

COMPETITIVE  
BUSINESS –  
PROSPEROUS  
COUNTRY

# MANIFESTO

## MANIFESTO OF UKRAINIAN EMPLOYERS



UKRAINE  
2011

**Macroeconomic instability, inefficient regulatory and tax systems, high corruption level, underdeveloped mechanisms of public-private partnership, lack of efficient mechanisms for investment mobilisation and protection of investor rights** – these are the main reasons answering the question of why Ukraine is still at the start while other countries are at prominent positions in the contemporary global economy.

Employers cannot be passive observers of Ukraine's welfare deteriorating any more. We must be answerable to the society at the level of our social partners – the government and trade unions. However, we regard corporate responsibility as much greater because it is business that is a driving force for any civilised society.

Unfortunately, following 19 years of independence, Ukraine's economic potential still remains unrealised. This is evidenced by outcomes of two influential international studies – the World Bank's Doing Business 2010 and the World Economic Forum's Global Competitiveness Ranking. In particular, Ukraine ranked 145<sup>th</sup> among 183 countries in Ease of Doing Business, and 89<sup>th</sup> among 139 countries in the Global Competitiveness Index.

It is a pity to admit that, but Ukraine of the 2011 pattern yields considerably in terms of competitiveness to such countries as Estonia, the Czech Republic, Poland, Lithuania, Azerbaijan, Slovakia, the Russian Federation, and Kazakhstan although almost two decades back, right after the USSR break-up, the above-listed states were almost at the same starting point with Ukraine.

All these reasons induce us to set ourselves and our social partners an ambitious goal: Ukraine must become one of the world's top 50 most competitive countries by 2020. To this end, strategic directions of all the employers' efforts during 2011-2020 must be as follows:

- providing basic prerequisites for economic growth through public finance stabilisation and creation of a stable financial system as well as maintaining inflation at a low level;
- shaping a regime of the most favourable treatment for business by means of reducing state interference in economy, decreasing administrative barriers for business development, modernising the tax system, and deepening Ukraine's international economic integration;
- upgrading infrastructure and basic economic sectors by means of promoting elimination of existing structural problems in energy, coal mining, oil and gas industry, housing and utility services as well as in transport infrastructure and land market;
- preserving and developing human and social capital through increasing efficiency and stability of social protection and by means of

improving quality and accessibility of education and health care;  
- improving efficiency of public administration by means of reform in civil service and executive authorities;  
- improving business climate and providing favourable conditions for investment inflow and advanced economic growth;  
- implementing an innovative model of the Ukrainian economic development.

A year has passed since a conceptual strategic document, a draft Manifesto of Ukrainian Employers, was presented at the VII Congress of the Federation of Employers of Ukraine on 24 November 2010. Drawing the line under the Manifesto, we did not mean making a point in the discussion on Ukraine's future. We invited all those seeking to leave a developed and prosperous country to their posterity to provide their proposals to the text of this document. A national discussion ground entitled **"Competitive business – a well-off country"** was opened under the aegis of the Federation of Employers of Ukraine for six months.

It is a pleasure to note that the majority of the requirements to reforms declared by employers in the Manifesto as far back as November 2010 found their embodiment in the regulatory legal acts developed and adopted during those six months. This confirms that the employers correctly predicted their future activities whereas authorities realised importance of practical implementation of the reforms we suggested.

The Ukrainian employers are deeply convinced that our country is capable of becoming a modern, democratic and well-off state. There is a long and difficult road before us. Not everyone is able to cope with it but it is within the power of the united Ukrainian nation that has rallied around the only national idea possible to us – growing welfare of the country, family and each individual citizen. Today, we are building the future together for our descendants, and we are sure: if we do everything right they will be proud of us and the word "Ukraine" will become a synonym of success and well-being.

We hope that it is the employers' ideas concerning the development of a modern competitive Ukrainian economy that will finally unite Ukrainians into a great nation respected in the world, as an example of consistent and resolute aspiration for progress, prosperity and well-being of every citizen.

**Availing myself of this opportunity to renew the assurances of my highest consideration!**

**Chairman, Council of the Federation  
of Employers of Ukraine**

**D.M. Oliynyk**

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PART

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UKRAINE'S  
WELL-BEING BEHAVIOUR  
IN 1991-2009 ACCORDING  
TO THE GAPMINDER  
WORLD METHOD.  
COMPARING UKRAINE  
WITH POLAND, BRAZIL  
AND SOUTH KOREA

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## 1. Ukraine's well-being behaviour in 1991-2009 according to the Gapminder World method. Comparing Ukraine with Poland, Brazil and South Korea

On its way towards a high well-being level, Ukraine is to respond properly to a number of internal and external challenges. The main **internal challenges** are as follows:

- *political instability;*
- *no common vision of strategic directions of Ukraine's socioeconomic development among political elites;*
- *lack of political will, of reform consistency and completeness;*
- *considerably understated cost of labour;*
- *weak internal competitive environment;*
- *conflicting national laws;*
- *high corruption level;*
- *inefficient judiciary system;*
- *low capitalisation level of financial institutions;*
- *high rate of shadow economy;*
- *outdated production infrastructure;*
- *low energy security.*

Main **external challenges** include:

- *stronger globalisation processes in the world economy;*
- *growing labour migration;*
- *growing energy prices;*
- *uncertain geopolitical status;*
- *lack of a clear strategy concerning Ukraine's position in the world labour division system;*
- *unstable world financial system;*
- *stronger integration processes in the world;*
- *swift informatisation of the world economy.*

### **How can efficiency of any country's counteraction to internal and external challenges be estimated?**

In the opinion of competent international experts, the above-said efficiency is eventually measured by a country's well-being. The latter can be rather demonstrably represented in the "life expectancy – GDP/capita" reference system. It is the approach to estimating development of countries that was suggested by the Gapminder Foundation, a research institution founded by well-known Swedish scientist Hans Rosling. In 2009, the Gapminder Foundation ([www.gapminder](http://www.gapminder).

