



NATIONAL FORUM TRANSFORMATION OF UKRAINE
ANTI-CRISIS COUNCIL OF THE PUBLIC ORGANIZATIONS OF UKRAINE

**ANTI-CRISIS PROGRAM OF THE JOINT
ACTIONS OF THE STATE AUTHORITIES
AND BUSINESS: IMMEDIATE SOLUTIONS
FOR 2015-2016**



ANTI-CRISIS COUNCIL OF THE PUBLIC ORGANIZATIONS OF UKRAINE

Public organizations, sectoral associations of entrepreneurs, industrialists and employers of Ukraine

Ukrainian League of Industrialists and Entrepreneurs
Ukrainian Chamber of Commerce and Industry
Council of Entrepreneurs under the Cabinet of Ministers of Ukraine
Union of Chemists of Ukraine
Kyiv Chamber of Commerce and Industry
Ukrainian Grain Association
Association of Light Industry "Ukrlegprom"
Association of Vegetable Oil Producers "Ukroliyaprom"
Ukrainian Association of Enterprises of Ferrous Metallurgy
Ukrainian Association of Furniture Producers
Ukrainian Association of Secondary Metals
Independent Association of Banks of Ukraine
Association of International Road Carriers of Ukraine
Association of Ship Builders of Ukraine "Ukrsudprom"
Association "Telecommunication Chamber of Ukraine"
Kyiv City Association of Industry, Construction, Transport and Communication "Kyiv Association"
Association of Real Estate Experts of Ukraine
Union of Dairy Businesses
Association of Ukrainian Manufacturers "Ice Cream and Frozen Products"
Association of Energy Efficiency and Energy Saving
Ukrainian Wind Energy Association
Association of Ukrainian Beer Manufacturers "Ukrpyvo"
Association "Union of Fowl Producers of Ukraine"
Association of Confectionary Producers "Ukrkodprom"
Union of Small, Medium and Privatized Enterprises of Ukraine
Association of Promotion of Ukraine-EU Business Cooperation
Association of Private Educational Institutions of Kyiv
National Association of Canned Milk Producers "Ukrkonservmoloko"
Association "Ukrainian Club of Agrarian Business"
European Business Association
Audit Chamber of Ukraine
American Chamber of Commerce and Industry in Ukraine
Ukrainian Credit and Bank Union
Association of Vodka Producers "Ukrvodka"
Association of Small Cities of Ukraine
Ukrainian Association of Communication Operators "Telas"
Association of Farmers and Agricultural Businesses of Ukraine
Association of International Forwarders of Ukraine
Internet Association of Ukraine
Association of Ukrainian Car Manufacturers "Ukravtoprom"
League of Insurance Organizations of Ukraine
National Association of Sugar Producers "Ukrtsukor"

Association of Cement Producers "Ukrcement"
Association of Leather Producers "Ukrshkirprom"
Association of Wood and Furniture producers "Mebliderevprom"
Association "League of Machine Builders and employers of Ukraine "UKRMASHBUD"
Association of Manufacturers of Special Purpose Vehicles of Ukraine
"Ukrspetstekhprom"
Seed Association of Ukraine
Association of Bakery Businesses "Ukrkhlibprom"
National Association of Dairy Producers of Ukraine "Ukrmolprom"
Union of Leaseholders and Entrepreneurs of Ukraine
Ukrainian Association of Tobacco Goods Producers "Ukrtiutun"
Association of Energy Auditors
Association "Greenhouses of Ukraine"
Association of Ports of Ukraine "Ukrport"
Association of Cable Producers "Ukrelektrokabel"
Union of Scientific and Engineering Associations of Ukraine
Pan-Ukrainian Association of Bakers
Bioenergy Association of Ukraine
Ukrainian Association of Quality
Association "Kyiv-MAF" (Small Architectural Forms)
Union of Juice Producers
League of Oil Producers of Ukraine
Pan-Ukrainian Council of the People's Control "Committee of the People's Control"
Division of International Association of Alpha Antiterrorism Units Veterans in Kyiv
Open International Reform University "Maydan"
Pan-Ukrainian Association of Combatants and Antiterrorist Operation Volunteers
Pan-Ukrainian Youth Public Association "Student Republic"

Real economy

Pobuzhskii Ferronickel Works, LLC
Knauf Gips Kyiv, LLC
Motor Sich, JSC
NIBULON, LLC JV
Gas Turbine Research & Production Complex Zorya-Mashproekt, State Enterprise
MTS Ukraine, Private JSC
Antonov, State Enterprise
Ukravto, JSC
Energoatom, State Enterprise "National Nuclear Energy Generating Company"
410 Civil Aviation Plant, State Enterprise
Amway Ukraine, LLC
Kryukov Railway Car Building Works, JSC

Academic and educational institutions, specialized publications

National Academy of Sciences of Ukraine
Institute of Demography and Social Research named after M. Ptukha under the

National Academy of Sciences of Ukraine
Institute of Industry Economy under the National Academy of Sciences of Ukraine
Institute of Economy and Forecasting
Academy of Financial Management
Center of Anti-crisis Research
National Pedagogical Dragomanov University
Taras Shevchenko National University of Kyiv
European University
Ukrainian Institute of Extremism Studies
Academy of Energy of Ukraine
“Puls” Magazine

Legislative and executive power bodies involved to the activities of the Anti-crisis Council of Public Organizations

Parliamentary groups of the coalition of Verkhovna Rada of Ukraine “European Ukraine”
Committee of Verkhovna Rada of Ukraine for Industrial Policy and Entrepreneurship
Committee of Verkhovna Rada of Ukraine for Tax and Customs Policy
Ministry of Energy and Coal Industry of Ukraine
Ministry of Defense of Ukraine
Ministry of Agrarian Policy and Food of Ukraine
Ministry of Social Policy of Ukraine
Ministry of Health Care of Ukraine
Ministry of Infrastructure of Ukraine

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INTRODUCTION

Ukraine has taken path of survival with its existence risk highs in the recent two years – threats to territorial integrity, living standards downfall, devaluated national currency, downsizing economic potential and export rate, swelling public debt, spiralling inflation, thriving depopulation etc.

Nearly all economic sectors of Ukraine have been overwhelmed by the crisis trends amid unprecedented rise of the national security challenges in the wake of aggression of the major foreign trade partner.

Prime destabilizers of the Ukrainian economy comprise corruption, imitation of reforms in real economy, slackening pace of judicial reform, persisting aftermath of the national currency devaluation, lack of transparency and coordination in fiscal and currency policy of the National Bank of Ukraine and the government, adverse investment climate, fiscal pressure on business, lack of drastic actions to eradicate poverty among people.

Some slowed pace of downfall of several macroeconomic indices claimed by the authorities as the cease of economy recession proves again in view of low comparative base that chosen prescriptions for the national development recovery do not bring desired fruits.

Unfortunately, burden of problems following inconsistent decisions based on superficial forecasts, divergent transformations of different power branches, primarily in economy, is swelling.

Another crucial problem which had to vanish from the social focus after tragedy of 2014 is scarce communication between society and public authorities. Shortage of full-fledged reciprocally conscientious dialogue between public authorities and business is inadmissible since it does not meet size and scale of challenges which state and society encounter.

Nearly year ago business unions and associations initiated creation of the Anti-crisis Council of Public Organizations of Ukraine. Currently it includes about 100 associations representing practically whole real economy of Ukraine, experts, academic community. The Anti-crisis Council has elaborated integrated vision of the business community which is Anti-crisis Program of the Joint Actions of the State Authorities and Business.

The document was developed on the transparent basis with permanent on-line updating to cover diagnostics of the vital challenges of the national economic development and set of tools to untangle them. It underwent through several stages of discussions in different forms and was submitted to the country leaders and presented to the parliament and government and is being updated permanently.

Its latest version being output of discussions on different platforms, particularly during broad meetings of the Anti-crisis Council of Public Organizations of Ukraine and the Board of Ukrainian League of Industrialists and Entrepreneurs (ULIE) in Kirovograd (June 30) and Kharkiv (September 25) takes

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account of current changes of macroeconomic indices and aims at launching critical professional dialogue between the state authorities and business on joint urgent actions within 2015-2016.

In our opinion, timely implementation of at least part of presented recommendations could halt disastrous effect of the current trends in social and economic spheres and restore trust from the side of people, Ukrainian business community and potential investors towards Ukrainian country leaders' policy.

CURRENT SOCIAL AND ECONOMIC SITUATION

Real GDP decline rate in second quarter of 2015 if compared to the corresponding period of 2014 (in permanent prices of 2010) has slowed to 14.6% (17.2% in the first quarter).

