultations with the civil society associations until the August 15th, 2014 and to propose the representatives of the civil society to be included in in the National Reform Council based on the consultations conducted;

to submit the proposal on the members' composition of the Advisory Reform Council.

5. To suggest:

The Speaker of the National Parliament, the Prime Minister of Ukraine and the Head of National Bank of Ukraine within one week to submit proposals on the personal composition of the Executive Reform Committee;

The Prime Minister of Ukraine to agree upon the members to be included in the National Reform Council indicated in the Paragraph 3 of the Article 2 of this Decree.

6. The Executive Reform Committee within three month after the approval of the personal membership to prepare the Draft Strategy of Ukraine's Sustainable Development up to 2020, that foresees the country's strategic interests in the legal, economic, social, scientific-technological, environmental, informational and other spheres and which is to be reviewed by the National Reform Council.

7. This Decree become valid from the moment of its publication.

The President of Ukraine, Petro POROSHENKO
23 July 2014