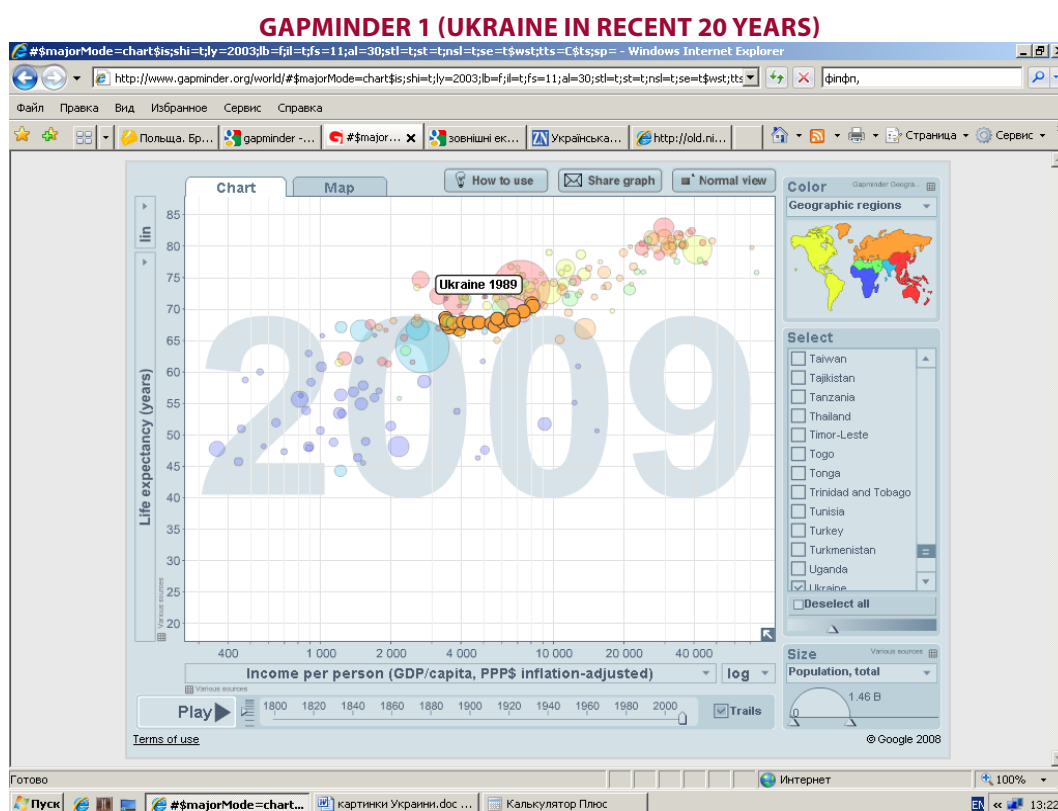
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org) published results of a study on mankind's socioeconomic development during 1800-2009 that was called Gapminder World. In visual terms, the study is a computer programme allowing each individual country's progress to be followed and progress of a few countries to be compared at once.

Using the above-mentioned software, we suggest estimating how much Ukraine's well-being has changed during 18 independent years (1991-2009). As of late 1991, life expectancy in Ukraine was 69.6 years whereas gross domestic product per capita totalled USD 7,401. Following 18 rather stormy years of independence, we have 68.5 years and USD 5,731, respectively, as of late 2009. That is, the socioeconomic reforms that were going on in our country for almost two decades have led to a 1.1 year decrease in people's life expectancy and a USD 1,670 drop in average income per person.



### What does this result indicate?

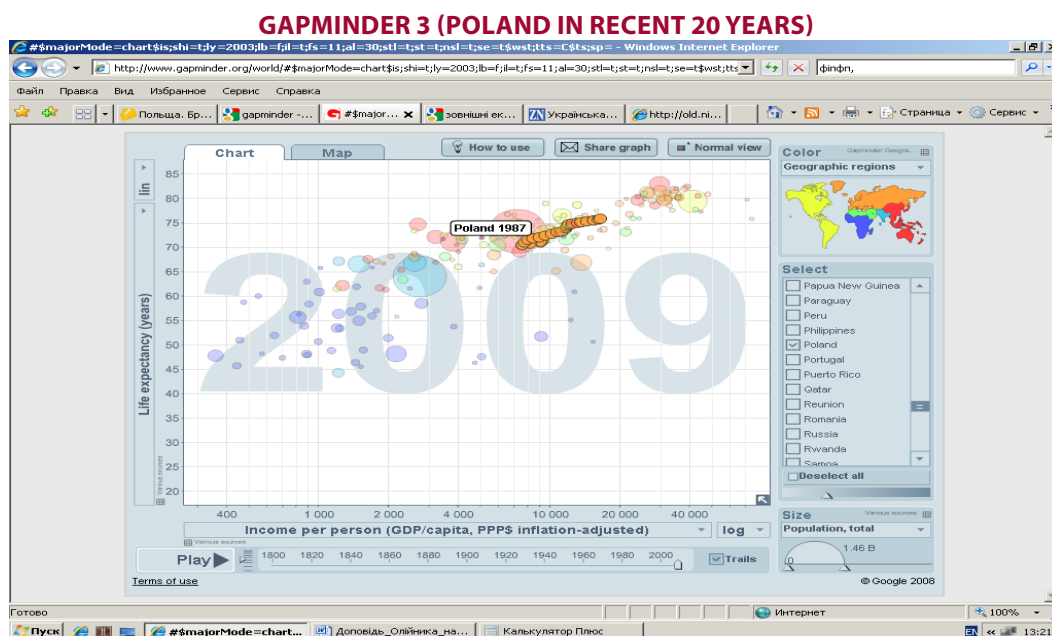
Looking at Ukraine's movement within the Gapminder World socioeconomic plane, it becomes clear: despite numerous quantitative and qualitative changes that occurred in Ukraine since it had gained independence, we were fluctuating between progress and regress in the global dimension – that of the country's well-being level – and finally rolled back if compared to 1991.