Consumer price index amounted to 102.3% in September of 2015 and 141.4% since the beginning of the year.

Average monthly salary reached USD 166.7 for January-August of 2015 which is USD 20.8 higher than at the beginning of the year.

Real salary rate has slumped by almost 23% for 8 months of 2015 if compared to the corresponding period of the previous year.

Salary arrears amount to over USD 83.9 million (about 52% of growth since the beginning of the year).

Industrial output contracted by 18% for January-August of 2015 if compared to the corresponding period of 2014, agricultural output contracted by 5.8%.

Construction industry output contracted by 24.6% in January-August of 2015. Negative trend persevered in housing construction – over 18%.

Transportation enterprises have carried 384.8 million mt cargos which accounted for 83.8% of cargo carriage in the corresponding period of 2014 with drop in passenger transport by 13%.

Direct investments volume into Ukrainian economy contracted at USD 2.9 billion in January-June of 2015.

Volume of disbursed capital investments decreased by 9.2% in January-June of the current year. Determinants of the negative trends in investments influx in the current year apart from security in the eastern Ukraine comprise deteriorated financial situation among manufacturers (manufacturing losses increased by 36.6% in January-June of 2015 if compared with the corresponding period of 2014), lending reduction (loan facilities in UAH allocated to non-financial corporations decreased by almost 11% as for July 1, 2015 if compared to the corresponding period of the previous year).

Retail sales were characterised by negative trend (-23.1%) for January-August of 2015 if compared to the corresponding period of the previous year while wholesale turnover dropped by 14%.

Export volume of the goods and services decreased by 33% and import volume – by 36.5% for January-July.

Export of the goods has decreased in all sectors for the seven months, namely, metallurgy products by 1.7 times (USD 4.1 billion), minerals by 2.2 times (USD 2.2 billion), machine building by 1.9 times (USD 2.2 billion), agriculture and food by 16.1 % (USD 1.5 billion), chemical industry by 1.5 times (USD 0.8 billion).

Major consumer of Ukrainian goods in the world is EU countries now (32.7% of the overall export volume) while share of Russian Federation is plunging (from 20.0 % to 12.7%).

The consolidated budget has been run with temporary surplus of UAH 28.3 billion for January-August of 2015.

Privatization of the public property has generated state budget revenues of USD 5.1 million for January-August of 2015.

Some slowed pace of macroeconomic indices deterioration along with negative trend in social and economic situation determine instability of the further institutional transformations launched by the government

International reserves (according to the interim statistics of the National Bank of Ukraine) amounted to USD 12.774 billion as for October 1, 2015.

Banking sector losses was estimated as nearly USD 2 billion for 8 months of 2015 without accounting for insolvent banks.

Public debt and government-secured debt of Ukraine amounted to USD 70.671 billion as for the end of August of 2015 (80.8% - 83.3% of the GDP forecast for 2015 according to three frame plans of the Cabinet of Ministers of Ukraine).

With of view of persevering crisis trends in social and economic situation of Ukraine, the Anti-crisis Council of Public Organizations insists on consolidation of efforts of the state authorities and business to resolve the following problems.

I. RESTORING TRUST TO UKRAINIAN BANKING SECTOR AND IMPROVEMENT OF THE STATE MONETARY POLICY

Banking sector of Ukraine experiences hardships due to the national currency devaluation, disability to attract resources on the overseas market, low trustworthiness from people, blurred schemes of refinancing to commercial banks and their insufficient liquidity.

Scarce coordination of actions between the National Bank of Ukraine and the Cabinet of Ministers of Ukraine on settlement of the economic situation and implementation of the monetary policy to boost economic growth entailed complete loss of connection between bank rate as a benchmark of value of attracted and deposited funds for the respective period and value of banking institutions' resources.

The national Bank of Ukraine continues its stringent monetary policy aimed at currency cash flow control. In particular, Regulation of the National Bank of Ukraine No. 160 as from March 03, 2015, in effect "On Settlement of Situation on the Monetary Market and Currency Market of Ukraine" envisages additional stringent norms which hinder continuous industrial process and sales of the enterprise except prolongation of the last year provisions on obligatory sale of 75% of currency gains and 90-day term for payments in export-import transactions.

Adverse factors being the result of effective currency restrictions in export-import transactions as well as prolonged policy of slow adjusting of the rate of the National Bank of Ukraine (from 30% to 22% for the half of the year) conserve threats of degradation of the domestic industry. The bank rate in developed countries may vary within 1%. Neighbour countries of Ukraine (Poland – 1.5%, Hungary – 1.35%, Turkey – 7.5%) will also enjoy benefits of accessibility to loan resources if compared to Ukrainian business.

These provisions of the National Bank of Ukraine has already triggered contraction of export and import by 13.5% and 28.3% for 2014 and became the pre-requisites of the tangible negative trends in the first half of the year. Meanwhile, devaluation of the national currency at the beginning of the year did not make impact on export-import volumes.

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The banking institutions actually wound up their significant lending facilities.

Trust of people towards banks has not been restored up to now. Deposits of the physical entities in the national currency has dropped since the beginning of the year by 11.3% to USD 7.3 billion while drop in the foreign currency amounted to 26.2% to USD 10.1 billion. Measures are still being taken to erode outstanding investments through augmentation of taxation, namely of returns on deposits, obligatory conversion of the foreign currency obtained from the overseas.

To untangle urgent problems of loan policy and financial sector a range of the following steps is proposed:

1.1 To elaborate comprehensive state anti-crisis program of the banks' lending in the real economy based on market approaches and adequate value of loans.

1.2 To improve banks refinancing system which should be long-term and based on incentives for extended lending in the priority sectors for the state, introduction of import replacement programs, production of important social supplies, realization of energy efficiency and energy saving projects. This program shall contain requirements to the banks on their viability and positive dynamics of their credit portfolio in the priority sectors. Loan rate of the long-term refinancing shall be fixed on the level which bolsters up banks' interest to provide loans to the end borrowers. If loan portfolio decreases penalty rate shall be set for the borrowing banks of the funds with the rate increment for each per cent of the loan portfolio decrease for the accounting period.

1.3 To develop immediate actions on export potential ramp-up including gradual and targeted liberalization of the currency regulations: reduction of share of foreign currency gains subjected to obligatory sale from 75% to 50% and to 25% for some sectors; rescission of 90-day term for payments within export-import transactions; extension of period of the foreign currency gains redemption from the overseas transactions for the enterprises with long-term production cycle (defence industry, machine building etc).

1.4 To take measures aimed at boosting of the national currency loan portfolio in the banking sector.

1.5 To develop instrument to remove toxic assets from the state and other major banks with pinpointing criteria for loan selection, model (instrument) of toxic asset management and state budget resources to ensure this procedure. Resumed lending in the real economy and level of returns on the public investments in the bank capital shall be effectiveness factor for the state stakeholding in the capitalization (nationalization) of the banks.

1.6 To introduce loan security instruments to the real economy players, primarily to manufacturers, provided by the commercial banks. Securities shall cover at least 50% of loan liabilities. Loan evaluation for securitization shall be carried out by the special authorized agency (security agency) or functioning state bank.

1.7 To push pilot projects of loan securities for SME in Ukrainian agriculture with further extension of these practices to other sectors. Special focus shall be made on microfinance development for SME

within the areas adjacent to Anti-terrorist Operation area.

1.8 To introduce provision that rescinds mandatory selling of the foreign currency gains which is required by the enterprises to fulfil their foreign currency loan amortization in the domestic banks within sums appropriate for the legal entities to amortize loan principal and interests. An opportunity shall be envisaged for automatic VAT refunding for sold foreign currency gains on domestic market (possibly directly to the National Bank of Ukraine).

1.9 To elaborate foreign currency loan restructuring program for certain group of borrowers based on the similar functioning programs in the world. To introduce disincentives of winding up the foreign currency lending of the borrowers without proper foreign currency inflows.

1.10 To implement state security mechanism for the projects of the paramount importance for the national economy.

1.11 To elaborate instrument of the state warranties of the funds redemption for the business which holds their accounts in the banks recognized as insolvent.

1.12 To develop model of the national stabilization fund to regulate the troubled banks formed from the differentiated bank contributions depending on the assets.

1.13 To review system of value indices which require the Antimonopoly Committee authorization for concentration, namely, to enhance the indices and evaluate their impact on competition in Ukraine through drafting of the Law of Ukraine "On Amendments to the Law of Ukraine "On Economic Competition Protection".

II. FISCAL POLICY AND WAYS TO IMPROVEMENT

Misbalanced tax policy is a consequence of failure to implement effective reforms of the tax system which would encourage business to work legally and transparently. Adoption of the tax reform widely vaunted by the government did not factually cut burden of the payroll budget. Mechanism of control of transfer pricing failed to be implemented, automatic VAT refund system has not taken full effect, extra income tax paid by the businesses is still practiced.