## How should this result for Ukraine be described? A tragedy? An accident? A regularity? Or, perhaps, such a disconsolate trend should be attributed to consequences of the two global financial and economic crises, in 1998 and 2008-2009?

To give answers to these questions, let us look at Ukraine's development compared with the countries that were at nearly the same level of socioeconomic development with us when our independent state was established, or even lagged behind us.

The first country to be considered in terms of development results is our nearest neighbour, **Poland**.

As of late 1991, life expectancy in Poland amounted to 70.5 years (in Ukraine it was 69.6) whereas income per person was USD 7,572 (Ukraine had 7,401). That is, both countries were actually at the same starting point. As of late 2009, Poland's indicators were 75.8 years and USD 16,466, respectively (Ukraine: 68,5 years and USD 5,731). Hence, while both life expectancy and income per person decreased during 18 years in Ukraine, life expectancy in Poland went up by 5.3 years and income per person grew by USD 8,894 (or nearly 2.2 times!!!) – despite two global economic crises. The Polish nation has become much healthier and more than 2 times richer for only two decades. The pallid statistics are vividly confirmed by comparative dynamics of the neighbouring countries' socioeconomic development in the Gapminder World software.



# PART 1

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## What are reasons of such success achieved by Poland?

Modern history shows that there is no secret Polish factor. The main thing consists of political will concerning the declaration, consistency and completeness of reforms as well as of the whole nation's disposition to live a longer and richer life.

In September 1989, a Commission of Experts, chaired by Leszek Balcerowicz, Poland's leading economist, Minister of Finance and Deputy Premier of Poland, prepared a plan of extensive reforms that were to enable fast transformation of Poland's economy from obsolete and ineffective central planning to capitalism.

In 1990, implementation of a package of radical economic reforms called a "shock therapy" began in Poland. Principles of the reforms were as follows:

- 1. Decreasing the volume of money issue dramatically, introducing high credit interest rates, and reducing amounts of preferential credits radically.*
- 2. Eliminating a state budget deficit by reducing subsidies for food products, raw materials, means of production and energy carriers, and abolishing most tax privileges and tax exemptions.*
- 3. Liberalising 90% of prices and their increase, which remained under administrative control (energy carriers, transport tariffs, housing rent, and medicines).*
- 4. Introducing partial exchangeability of the Polish national currency, zloty, due to considerable devaluation, exchange rate unification at all markets, and foreign trade liberalisation.*
- 5. Implementing a tough policy on income growth by means of: abolishing general full indexation of wages, setting a high rate of progressive tax on wage rise at enterprises, restricting increase in the wage fund relative to price rise using an adjusting coefficient, and introducing a special equalising tax on wage that exceeds average wage 1.4 times.*

The following acts were adopted within the "shock therapy" reforms in Poland:

- Act on Financial Economy within State-owned Companies**, which allowed for state-owned enterprises to declare bankruptcy and ended the fiction by which an enterprise was able to exist even with no effectiveness and accountability;

- **Act on Banking**, which forbade financing the state budget deficit by the National Central Bank and prohibited the issue of new currency;

- **Act on Credits**, which abolished the preferential crediting for state-owned companies and tied interest rates to inflation;

- **Act on Taxation of Excessive Wage Rise**, which introduced a tax limiting wage increase in state-owned companies in order to restrict hyperinflation;

- **Act on New Rules of Taxation**, which introduced common taxation for all companies and abolished special taxes that had previously been applicable to private companies through administrative decisions;

- **Act on Economic Activity of Foreign Investors**, which allowed foreign companies and private persons to invest in Polish economy and export their profits abroad;

- **Act on Foreign Currencies**, which introduced internal exchangeability of zloty and abolished the state monopoly in international trade;

- **Act on Customs Law**, which introduced uniform customs rates for all companies.

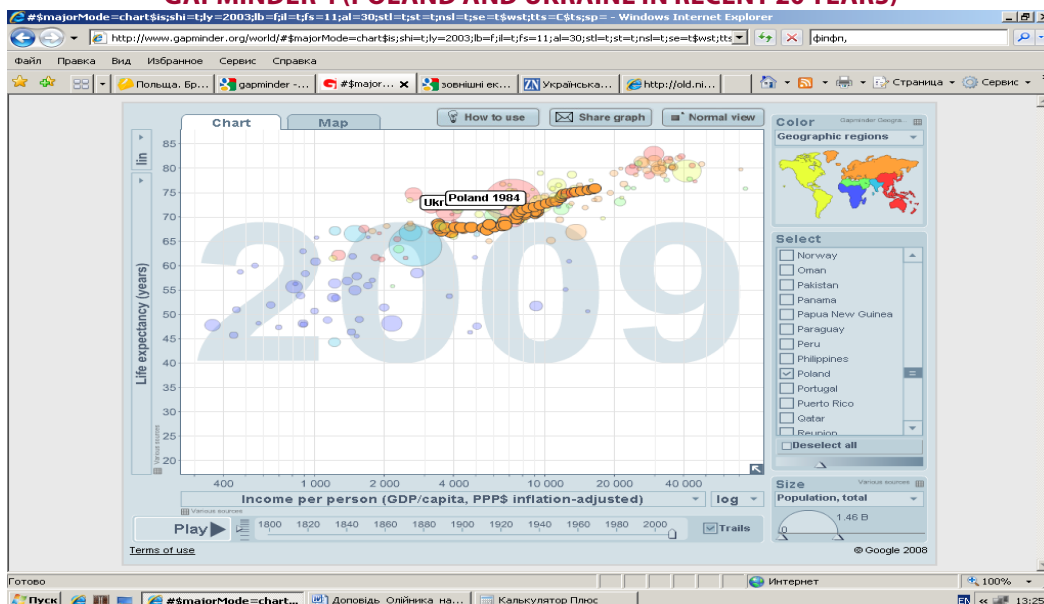
Poland's experience proves that, given consent among national elites as to the country's strategic development course as well as prohibition of addressing economic problems by increasing money issue and budget spending, it is possible to carry out socioeconomic reforms laying the foundation for the future sustainable economic growth.

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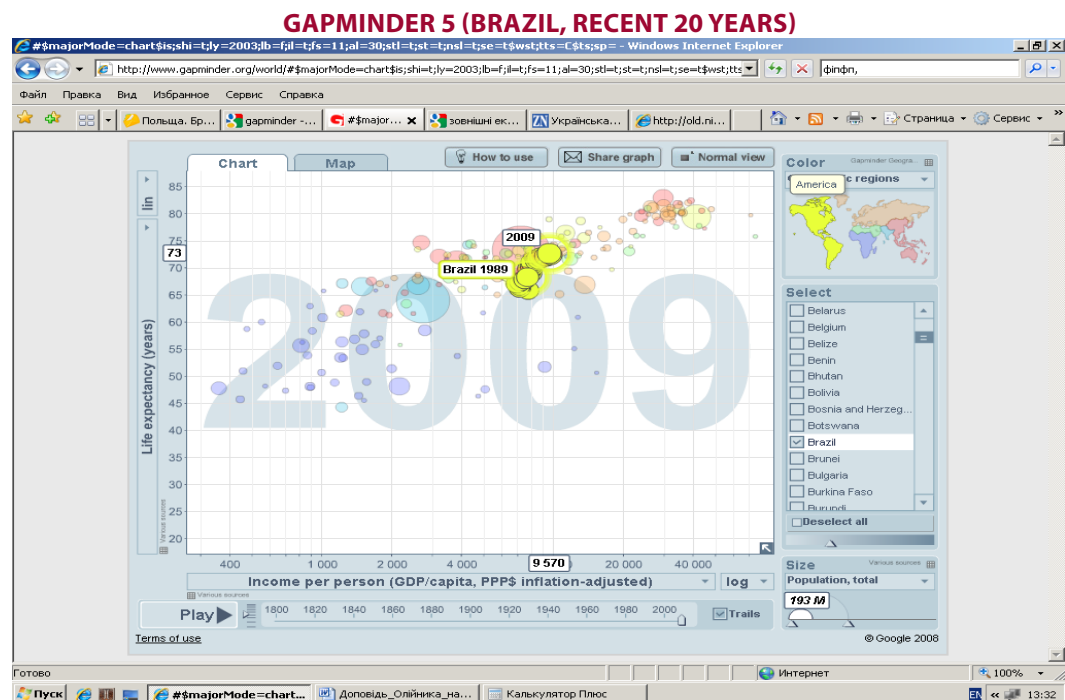
### MANIFESTO OF UKRAINIAN EMPLOYERS

**GAPMINDER 4 (POLAND AND UKRAINE IN RECENT 20 YEARS)**



Another demonstrative example is **Brazil**.

At late 1991, Brazil lagged behind Ukraine in terms of the general well-being level. Life expectancy was 66.7 years (Ukraine – 69.6), average income per person being USD 7,098 (Ukraine – 7,401). Following 18 years, rather difficult to the country, when Brazil suffered several economic and political crises, the said indicators were 72.9 years and USD 9,750, respectively (Ukraine – 68.5 years and USD 5,731). That is, having worse starting conditions, Brazil achieved a 6.2 years increase in life expectancy (!) and improved its people's well-being by almost 40% for two decades only. At present, Brazil's income per person is 1.7 times greater than in Ukraine. The comparative development dynamics looks more obviously in the Gapminder World software.