Fiscal burden on the agrarian business being today economy flagship has hiked for the last 18 months. Single tax rate was raised by 21 times to USD 83.9 million per year, indexation of basis for rent rate calculation of farm lands was raised by 25%, VAT refunding was halted for grain and oil crops export from Ukraine. Reason of the ineffective tax policy is removal of public and business from its development, appointing the Ministry of Finance of Ukraine as the key ideologist of the tax reform which renders fiscal nature to all measures with immediate short-term gaining of budget revenues as the priority of taxation.

Introduction of the VAT electronic administration system turned out to be menace of current assets erosion which entails business shutdown, reflux of investors from Ukraine, withdrawal of assets and production capacities to the neighbour countries under economic crisis and preserved conditions for budget VAT refund by hand management, i.e. corruption factors remain in tax system. Unified

accounting system has not been introduced which would comply with international standards.

Another factor which causes current assets erosion, cost price increase for goods and services and business competitiveness loss is import surtax. Negative effect of the import surtax, namely rising cost of raw materials, technologies, equipment, parts, has already outweighed its fiscal effect since it entailed domestic production curtailment and Ukrainian products price rise both on foreign and domestic markets.

In view of this, Anti-crisis Council of Public Organizations advocates the following standpoints of the taxation reform:

2.1 To provide for reform of the State Fiscal Service and strengthening of the public control over its activities.

2.2 To ensure reduction of quantity and scale of the tax reporting, extension of opportunities for continuous distanced reporting and tax payment (electronic services).

2.3. To ensure transparency and predictability of tax system on account of:

- establishment of the open base of published individual tax consultations (without mentioned payer);
- improvement of procedure of appealing against fiscal authorities decisions.

2.4. To deny punitive tax control model:

- to rescind financial penalties against tax payers who paid surcharges without appealing against respective tax notification;
- to eliminate penalties and fines from the revenues of the State Budget;
- to simplify tax administration system in cases of cash register use and rescind the requirement to use cash register for businesses of the second category;
- to abolish in legislative way criminal prosecution of person for tax evasion until tax liabilities are finalized;
- to set personal financial liability of tax and customs officers for losses incurred by the businesses due to malfeasance or nonfeasance of the officers;
- to extend domain of the Law "On Fundamentals of the State Oversight (Control) in Business Activities" over tax authorities.

2.5. To reduce fiscal burden on payroll budget to the level which can enable withdrawing of the major revenues from shadow economy followed by gradual cancellation of unified social tax.

2.6. To cancel corporate income tax advances.

2.7. To modernize income tax:

- to calculate income tax for tax payer on the basis of financial performance stipulated in financial reporting made up in accordance with International Financial Reporting Standards or Regulation (Standard) of Accounting Reporting. Right of fiscal authorities to audit financial performance composed in accordance with international accounting standards shall be restricted. Year of 2016 shall observe shift to taxation of distributed profits with minimum payments.

Misbalanced tax policy is a consequence of failure to implement effective reforms of the tax system which would encourage business to work legally and transparently.

2.8. To reform VAT:

- to administer VAT protecting tax payer rights with automatic VAT refunding and stringent liability of fiscal service for defaulted VAT refund;
- to create and publish VAT payer base who claim for defaulted budget VAT refund;
- to rescind provisions for electronic accounts of electronic VAT administration system.

2.9. To create unified widely accessible property tax rates record.

2.10. To demand introduction of respective incentives to modernize production facilities and create new jobs on account of VAT exemptions of high technology equipment imports which is not produced in Ukraine.

Moreover, tax transformations require rescission of import surtax, reduction of rent rate for energy resources development, cancellation of pension taxation for employed pensioners which erode qualified human resources from industrial sectors.

III. INDUSTRIAL POLICY: NATIONAL PRODUCER SUPPORT

The most serious challenge for our country is deindustrialization which could trigger complete collapse of industry, economy slump to the level of raw material source which in its turn would imply poverty of people and country.

Industrial production downfall lasting already for 35 months (since November of 2012) tends to be high in 2015 (-18% within January-August if compared to the corresponding period of 2014).

Industrial output drop is a consequence of demand fall and contracted trade relations with Russian Federation. Russian share in export of Ukrainian products fell from 20% to 12.7 % during January-August of 2015.

Rocketing price index of producers at the average to 42.5% for the first half of 2015 amid reduced domestic solvent demand generates risks of sales on domestic market and subsequently further curtailment of industrial output. August of 2015 was the first time when manufacturing of light cars was suspended in Ukraine since crisis of 2008.

Share of loss making companies hiked to 42.3% in the first half of 2015.

Negative trends are aggravated by the loss of industrial capacities in the Crimea and in the conflict area in Donbas which makes detrimental effect on domestic industrial cooperation and export potential.

Industrial output slump was caused primarily by failure to implement targeted programs of development of Ukrainian industry and even to develop available concepts. Re-organization of the Ministry of Industrial Policy and acquisition of the Ministry by the Ministry of Economic Development and Trade did not generate benchmarks of the state industrial policy which requires more extensive work and demanding approach to professionalism of the state managers

with account of peculiarities of each industrial sector and stock of problems, especially in high technologies.

Now Ukraine lacks industrial policy aimed at competitiveness enhancing, improvement of business climate, support of domestic manufacturers, mechanisms and funds for modernization of industrial facilities, import replacement policy and state protectionism, augmentation of high value added products output and increasing of the share of such products within the aggregate national industrial output.

Support and protection of the national producers and economic growth boost shall be carried out in the following directions:

3.1. To set up competent body for state management of industrial policy.

3.2. To elaborate and approve state program of innovative development of industry.

3.3. To elaborate legislative framework aimed at formation and development of cluster industrial policy with respective state management mechanisms.

3.4. To resume lending in the real economy.

3.5. To streamline the government activity for opportunities to extend scale of the public contracts for the Ukraine-produced goods and domestic market for domestic products.

3.6. To proceed with vigorous anti-monopoly policy to terminate state agencies (divisions) of the central authorities rendering commercial services on contractual basis.

3.7. To boost deregulation of business activities based on transparency, unification and automation of administrative procedures, reciprocal responsibility of the parties. Deregulation shall imply the following measures:

- to improve license procedures for businesses through introduction of telecommunication issuing of licence documents (in electronic form) and reduction of the number of documents required from businesses to obtain licence;

- to fix the list of administrative services and fees through drafting of the law "Identification of Administrative Services and Fees";

- to rescind regulations tangling business activities;

- to revise (approve) criteria of risk measurement in economic activities;

- to produce integrated database of the control bodies which should automatically categorize businesses depending upon risk level of their business, determine regularity of scheduled inspections by each state oversight (control) body, make public information on the regulative requirements towards all types of business activities.

3.8. To boost development of domestic sales infrastructure with high service level and sales standards, overcome obstacles in access of Ukrainian producers to the market, render legal and information support to their sales.

3.9. To invigorate means of non-tariff regulation which comply with WTO norms, including control of quality and safety, phyto-sanitarian and veterinary norms if trade balance deteriorates.

**Industrial production downfall
lasting already for 35 months
(since November of 2012)
tends to be high in 2015 (-18%
within 7 months)**

3.10. To reduce number of mandatory documents submitted for administrative procedures in export/import with respective amendments to the Law of Ukraine "On Amendments to the Legislative Acts of Ukraine on Reduction of Number of Documents Required for Customs Clearance".

3.11. To introduce one-stop-shop concept, namely, to determine procedure of interaction between control bodies and customs bodies in check-up and customs clearance of cargo, avoid doubled functions and rescind requirements on paper documents use in Ukrainian border crossing and customs and related control.

3.13. To introduce amendments to the Law of Ukraine "On Customs Tariff of Ukraine" regarding lifting of import duties for machines and equipment imported to the customs territory of Ukraine to modernize production facilities and raw materials not developed in Ukraine.

3.14. To introduce amendments to the Customs Code of Ukraine regarding unconditional free turnover of the imported goods at declared value and more effective application of the post-audit.

3.15. To accelerate consideration and approval of the Law of Ukraine "On Amendments to Some Legislative Acts of Ukraine (on Lifting of Regulatory Obstacles for Public-Private Partnership Development in Ukraine and Investments Promotions)" No. 1058 as from November 27, 2014.

3.16. To implement system of the open electronic bidding for public procurement. Public procurement remain the largest source of the public losses. In 2014 29.8% of public procurement was conducted on monopolized basis, i.e. one bidder procedure. In the first quarter of 2015 contracts for purchase of the goods, works, services for the public funds were executed at USD 749 million. 23% of procurement was based on open procedure (according to the State Statistics committee).