**What allowed Brazil to achieve economic and social progress and outrun Ukraine in terms of well-being in 2009? To find an answer to this question we should refer to history.**

In the late 1980s and early 1990s, high inflation laid economic activity and investments low. In spring 1994, a so-called **Real Plan** was introduced (named after the monetary unit, real) aiming to bring down growing inflation by means of artificial support for the currency rate through linking it to the US dollar. The inflation growth was suspended to no more than 10% per year but prices of goods made in Brazil exceeded those of similar imported goods. Nevertheless, the country managed to avoid a foreign currency shortage because the financial community's interest to Brazil renewed after stabilisation of

inflation figures. An investment risk, however, went up following the Asian financial crisis in 1997 and the collapse in Russia in August 1998. After having introduced a tax regulation programme and undertaken to carry out constructive reforms, Brazil received USD 41.5 billion as part of the IMF international support programme in November 1998. In January 1999, Brazil's Central Bank announced termination of a policy of adjusting the national currency to the US dollar.

### **Brazil's key reforms:**

**1. Reducing import taxes and cancelling all non-tariff barriers in the early 1990s.** *As a result, Brazil's foreign trade grew twice as soon as 2000.*

**2. Carrying out large-scale privatisation.** *Privatisation revenue over 1991-2000 amounted to more than USD 100 bn, and those funds helped Brazil balance its state budget.*

**3. Pursuing a consistent policy of financial system stabilisation, including the Real Plan and a banking system restructuring programme.** *These measures resulted in inflation decline in Brazil from 916% p.a. in 1994 down to 1.7% in 1998.*

**4. Adopting a tax return programme via temporary tax increase, decreasing public expenditure, and passing the Law on Tax Responsibility that established tax rates and staff cost limits for all federal entities.**

**5. Adopting the Forward Brazil plan in 1999, a draft budget of investments for 4 years.** *The plan included 365 draft laws on which 200 leading experts were working backed up by international consultancies. The plan's central novelty consisted of a brand new concept of strategic planning of public revenue and expenditure. Linkage to partnership with the private sector was another strength of the plan.*

Besides, the following important reforms were implemented in Brazil:

- Passing **the Law on Financial Responsibility** that had political consequences as well – strengthening and enhancement of the federation. The law restricted, inter alia, accumulation of new spending liabilities in the last pre-election year and secured financial stability after 2000.
- Reforming **the pension system** by implementing a system of personalised notional defined contribution accounts and allowing people to choose their retirement date.

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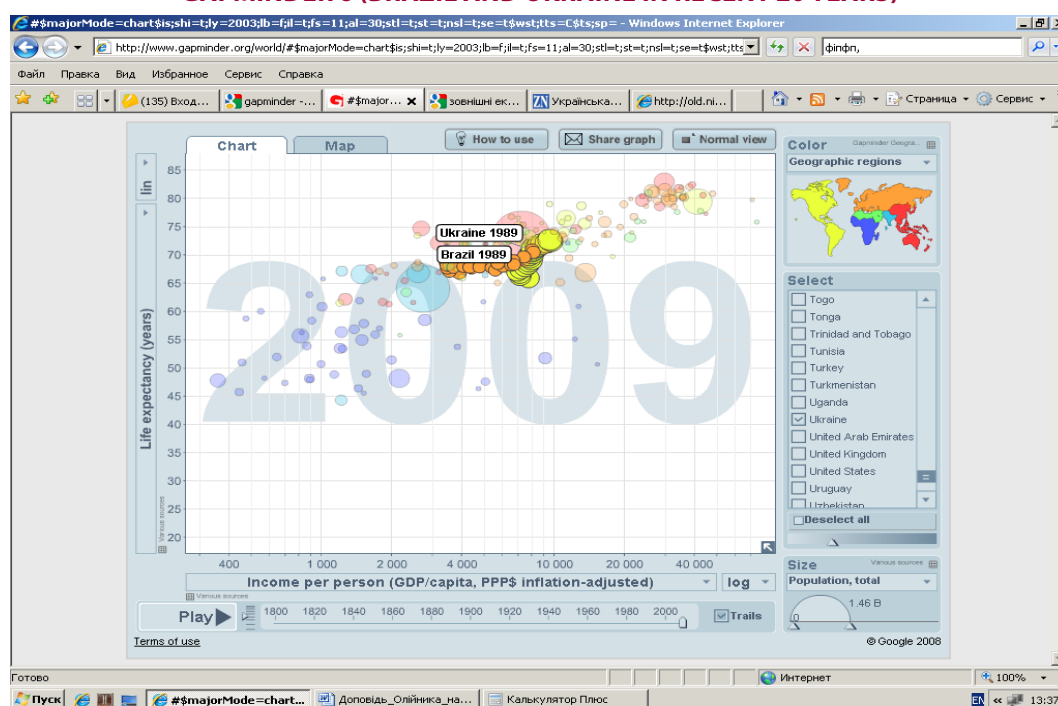
- Implementing **the Central Bank's operational independence** and securing the greatest possible transparency in decision-making.

- Carrying out **rehabilitation and privatisation of banks** belonging to state governments.

- Passing **legislation on concessions**.

The Brazilian experience proves that even in the country where a political populism level is historically high, consistent economic and social reforms, combined with the entire nation's aspiration for well-being improvement, bring positive outcomes. Besides, Brazil's experience evidences the need for a more flexible approach to addressing a country's key problems by enlisting foreign practices and meeting the challenge of risky unpopular reforms.

### GAPMINDER 6 (BRAZIL AND UKRAINE IN RECENT 20 YEARS)



The third striking example is **South Korea**.