IV. AGRICULTURAL SECTOR

Agricultural sector is the pivotal sector of Ukrainian economy: agricultural sector generated 10.2% GDP of the country in 2014, export volume was valued as USD 16.8 billion which equals to 31.1% of Ukrainian export.

Positive trend of agricultural production in 2014 (index of agricultural production output rose by 2.8%, agricultural output accounted for over 20% of GDP and over 30% of aggregate export of the goods of 1-24 categories) and stable performance in the previous three years was the prerequisites for adoption of the balanced budget of the state support of agricultural producers in 2010 and large harvests of grain and oil crops, possible partially thanks to favourable weather conditions, prompted economic growth of the sector.

However, sharp devaluation of the national currency pushed high operating expenses of the agricultural businesses of all subsectors by nearly four times. A range of livestock businesses faces looming challenge of shutdown. Decrease of agricultural output amounts to 5.8% for January-August of 2015 if compared to the corresponding period of 2014.

Cattle-breeding has become the most loss-making subsector of agriculture. The producers do not feel any motivation to raise cattle. Lasting decrease of livestock population in medium-term and long-term period will bring to naught beef and dairy production in Ukraine.

Cattle population in all businesses dropped by 3.4% in 2014, namely in agricultural businesses by 7.1%. This trend perseveres the current year. Cattle population in all businesses dropped by 6% (as for October 1, 2015).

It is the first time for the recent years that poultry population in agri-businesses sank (by 2.2% in 2014 and by 3.6% in January-September of 2015) as well as pigs.

Since purchasing power declined by 20% some dairy and meat producers contracted their production volume, especially those which sell major share of their products on domestic market. Egg production declined by 14.6% for nine months (if compared to the corresponding period of 2014).

Current model of agricultural business is unable to address social and economic issues of rural areas and realize in full swing the natural and resource potential inherent to the sector. It is hindered by the range of consistent impediments:

- permanent prolongation of moratorium for agricultural land sales, pile-up of shadow deals and unprecedented corruption in land sector;
- sectoral misbalance of agriculture;
- ineffective use of resources, simplified technologies, especially in plant-raising. According to the expert estimates, average sectoral level of resources on the 1 hectare of agricultural land in Ukraine has become lower for the 3-7 years than in the developed countries.
- Insufficient state support of agriculture and scarce funds (lack of investments, unavailable loans);

Current model of agricultural business is unable to address social and economic issues of rural areas and realize in full swing the natural and resource potential inherent to the sector.

- Low level of agrarian logistics (technical loss of grain in Ukraine reach 15% of the yearly harvest while it is not higher than 1-2% in Europe and the US);
- Non-conformity of Ukrainian agricultural and food products to the European standards.

Further adoption of agricultural businesses to European and world conditions requires that the following priorities should be realized:

- 4.1. To retain current taxation system for agricultural producers;
- 4.2. To boost development of small agricultural commodity production through logistic and economic support with organization of family-run farms followed by merging in agricultural cooperatives;
- 4.3. To provide state support to cut rates of insurance, approve list of insurable agricultural products, list of agricultural insurance risks and insured objects;
- 4.4. To ensure development of infrastructure for storing and transporting of the agricultural products (barns, grain storehouses, grain elevators, logistic centers etc) through one-stop-shop establishing to cut time for licensing procedures.
- 4.5. To simplify procedure of direct export contracting by agricultural producers, in particular, through export associations;
- 4.6. To develop local agricultural marketplaces and fairs.

V. HOUSING AND DOMESTIC UTILITIES SECTOR REFORMS AND TARIFF POLICY IMPROVEMENT

Available housing facilities actually do not develop in Ukraine. Specific weight of total space of the housing facilities equipped with water supply has expanded only by 9.8% (60.3%), with water sewerage by 10% (57.2%), with gas supply by 3.4% (83.3%) for the last 20 years.

Tariffs for domestic utilities have risen: electricity by 23% since September 1, heating by 70% if compared to the previous year; gas tariff has risen multifold for the last half of the year. Substantial rise of energy resources made detrimental effect on people's solvency and consumer demand. Housing and domestic utilities sector requires urgent reforms. Immediate step is to adjust quality of utilities to their cost and to introduce energy-efficiency technologies rapidly.

Project "Technical assistance of Energy-Efficiency Enhancing in Houses" had been implemented within 2011-2013 on EBRD funds. Outcome of the project was introduction of a number of the national energy-efficiency standards of houses and launch of information resource for energy-efficiency enhancing in houses of Ukraine "Warm House". In 2015 EBRD planned to open credit facility for Ukraine to implement the next energy-efficiency project for houses "Technical Assistance for Investment Promotion in House Energy Efficiency". These projects are targeted at adoption of Directive on energy Efficiency of Houses No. 2010/31/EU in Ukraine.

Cutting-edge technologies would enable Ukrainians to save on domestic utilities prices. However, energy efficiency programs are hindered while people's expenditures for domestic utilities are rising.

Such predicament cause downsized consumer demand, freeze of domestic market and complications for people to pay their bills (for domestic utilities). In particular, domestic utilities arrears of people amount to about UAH 12.2 billion as for end of August which will rise up to the end of the year along with gas and electricity tariff increase.

Number of households which enjoyed subsidies was nearly 762.19 in January-May of 2015. Aggregate subsidy volume accounted for USD 9.9 million for 5 months which is 6 times higher that in the corresponding period of 2014. Average subsidy for domestic utilities purposes per one household surged by 4 times to UAH 267.6 in May of 2015 if compared to the corresponding period of the previous year.

Available housing facilities actually do not develop in Ukraine. Specific weight of total space of the housing facilities equipped with water supply has expanded only by 9.8% (60.3%), with water sewerage by 10% (57.2%), with gas supply by 3.4% (83.3%) for the last 20 years.

VI. ENERGY SECURITY, ENERGY-EFFICIENCY, ENERGY SAVING

Legal regulation of oil and energy sector is still inconsistent without framework law setting fundamentals and approaches of regulation in electricity, nuclear, coal and oil and gas subsectors.

Occasional inconsistent legislative changes in energy sector deteriorate functioning system or introduce cross-subsidizing (disguised) of one business by another one without any guarantee of return.

Essential clear-cut negative characteristics which make impact on reliability and cost-effectiveness of power generation, transmission and consuming include:

- specific weight of energy intensiveness for production of unit of GDP which exceed world indices;
- transmission losses in power grids;
- obsolete equipment and technical control devises for technologies of electricity generation, electricity transmission and consuming which do not meet current safety and cost-effectiveness standards many times;
- technical means of power consumption audit which do not guarantee full payment.

Energy independence requires rapid nuclear power sector development and retain of 50% of nuclear power plants share within total electricity generation.

Key targets in this direction should be:

- high level of nuclear and radiation safety of nuclear power plants;
- construction of the new and extension of operation period of the functioning power units, construction of nuclear fuel waste repository;
- safety of used nuclear fuel and radioactive waste treatment;
- diversification of nuclear fuel supplies;
- stabilization and enhancement of financial base and solvency of nuclear power plants.

Alternative energy development

Amid energy crisis favourable conditions for alternative energy sources development which are inherent sufficiently to Ukraine become critical. It is proposed to establish centre of scientific, research and industrial development of alternative energy and biosphere development of Ukraine.

Shaping of energy saving culture within society and implementation of energy saving programs

Required steps:

- To fix tariffs for thermo-energy unchanged for the period of 5-7 years if energy saving measures are taken and energy-efficiency is enhanced;
- Funds saved as a result of energy saving and energy efficiency measures and replacement of natural gas with alternative fuels shall

be credited to special use account;

- To abolish state bodies, including court bailiffs to seize special use account;
- To fix price for alternative fuels not higher than its aggregate cost price of production and marginal profitability by 20%;
- To ban burning of alternative fuels (biomass) in any places except for institutions producing thermo-energy and electricity;
- To oblige State Agency for Forest Resources to provide wood and wood chip boiler units with necessary quantity of raw materials at the price with profitability up to 20%.

VII. INNOVATION POLICY AS A DRIVING FORCE FOR ECONOMIC GROWTH OF UKRAINE

Innovation policy is on quite low level due to insufficient funding of scientific activities (applied research and developments) as well as insufficient incentives for innovation activities. In particular, in 2014 scientific and scientific and technical works were conducted on the account of 0.7% of GDP while scientific activities were financed at the level of 0.49% of GDP (2.02% of GDP in EU in 2011).

Due to insufficient financing number of scientific research organizations are gradually decreasing. Adverse macroeconomic situation causes curtailment of innovation activities of the companies. 16.15 of industrial enterprises were engaged in innovation activities and only 12.1% of industrial enterprises introduced innovations in their production process.

Taking into account unsatisfactory level of innovation implementation more adequate state financial support shall be allocated and set of incentives for scientific and technical and innovative activities as well as innovation implementation into production should be developed through:

7.1. To elaborate the national/state programs and funds to finance scientific and technical activities.

7.2. To introduce system of tax incentives: special norms of depreciation deductions, reserves of non-taxable income, investment surtax paid by tax authorities – tax loans and tax holiday etc.

7.3. Establishment of strong sectoral integrated research and development clusters united by common market with further establishment of research and development complexes and public contracts for their products. It will mitigate the problem of intellectual property protection and transfer and certification of innovative products, enhance efficiency of scientific research and development works and align research activities to the demands of the market.

7.4. Cooperation between higher education institutions, academic institutions, businesses and state authorities on particular issues of effectiveness of innovative activities, integration of particular courses into training disciplines dedicated to modern entrepreneurial and innovative activities, study of examples of economically feasible implementation of research findings.

It is necessary to provide for full-fledged involvement of Ukraine as associate member into EU framework program for research and innovations "Horizon 2020" (total fund is about Euro 80 billion) which will set fundament for structural reforms in scientific and innovation sector of Ukraine and cut brain-draining from the country.

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VIII. NATIONAL DEFENCE CAPABILITY AND DEFENCE INDUSTRY DEVELOPMENT

Sharp decline in development of real economy is related primarily to decrease of basic economic indices of defence industry enterprises. It manifests disability of economy of Ukraine to withstand challenges and menaces which the country faces amid armed conflict in the Eastern Ukraine. Lack of high quality strategic management, corruption, obsolete arms trade have become demotivating factors for state sector of defence industry when profits were gained without investments into industrial basis and technologies development.

Currently defence industry enterprises are unable to cover all needs of defence sector and national security in full scope in due time and with high quality. Despite permanent position within top twenty (or even top ten) largest arms suppliers export potential of Ukraine are gradually being depleted.

Pre-requisites are comprehensive and defined by the following factors:

- critical level of physical and moral depreciation of fixed assets,
- structural deformation and misbalance of defence industry, predicament at the majority of defence industry enterprises,
- scarce current assets and investment resources, low level of utilization of scientific and production capacities etc.

Future diversification and positioning of defence industry in the EU integration processes will be influenced by major disparities of the national defence enterprises and sectors, effective restrictions of the European partners on access to cooperation with overseas producers in arms and military machinery production.

Vital pending issue is replacement of cooperation contacts with Russian Federation which encourages to minimize import dependence, especially critical in rocket and space industry, aviation, ship building, engine building, radio-electronics as urgently as possible.

To modernize defence industry the following agreed actions of the state authorities and business should be taken as priorities:

8.1. To form organizationally and functionally viable defence industry structure, to ensure deep integration between science and production, to develop actions to implement Concept of the State Targeted Program of Reforming and Development of Defence Industry of Ukraine for the Period up to 2020.

8.2. To establish strong sectoral integrated research and development clusters which will serve as the base for state corporations accountable to management bodies of state property in defence industry.

8.3. To re-organize enterprises, to define directions of their consolidation, optimization and conversion, introduction of economic incentives for interaction of academic institutions and production companies of different ownership forms, public-private partnership.

8.4. To implement economic mechanisms of state support

of defense industry to restore its strategic role within the national security system and to ensure effective functioning and sustainable development.

8.5. To identify list of basic and critical technologies and support of innovations in defence industry.

8.6. To introduce effective mechanisms of financial rehabilitation of enterprises which serve public defence contracts, realize international economic contracts, involved into import replacement, energy efficiency, production and energy saving programs.

8.7. To improve system of standardization and unification of products of military and civil purposing, including introduction of standards of international standardization organization, standards adjusted to EU and NATO according to Road Map of Reforming of the Standardization System in Defence Industry for 2015-2018".

8.8. To render legal and state support to defence industry enterprises in implementation of international standards; to form widely accessible electronic base of standardization regulative documents.

8.9. To establish the system of public contracts for training of workers, technicians and engineers for defence industry (to restore training workshops at the enterprises, vocational schools, specialized departments at the higher educational institutions etc and to provide their legal and social protection).

8.10. It is also urgent to elaborate the law "On recognizing defense industry as priority and rendering of state support".

IX. PRIVATIZATION OF PUBLIC PROPERTY

Taking into account negative experience of the public property privatization in the previous years it is necessary to change philosophy of public property privatization. Man-orchestrated pushing of privatization procedure is inadmissible. Public control should be introduced and diverse approaches applied to management of public property (privatization, public-private partnership, lease, concession, management change and engagement of international high-qualified managers).

Effective regulative framework needs improvement since it does not meet today challenges and tasks of privatization and contradicts to provisions of policy papers (Strategy of Sustainable Development Ukraine-2020, Coalition Agreement) and is fraught with certain dangers for the country economy. Therefore, it is feasible:

9.1. To align regulative framework of public property privatization in 2015-2017;

9.2. To provide transparent and effective procedure of public property;

9.2.1. To take inventory of public property.

9.2.2. To audit state enterprises.

9.2.3. To make feasibility study and calculate effect of privatization of each public property item, to develop comprehensive measures to enhance effectiveness of such public property taking into account their peculiarities, financial situation, place and role in regional policy.

9.2.4. To enhance effectiveness of management of loss-making state enterprises through changes of managers and management system.

9.2.5. To identify transparent conditions of privatization and to ensure equal conditions for investors to acquire privatized property.

9.2.6. To fix clear-cut criteria of selecting investors (namely, to avoid investors from aggressive countries and those related to terrorism) and procedure of oversight over privatized property regarding investors' fulfilling their undertaken obligations (investment of their own funds, retaining of jobs, increase of profitability, scale of production etc).

9.2.7. To rule out political component from privatization procedure and restrict influence of financial and industrial monopolies on this procedure.

9.2.8. To ensure diverse approaches and alternative forms such as targeted privatization of particular sector, public-private partnership, lease, concession with maximum goals and objectives achieved as the result of effective management of public property and balance of state-investor interests.

9.2.9. To ensure public control over privatization and its openness.

It is necessary to change philosophy of public property privatization. Man-orchestrated pushing of privatization procedure is inadmissible. Public control should be introduced and diverse approaches applied to management of public property

X. BUSINESS EXCELLENCE AND COMPETITIVENESS OF ENTERPRISES AND ORGANIZATIONS

It is vital to elaborate and adopt fundamentals of the active state policy to facilitate enterprises and organizations in improving based on modern European approaches and best practices. Value of excellent organizations and processes of their improvement should be declared on the highest state level. It should be declared "The more excellent is the organization, the more comfortable it feels in the country".

To transform Ukrainian enterprises, organizations and institutions into socially-oriented ones, to ensure their organizational excellence and competitiveness under EU integration and creation of conditions for effective reforms, competitive economy and sustainable development of Ukraine it is feasible:

10.1. To redistribute functions and responsibilities in business excellence based on consistent management with imposed:

a) methodology of standardization in management on the National Standardization Authority;

b) methodology of development and improvement of management systems on corresponding leading institutes of the National Academy of Science of Ukraine and the Ministry of Education and Science of Ukraine;

c) application of targeted management systems based on standards on executive bodies responsible for particular tasks (quality management to the Ministry of Economic Development and Trade, environment management to the Ministry of Ecology and Natural Resources, energy management to the Ministry of Coal and Energy of Ukraine etc);

d) to promote pro-business-excellence movement among enterprises, organizations and institutions based on consistent management on the Ministry of Economic Development and Trade;

10.2. To make amendments in the laws of Ukraine on the Cabinet of Ministers of Ukraine, central and local authorities on their responsibility for motivation, creation of conditions and facilitation of public, enterprises, organizations and institutions in permanent improvement, in particular with Common Assessment Framework practiced in EU;

10.3. To introduce real economic incentives for excellent producers and service providers which implemented energy and resource saving technologies, low waste or wasteless and eco-friendly technological processes which increased productivity and better specifications of product;

10.4. To elaborate and ensure step-by-step training programs and capacity-building of all employees on management with in-depth knowledge of social responsibility and sustainable development and organizational excellence, in particular based on quality management, environment management, safety management etc.

XI. SME SUPPORT

SME, self-employment are life-savers for people since large industry of Ukraine experiences hardships which causes employers release added with economy modernization and market diversification. It is small enterprises which are capable of picking up the baton of economic activities, overcoming unemployment, filling markets with goods and services. The state must put all possible efforts to enable people of earning with their mind and labour, creating job for themselves and several other compatriots, and therefore, sustaining their families and building the future.