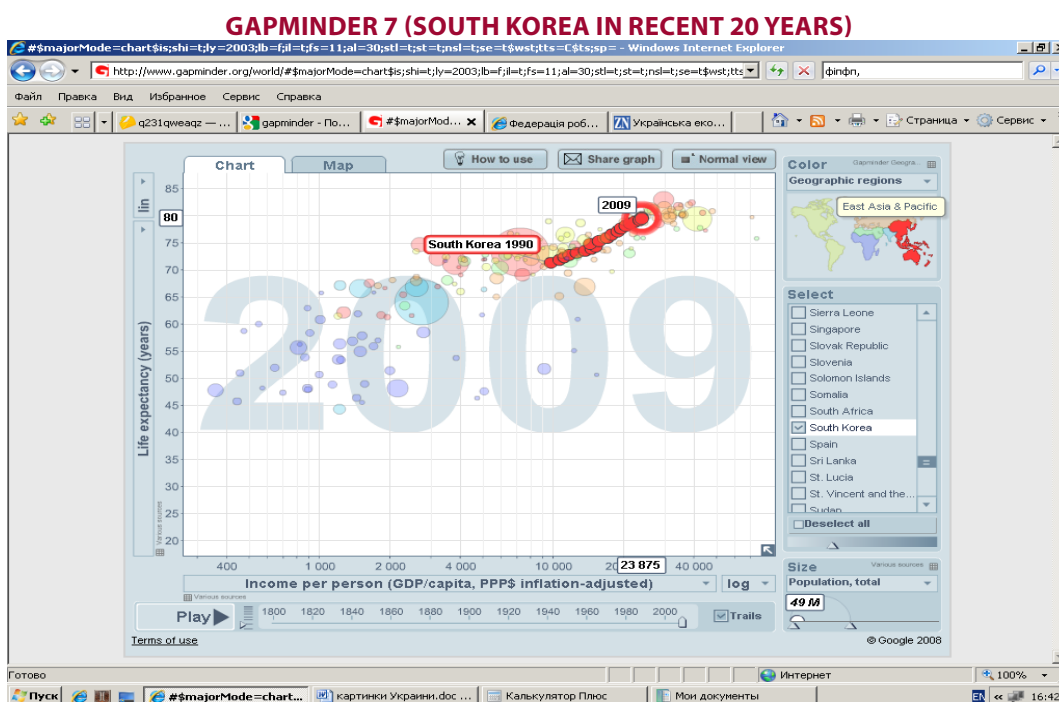
We suggest taking 1988 as a basis for comparison of the two countries in terms of economic and social progress. At that time, capitalist South Korea was somewhat lagging behind socialist Ukraine in terms of life expectancy (70.1 against 70.9 years) but had a higher income per person (USD 8,441 against 7,948). The countries were in almost equal conditions for development, and Ukraine considerably outstripped its Asian competitor in some indicators, such as average education attainment and availability of natural resources. The situation has

not simply changed over 21 years but become directly opposite for Ukraine and South Korea. As of late 2009, life expectancy in South Korea was 79.6 years (Ukraine – 68.5), having grown by 9.5 years (!!!) against 1988, whereas average income per person reached a fantastic level – USD 23,875 (Ukraine – USD 5,731), having increased by USD 15,434 against 1988 (or almost 3 times!!!). Hence, after almost one generation has passed, an average South Korean lives for 11 years longer than an average Ukrainian does and is 4 times more well-to-do than our nation’s average representative. Comparative dynamics of South Korea’s well-being growth is more than demonstrative against the background of Ukraine’s horizontal variations.

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### MANIFESTO OF UKRAINIAN EMPLOYERS



### What is the secret of the “South Korean miracle”?

The Korean leaders (beginning from Gen. Chun Doo Hwan’s rule) began to modify the country’s obsolete economic model in a step-by-step and quite cautious way, adapting it to changing conditions. The modification consisted of the following in the 1980s and the first half of the 1990s:

**- Carrying out step-by-step liberalisation and “opening up” South Korea’s economy.** New tendencies in this plan showed themselves more clearly since the middle 1980s. First of all, trying to reduce debts, the government revised the structure of external funding sources. It began to limit inflow of “insignificant capital” and preferred direct investments over loans. State loans were only allowed in minimum amounts and on more preferential terms than commercial ones.

- In September 2001, **the Law on Promoting Company Restructuring** took effect to expedite fast and transparent restructuring of the corporate sector. Besides, **the system of continuous company restructuring** has been in action since March 2001, which allows every creditor bank to assess credit risks of debtor companies. **The Law on Consolidated Insolvency** was passed in March 2005 and took effect in April 2006. The corporate sector aims at building production capacity and strengthening the Korean economy's potential through creation of an efficient and fair market.

- **Reforming the financial sector**, the government closed some unviable financial organisations. Other viable banks implement serious measures, defined by the Commission, to eliminate shortcomings for strengthening soundness of those financial institutions. Besides, the non-banking financial sector was restructured.

- In the public economic sector, **the system of state institutions and organisations was simplified**, and their organisational structures were changed.

- All the existing laws and regulations related to foreign direct investments were simplified and consolidated into a single legal system represented by a new **Law on Encouraging Foreign Investments** that came into force in November 1998. It allows foreign investors to use advantages of a "one-stop shop" servicing system. Various incentives are used to attract foreign direct investments, including tax exemption and decreased tax rates.

- The government has implemented radical reforms since 1987 to reinforce **protection of intellectual property rights**.

- The middle 1980s can be regarded as a turning point when the ministry of commerce and industry initiated establishment of **20 advisory committees of private business** responsible for respective public production sectors. The committees consisted of private business representatives only, including research and financial institutes, as well as mass media representatives. The committees' key objective was to develop recommendations to the government on the formulation of macroeconomic and industrial and technical policies.

- Ethnic and cultural uniformity as well as the Confucian tradition attach **special value to diligence, education, life success, and devotion to one's nation**.

- The country's economic policy is oriented on mobilising **modern technologies** from abroad.

- **Special laws were adopted to develop strategic economic branches** (machine-building, electronics, textile industry, ferrous metallurgy, non-ferrous metallurgy, and shipbuilding).

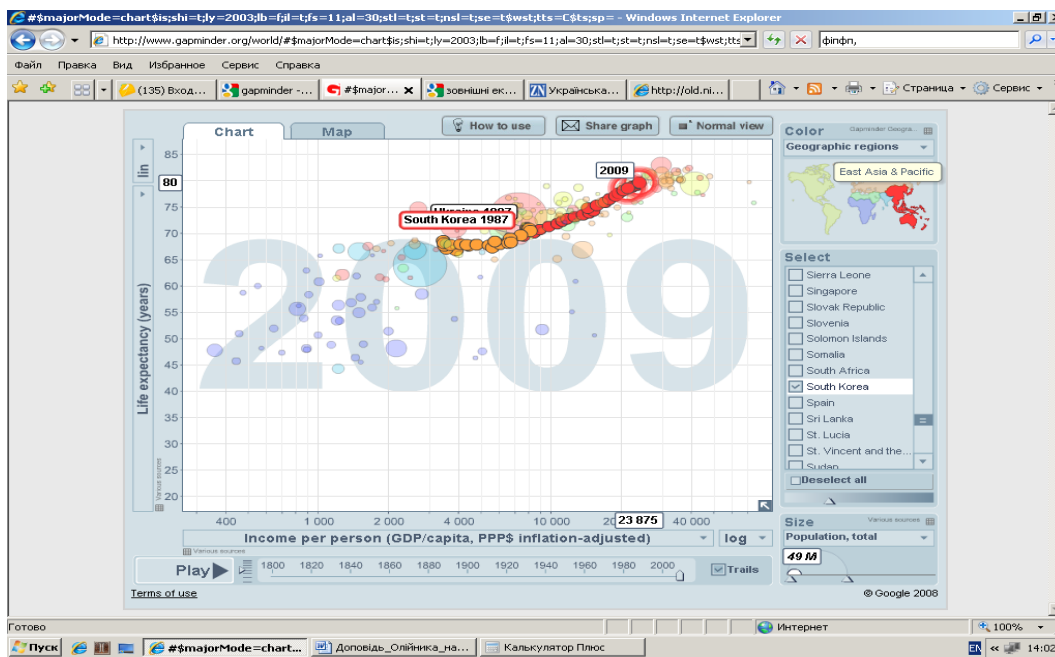
South Korea's experience teaches Ukraine several important things. First of all, a country's success needs a national ideology of success when every citizen understands that being successful and rich is a goal worthy of seeking, and that making a country successful is the core of modern patriotism. Secondly, one should not blindly copy experience of other countries that reached considerable results in socioeconomic development. Effectiveness of economic reforms depends to some extent on consideration of the country's historical and cultural specificity. Thirdly, however wise a government and its advisors might be, one should seek efforts of authorities and business, each of which is equally responsible for the country's well-being.

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**GAPMINDER 8 (SOUTH KOREA AND UKRAINE IN RECENT 20 YEARS)**



Summing up secrets of the above-mentioned countries' success, we can state that the Ukrainian employers' efforts during 2011-2020 should focus on securing the following key components of economy's competitiveness: freedom of doing business, implementation of innovations, and labour capitalisation growth.

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PART 2

EASE OF DOING BUSINESS  
- THE FUNDAMENTAL  
PRINCIPLE  
OF CREATING  
A COMPETITIVE  
ECONOMY

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## 2. Ease of doing business – the fundamental principle of creating a competitive economy

### 2.1 Deregulating entrepreneurial activities

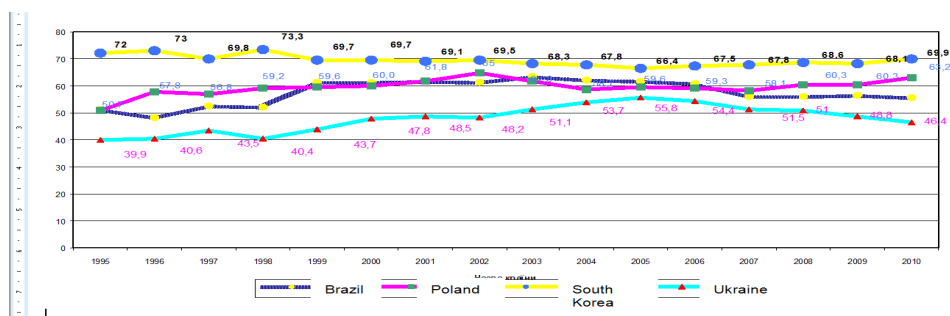
#### 2.1.1 Improving the licensing system

- Decreasing the number of economic activities subject to licensing, both by direct abolishment and by applying other forms of state control and broader use of self-regulation as well as due to shorter periods for receiving them.