According to statistics of 2015 SME provides jobs for 75% of employers of Ukrainian enterprises (7.3 million people). Specific weight of SME sales within overall economy amounts to 52% (EU – 56%).

Taking into account big share of SME within Ukrainian economy, its support will contribute to economic growth, unemployment elimination and sustainable development of the country.

Meanwhile, today SME suffers severely from administrative pressure and abuses of fiscal and control bodies and lack of access to financial resources. In 2015 891 thousands of legal entities and 731 thousands of physical business entities actually terminated their activities but do not have appropriate status.

As estimated, amount of actual loans allocated to SME during the year has been contracted by two times while nominal growth amounted to 15%. Share of loans within SME capital is 20% against 60 in the developed countries. Primarily the enterprises re-invest their own profits and investments of founders in business development. Average loan cost is 22% which is high price under economic recession.

Significant obstacles for entrepreneurship is complicatedness and frequent changes of tax accounting documents, biased position of control bodies and courts in consideration of claims and lawsuits. Sensitive factor for the future SME development is its misbalanced structure: more than half of SME is engaged in trade and only 7% in industry.

To support and develop SME it is necessary:

11.1. To implement the Law of Ukraine “On Development and State Support of Small and Medium Enterprise in Ukraine” as from March 22, 2012, No. 4618-VI;

11.2. To accelerate elaboration of SME development strategy and ensure its implementation. To use it as the basis for elaboration of subnational and local SME development jointly with local self-government authorities;

11.3. To adopt national program of SME lending with providing loan guarantees through mediators – funds of loan guarantees, regional guarantee companies and deferred payments for guaranteed loans etc.

11.4. To retain simplified taxation, leaving intact unit 1 of chapter XIV of the Tax Code of Ukraine;

11.5. To implement Small Business Act for Europe when implementing Association Agreement between Ukraine and EU as well as to fulfill recommendations of appraisal “Index of SME Policy: Eastern Partnership countries 2012 – Progress in Implementation of

SME suffers severely from administrative pressure and abuses of fiscal and control bodies and lack of access to financial resources.

Small Business Act for Europe" conducted by OEEC in cooperation with European Commission, European Education Fund and EBRD.

11.6. To create conditions for preserving and possible development primarily SME, retaining of existing jobs it is essential to push consideration and urgent adoption of the following laws:

- "On development and state support of small and medium enterprises in Ukraine" No. 1256 as from December 4, 2014;

- "On amendments in the Law of Ukraine "On levying and accounting of the unified tax for obligatory state social insurance" (on conditions for unshadowing of small enterprises)" No. 1060-1 as from November 27, 2014;

- "On amendments in the Tax Code of Ukraine and some laws of Ukraine (on cash registers of transactions" No. 1718 as from January 13, 2015;

- "On amendments in some legislative acts of Ukraine on rescission of fiscal and administrative pressure on personal income" No. 1877 as from January 29, 2015;

- "On amendments to the Tax Code of Ukraine, to some legislative acts of Ukraine on improvement of some provisions" No. 1918 as from February 2, 2015.

11.7. To introduce amendments to the Law of Ukraine "On fundamentals of the state oversight (control) in business on extension of its domain over the State Fiscal Service.

XII. SUSTAINING PRO-UKRAINIAN BUSINESS IN THE ANTI-TERRORIST OPERATION AREA

Surviving under the armed conflict in Ukraine which produced areas uncontrolled by the authorities, ruined and shut down production facilities, disrupted logistic chains, and generated objective conditions for rocketing losses of businesses. It is relevant for mining industry and some processing industries (metallurgy, chemical industry). Persistent large uncontrolled area in the Eastern Ukraine generates conditions for emerging illegal business. As the Ministry of Economic Development and Trade estimated, that 1st quarter of 2015 demonstrated rise of the shadow economy up to 47% of the official GDP against the corresponding period of 2014.

According to the Ministry of Social Policy, over 1.5 million people were displaced from the temporary occupied areas and region of the anti-terrorist operation to other localities. More than half of internally displaced people are registered in Donetsk and Luhansk regions.

Revenues of the budget obtained from industrial giants of Donbas decreased by three times if compared to 2013. One of essential problems is contraction of employed people (the lowest level of employment within the country is registered in Donetsk region – 50.5%) which fuels social tension.

Entrepreneurship problems in the areas adjacent to the anti-terrorist operation region:

Impossibility of far-sighted planning of commercial activities due to pending destabilization of political and security situation under direct impact of external factors.

Lack of comprehensive vision of the authorities on future development of these areas amid incapacity of the competent bodies, first and foremost, of the State Agency for Donbas Reconstruction established within the Ministry of Regional Development, Construction and Housing and Domestic Utilities, which has not received appropriate budget funding and organizational support of the Cabinet of Ministers of Ukraine.

Ignoring of pro-Ukrainian business problems in the uncontrolled areas coupled with actual hybrid form of economy (primarily in railway and electricity sectors with joint infrastructure located both on the temporary occupied areas and controlled areas of the anti-terrorist operation).

Ignoring of the existing needs of the enterprises and entrepreneurs evacuated from the anti-terrorist operation area (restricted capacity of the entrepreneurs among internally displaced people, especially small businesses, to sustain independently move of business to the controlled areas, restricted access to loans).

Coordination of joint efforts of the authorities and business:

12.1. To elaborate and adopt state target program to guarantee sustainable social and economic development of particular areas in the Eastern Ukraine with resumed operations of the functioning production facilities, structural overhaul of the production facilities, diversification of export supplies of products and increase of their domestic consumption

12.2. To ensure full-fledged activities of the State Agency for

Surviving under the armed conflict in Ukraine which produced areas uncontrolled by the authorities, ruined and shut down production facilities, disrupted logistic chains, and generated objective conditions for rocketing losses of businesses.

Donbas Reconstruction which shall obtain proper budget funding and organizational support of the Cabinet of Ministers of Ukraine.

12.3. To elaborate program of the new jobs creation, first and foremost, on account of reconstruction of infrastructure in Donetsk region because of large number of internally displaced people.

12.4. To extend moratorium till the end of 2016 for scheduled and extraordinary audits of the businesses by the state oversight bodies.

12.5. To facilitate employment of the anti-terrorist operation combatants, establishment of the social enterprises, engagement of the potential customers within social adaptation of the anti-terrorist operation combatants.

XIII. FIGHT AGAINST CORRUPTION

Corruption is a ubiquitous problem in Ukraine which brings to naught positive reform outcomes and restrain economic development of the country and influx of the overseas investments. Therefore, fight against corruption and reforms of the judiciary should be corner stone of the reforms in the country. Along with it, anti-corruption lustration of the power should be based on transparency, openness, equality to the law, inevitability of punishment and special responsibility of the public officials for the imposed tasks.

Judiciary being the most corrupted sector needs reforming and reinvigoration. Corruption of the judiciary is an obstacle for the influx of the overseas investments to the Ukrainian economy since investors are unable to protect their property rights.

Major corruption and abuses are observed in public procurements reflected in uncompetitive conditions of the successful bidder selection and foot-dragging in procurement which is inadmissible. About 47.6% of public procurements were performed under uncompetitive procedure in the last year while some experts claimed that abuses in public procurements were at the level of 20-30%. However, losing such substantial financial resource the government and the parliament members foot-drag introduction of e-procurement system proved by revoking of the draft law "On Amendments to the Law of Ukraine "On Public Procurements (on improvement of the public procurement and e-procurement system)".

State authorities jointly with public organizations and business associations should elaborate and implement effective measures to combat against raider attacks, comprehensive measures to make more stringent criminal responsibility of the officials for disability to protect property rights.

Business associations jointly with state authorities should participate in oversight over abidance by the legislation on property rights protection, anti-corruption laws, public analysis of laws and regulative acts, concepts and anti-corruption programs etc.

To crack down on corruption in Ukraine the following priorities shall be performed:

- to deepen personal responsibility of the officials (public officials) for damaged property, losses incurred by businesses due to misfeasance or nonfeasance of the officials;
- to source rapidly the National Anti-corruption Office with human resources;
- to adopt the Law of Ukraine "On Business Ombudsman Office".

XIV. DECENTRALIZATION OF POWER, HUMAN RESOURCES POLICY

The government and the parliament members have made an important step in budget and power decentralization in the form of introduced amendments to the Budget Code of Ukraine. Local self-government bodies became more financially independent from the State Budget and able to decide independently upon rates and base of taxes and levies; sources of tax revenues sources were re-distributed among tiers of the budget system. It should encourage local authorities to seek the most effective (balanced) local fiscal policy between increase of own fiscal share and formation of conducive conditions for business, creation of new jobs and performing of undertaken obligations towards local community.

Taking into account decentralization process it is hard to appraise effectiveness of these budget novelties, especially those relating to reforming of the local self-government and territorial organization of power through merging of village councils into larger administrative and territory units and prospects of necessary constitutional amendments.

Necessity to redistribute powers, responsibilities and financial resources between power tiers has become urgent for Ukraine. Reforming of the local finances on the base of financial decentralization in Ukraine should have determined needs for expenditures for powers delegated to the local self-government bodies. Scale of fiscal powers of local self-government bodies, shares of revenues distribution among tiers of the budget system should be determined in line with scale of the expenditure responsibilities of the bodies.

Special taxation regime areas should be established within the framework of the regional policy to raise attractiveness for entrepreneurs and investors.

Human resource policy in Ukraine needs reinvigoration that is erasing of political colouring, rejection of personal loyalty principle, belonging to versatile financial groups etc.

Key criterion for human resources selection should be their professionalism and patriotism and dedication to state interests. The state authorities need people who have achievements and experience in certain sphere and will facilitate effective solutions for the tasks the country now faces with minimum risks.

It relates to engagement of young promising experts to reforms, need for social lifts – opportunity for educated and vigorous young people to make career of the state official. It is supported by the guaranteed first job and retaining of segment of professional pensioners with large bulk of inherent knowledge and skills.

Current policy in human resources sector, especially in the regions, should be as transparent as possible due to engagement of public to selection of candidates for vacancies. Appointed executive in the region should have support, trust and respect from community except for proper competence and qualification.

In the long-term period it is vital to provide financial and administrative autonomy from the central power, opportunity to choose strategy of the regional development, proper powers, resources to the local governments and to strengthen responsibility for social and economic development of the region

XV. DEEPENING COOPERATION WITH EU, IMPLEMENTATION OF ASSOCIATION AGREEMENT BETWEEN UKRAINE AND EU

Despite the fact that the largest consumer of Ukrainian goods is EU (32.7% of the overall export or USD 6.1 billion) export to EU plummeted by 36% for the first half of 2015 against the corresponding period of the previous year. Moreover, export from Ukraine to EU increased only by 2.6% in 2014 under unilateral trade preferences from EU. Non-compliance with European safety standards, foot-dragging with certification, lack of information on peculiarities of entry in EU market (marketing, competitive and effective sales system) caused the situation when many Ukrainian enterprises having significant potential for trade with EU could not utilize opportunities of provided trade preferences. In particular, the Ministry of Agrarian Policy claim that many tariff quotas for export of Ukrainian goods to EU were not utilized. Quotas for export of animal products were not utilized at all (pork, beef, mutton, egg, milk and dairy products), only one third of quotas for export of chicken to EU was utilized. There was not start of export of food, mushrooms, sweet corn, ethanol, as well as processed milk and dairy products, grain crops, malt and starch. Only quotas for corn, wheat, honey and fruit juices were utilized completely.

Incomplete utilization of quotas is the after-effect of non-compliance with European standards of products safety and insufficient demand for Ukrainian products in EU.

To assist entrepreneurs in introduction of proper standards to sell their products on EU market the government and business associations should elaborate and ensure consistent implementation of the National Program of Adaptation of Ukrainian Economy to Free Trade with EU (standards, technical regulations, overhaul) and elaborate jointly roadmap of implementation of Association Agreement between Ukraine and EU.

Key objective of the national program of adaptation should be development of the constructive dialogue between the state authorities and business via: incentives (tax, investments) of overhaul of Ukrainian production facilities; competitiveness of domestic producers; gradual liberalization of market through transition period and protection mechanisms for Ukrainian producers which will not run counter provisions of the FTA between Ukraine and EU etc.

To facilitate deepening of cooperation between Ukraine and EU it is crucial to earn support of EU to realize the following measures:

15.1. To establish modern certification centres in Ukraine by means of EU grants, which will be accredited in EU and issue quality and safety certificates in line with the European standard. To oversee utilization of the funds monitoring group should be established of public organizations and associations representatives;

15.2. To assist in harmonization of tax legislation with EU provisions and norms;

15.3. To recover subsidy (discount) for Ukrainian producers to participate in fairs and forums conducted in EU to cherish contacts with prospective partners;

15.4. To extend access of Ukrainian enterprises to public

It is necessary to elaborate and ensure consistent implementation of the National Program of Adaptation of Ukrainian Economy to Free Trade with EU (standards, technical regulations, overhaul) and elaborate jointly roadmap of implementation of Association Agreement between Ukraine and EU.

procurements in EU;

15.5. To increase quotas for duty-free export of agricultural products to European market within the framework of common agrarian policy of Ukraine and EU.

15.6. To develop mechanisms of allocation of major share of the financial assistance and EU grants to business development within Eastern Partnership directly to the enterprise.

XVI. EXPORT POLICY

Effective currency restrictions of the National Bank of Ukraine for export-import transactions have made impact on contraction of Ukrainian export of goods and services (to -33% in January-July of 2015).

Symptomatic is the fact that devaluation of the national currency at the beginning of the year influenced rectification of the foreign trade misbalance only partially and now it is not a solid ground for export boosting which is pivotal amid plunge of solvent demand on domestic market.

Export policy in Ukraine should be oriented on extension of sales markets for Ukrainian goods and include incentives of goods quality improvement and increase of value added export. To realize it successfully competitiveness of Ukrainian goods should grow; technological gap of Ukrainian industry should be bridged in line with the world standards; financial, technical and information infrastructure should be developed to boost high technology products.

Efforts of business and government should be united to tap foreign economic potential of Ukraine, support export-oriented industries and utilize all available instruments to increase export of Ukrainian products, widen the horizons for the products. Such instruments include:

16.1. Economy diversification, rapid harmonization of technical regulations with EU standards to mitigate production, commercial and investment risks related to market loss in the East.

16.2. Sourcing of export loans for importer-purchaser to pay for goods (in fact, it is one of mechanisms of payment deferring for supplied goods). Implementation of this mechanism is not possible due to effective system of currency regulations in Ukraine.

16.3. Insurance of export loans to protect property interests of exporter-creditor against commercial and non-commercial risks. Ukraine has not yet created proper infrastructure for export lending and insurance of export loans.

16.4. Resumed operations of trade and economic missions within overseas diplomatic institutions, especially in the countries which Ukraine has negative trade balance with.

XVII. REVIVING LABOUR POTENTIAL OF UKRAINE

Preserving and development of the labour potential is the condition sine qua non for the innovation development and strategic task of the sustainable development of the country.

Natural base of the labour potential has been shrinking for the long time, in particular, induced by wave of labour migration of the employable people outside Ukraine due to deformed labour market. Moreover, Ukraine does not have integrated approach to forecasting of needs of industrial and non-industrial sectors for qualified experts and workers with view to the structure of Ukrainian economy. One of the pivotal issues is lack of verified statistics on real proportion of demand and supply of human resources on the labour market of Ukraine.

Now scale and level of employment is very low (56.5% in the first half of 2015). Specific weight of the employed in informal economy is still significant (more than one quarter of all employed people). Number of unified social contribution payers is sinking tangibly (reduction is 1.1. million people in August of 2015 if compared to August of 2014). Average number of full-time staff employees is sinking nearly in all sectors and all regions of Ukraine. Demand for employees contracts nearly in all sectors. Number of employees who got warning of planned massive dismissal rises (7 times more in August of 2015 than in August of 2014). Scale and level of unemployment remain substantial (9.2% according to methodology of the International Organization of Labour). Preservation and development of the labour potential should be ensured through the following ways:

- Stabilization of employment under financial crisis;

- Increase of economic activities of people, strengthened motivation of people to sign labour contracts, facilitation of productive employment oriented to innovative model of production development;

- Support of entrepreneurial initiative and SME, self-employment;

- Reduction of labour migration of employable people abroad, return of long-term labour migrants to Ukraine.

Another priority of labour resource development is acceleration of updating of professional knowledge and organization of continuous education. Now annual updating of theoretical knowledge is 5% and practical knowledge is 20%. Conditional unit of outdated of professional knowledge is period of degradation of his competence by 50% due to new information which demonstrates that this period starts less than in five years in many professions, i.e. it starts before higher education period ends.

XVIII. PROBLEMS TO BE TACKLED URGENTLY

In public governance and finance and credit policy

Establishment of full-fledged state agency for industrial policy administration.

Budgetary and organizational support of the state agency for Donbas reconstruction

Establishment of the agency for financial support of export – the state export and credit agency.

Establishment of the special insurance fund with stockholding of foreign and Ukrainian investors to fund infrastructural projects.

Establishment of the state bank of development to provide loans to real economy for extension or construction of the new production facilities.

In ensuring of transparency of the state bodies activities

Introduction of the e-procurement procedure for public procurements.

Transparent tender procedure of selection of candidates for the State Fiscal Service of Ukraine.

Elaboration and adoption of the Law of Ukraine “On Office of Business Ombudsman”.

In tax and customs policy and fight against corruption

Gradual and targeted liberalization of currency regulation (decrease of share of mandatory sale of currency gains from 75% to 50% and to 25% for some sectors, cancellation of 90-day period of payment settlements for export-import transactions with simultaneous elaboration of differentiated approach to setting of deadline for return of currency gains taking into account peculiarities of the production cycle).

Cancellation of extra-duty for import, pension taxation for employed pensioners.

Identification of the full list of critical import, cancellation of import duties for machines and equipment imported to the customs territory of Ukraine aimed at overhaul of the enterprises.

Repeal of the Resolution of the Cabinet of Ministers of Ukraine “On use of the estimated indices of the customs value of the goods in risk management” No. 724 as of September 16, 2015.

Setting of personal responsibility of the officials of tax and customs agencies for the losses incurred by the businesses due to misfeasance or nonfeasance of the officials of the state Fiscal Service of Ukraine.

In public-private partnership development

Launch of the national projects via public-private partnership (construction of toll-paid highways, Antonov aircrafts, construction and reconstruction of coal mines, reconstruction of housing and domestic utilities sector and energy infrastructure, construction of the modern garbage disposal plants based on new technologies of full transformation of all types of domestic, industrial and municipal waste and garbage with additional energy resources, commercial products and materials with set parameters).

In law-making

Adoption of the laws:

On Moratorium of Business Audits No. 2918 as from May 20, 2015

On Amendments to Some Legislative Acts of Ukraine (on Lifting of Regulatory Obstacles for Public-Private Partnership Development in Ukraine and Investments Promotions) No. 1058 as from November 27, 2014.

On Amendments to the Tax Code of Ukraine (on Reduction of Tax Pressure on Tax Payers) No. 2004 as from February 03, 2015.

On Amendments to the Tax Code of Ukraine (On Taxation of Non-Profitable Organizations) No. 2049 as from February 05, 2015.

BACKGROUND

To encourage state authorities to study properly proposals presented in the Anti-crisis Program of the Joint Actions of the State Authorities and Business, representatives of the Anti-crisis Council of the public organizations targeted their actions at the most sensitive direction of the modern communications between business and state authorities, namely, VAT electronic administration and further tax policy reform.

On August 13, 2015, ULIE hosted roundtable "VAT electronic administration system in full mode: initial results". Business conclusions of the discussion submitted to the President of Ukraine, Verkhovna Rada of Ukraine, the government claimed negative consequences of VAT electronic administration system for SME which menace further reconstruction and development of the state economy.

Within activities of the domestic producer support stipulated in the separate chapter of the Anti-crisis Program of the Joint Actions of the State Authorities and Business ULIE hosted roundtable dedicated to negative consequences of import surcharge. Address to the Verkhovna Rada recommended adoption of the draft law No. 2674 as from April 20, 2015 "On Recognition as Ineffective of the Law of Ukraine "On Measures of Stabilization of Payment Balance of Ukraine according to article XII of the General Agreement on Tariffs and Trade of 1994" since negative effect of the surcharge, particularly rising prices of raw materials, technologies, equipment, spare parts outweighed its expected fiscal effect.

To sustain effective mechanisms of communications between the state authorities and society in the interests of protection of legitimate rights of tax payers, improvement of business climate, development of partnership between the state authorities and business on September 23 of 2015 Anti-crisis Council of the public organizations carried out joint meeting with heads of the State fiscal Service of Ukraine. The outcome of the meeting is signed Memorandum on Partnership and Cooperation between the Anti-crisis Council of the public organizations and the State Fiscal Service which can be used by business community as instrument of implementation of provisions of the Anti-crisis Program of the Joint Actions of the State Authorities and Business (chapter: Fiscal policy and ways of improvement).

To implement the Anti-crisis program in the regional context broad meetings the Anti-crisis Council of the public organizations and ULIE Board were carried out in Kirovohrad (June 30) and Kharkiv (September 25) which resulted in issued statement on reforming of the tax system and drafting of the State Budget for 2016 and statement on lending in the real economy.

Inert responses of the state authorities to the addresses of ULIE and Anti-crisis Council of the public organizations on consideration of recommendations of the Anti-crisis Program of the Joint Actions of the State Authorities and Business make business community unite efforts on broader representative platform to organize direct dialogue with the state leaders on business concerns. The Anti-crisis Council of the public organizations, Ukrainian League of Industrialists and Entrepreneurs are guided by the acute

necessity of joint seeking for the ways of improvement of the economic situation in the country.

On September 22, 2015 Kyiv hosted the National Forum "Transformation of Ukraine". Its initiators, organizers and active participants include representatives of civil society, public organizations, associations of business, education, culture, academicians, religious communities, international representatives and diplomatic missions. The forum launched permanent platform of communication and fruitful cooperation of Ukrainian society, civil activists, the power – the President, Verkhovna Rada and the Government of Ukraine, international community.

The National Forum "Transformation of Ukraine" has to become permanent discussion platform both on the national and regional levels. The outcome of the National Forum "Transformation of Ukraine" is the following statement:

**STATEMENT
ON THE RESULTS OF THE FIRST MEETING OF
THE NATIONAL FORUM OF TRANSFORMATION OF UKRAINE
(22 September 2015, Kyiv)**

Based on the irreversibility of Ukraine's integration into the European community, confirmed by the conclusion of the EU – Ukraine Association Agreement and Deep and Comprehensive Free Trade Area;

taking into account the socio-economic situation, the military and political risks in and for Ukraine, and the need to ensure sustainable development of the country for the benefit of Ukrainian people,

the Participants of the first meeting of the National Forum of Transformation of Ukraine have made the following statement:

"The priority task is to undertake effective reforms and a transformation of all segments of the Ukrainian institutional and economic system. Together with defense of its territory and sovereignty, systemic transformation will strengthen Ukrainian statehood. Our vision of achieving these changes is the use of European best practices of state building and the adaptation to the Ukrainian reality of technology, knowledge and experience of successful transformation from EU Member States.

It is necessary to take all required measures for a modern, competitive and democratic development of Ukraine, strengthening democracy and the rule of law and achieving European standards of life for Ukrainian citizens. We advocate the full application of the Agreement on Deep and Free Trade Area between Ukraine and the EU from 1st January 2016.

We initiate the establishment of permanent Working Group on monitoring and evaluation of current and future programs and strategies of development of Ukraine including programs of the Cabinet of Ministers, President of Ukraine, and from other national and international partners, and its implementation. The Working Group will be established by October 15th, 2015.

Sectoral Forums will be held with the purpose to discuss reform

plans in all areas of economic and social life in Ukraine, and to establish systemic communication between civil society, government, parliament and international community. The Sectoral Forums will take place at the national and regional levels and discuss main strategic reform undertaken by the Government and the Verkhovna Rada, without excluding other possible issues of general public interest. Key priority sectors are:

- business climate;
- agriculture;
- energy sector;
- decentralization and regional development;
- development of civil society;
- education and science;
- social sector;
- culture.

Each sectoral Forum will have National and International Coordinators. The National Forum will initiate the creation of an Assembly of Coordinators with the aim to assure horizontal coordination of the work of sectoral Forums. The Secretariat of the Forum will be created by the end of October.

We are convinced that the implementation of real transformational changes in political, social and economic life of Ukraine is the urgent need of the country. National Forum of Transformation of Ukraine will provide a platform of permanent discussion as an effective tool for public dialogue and democratic accountability. Systemic transformation of Ukraine requires pooling together all available expertise, both domestic and international, and an open debate as a prerequisite for national consensus about the reform path. Social activists, representatives of business, politicians, and journalists will contribute to educate society and increase the understanding of the direction of Ukrainian reforms.

The website (nftu.org.ua) allows an inclusive debate between participants and promotes the work of the Forum.

The next meeting of The National Forum of Transformation of Ukraine will be convened in November 2015 in Kyiv for the subject "Development of Civil Society of Ukraine".

**Electronic version of
ANTI-CRISIS PROGRAM OF THE JOINT ACTIONS OF THE STATE AUTHORITIES AND
BUSINESS: IMMEDIATE SOLUTIONS FOR 2015-2016
on ULIE website
<http://uspp.ua>**

Document is being constantly updated

**Anti-crisis Council of the Public Organizations of Ukraine is open to dialogue and
takes into account your comments and proposals in new versions of the document**