- Amending the Law of Ukraine on the Basics of State Regulatory Policy on Economic Activities to unify license obtaining principles and procedures and to agree license provision costs with actual expenses incurred to issue licenses.

- Bringing the provisions that regulate licensing into conformity with the generally accepted world practice of business self-regulation and the WTO requirements. Transferring the licensing functions for all activities other than those posing danger to human and national vital functions to self-regulating sectoral employers' organisations and trade guilds having the all-Ukrainian status.

- Amending the regulatory legal framework for pursuing a uniform state regulatory policy on entrepreneurship, particularly amending the Guidelines on preparing substantiation of draft regulatory acts, the Regulations on the procedure of drafting regulatory acts, the Regulations on the Appeals Board for consideration of complaints on the refusal of representations of the State Committee of Ukraine for Regulatory Policy and Enterprise to endorse draft regulatory acts, which would allow rejecting, in the development stage in 2015, about 60% of knowingly inefficient regulations and amending or cancelling in 2015 almost 50% of regulations based on their performance evaluation.



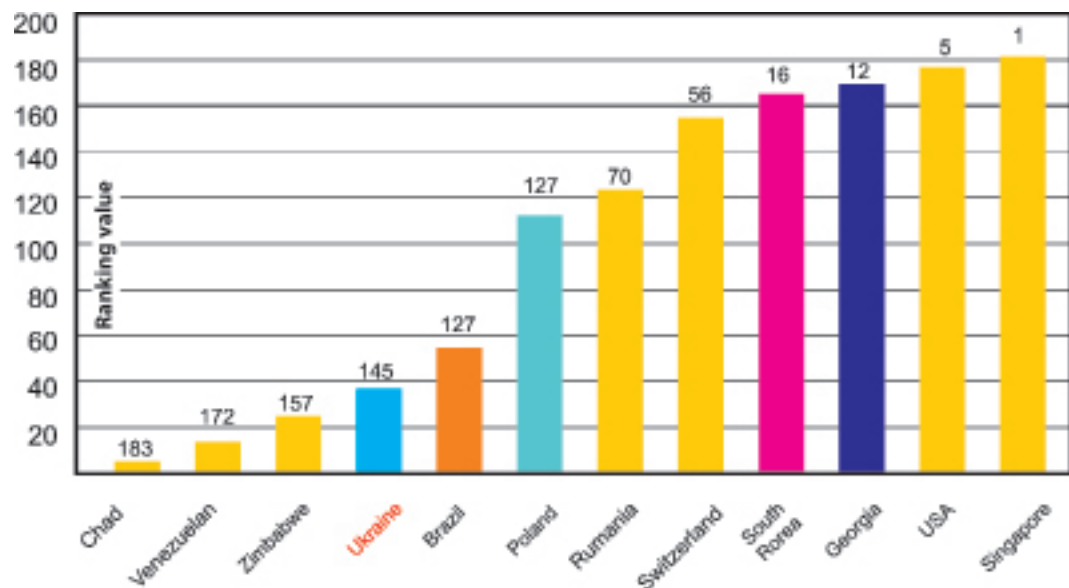
Dynamics of Ukraine's positioning in the world in the Index of Economic Freedom (IEF) during 1995-2010

# PART 2

## MANIFESTO OF UKRAINIAN EMPLOYERS

### 2.1.2 Simplifying the authorisation system, strengthening liability for breaches in the issuance of authorisation documents

- Reducing substantially the number of activities and works subject to authorisation by means of approving an exhaustive list of authorisation documents and reducing the list as soon as possible subsequently.
- Simplifying the procedure of issuance of authorisation documents; cutting time and monetary expenses required to obtain authorisation documents; decreasing the list of works (services) that can be performed on the application basis (particularly in construction).
- Transiting from the authorisation-based principle of economic activity start-up to the application-based principle, except for the activities that directly affect state, human and environmental security.
- Delegating powers on issuance of authorisation documents from central and oblast levels to the local level as much as possible.
- Strengthening liability of authorisation body officials for breaches of legislation concerning the issuance of authorisation documents.



Ukraine's position in the Doing Business Index (DBI) ranking, 2010

### **2.1.3 Streamlining, regulating and reducing the list of paid administrative services and the list of state institutions and organisations entitled to provide them**

*- Improving legal regulation of the provision of administrative services by means of drafting and adopting the Law of Ukraine on Administrative Services the main idea of which consists of the provision by the State of quality services to private persons according to a reasonable list of paid services, elimination of contradictory issues of legal regulation on the ground, and termination of the executive authorities' use of this area for additional mobilisation of funds for their own needs (so-called "lists of paid services" are meant here).*

*- Separating in the system of executive authorities those engaged in politics from those engaged in current administration. In the latter group, authorities providing administrative services should be separated and their activities should be concentrated on quality provision of services.*

*- Carrying out annual systematisation of services according to a number of criteria, which would allow concentrating limited public resources on the realisation of the most important tasks.*

*- Creating a decentralised system of the provision of administrative services with a regulated, maximally simplified procedure of their provision oriented on the end result.*

*- Creating conditions under which the entities providing administrative services could act, concerning their internal activity organisation, on the private sector principles in staff selection and management and labour remuneration (labour pay in the authorities providing administrative services could reach the labour pay level of specialists of respective qualification in the private sector).*

*- Creating a uniform electronic database of administrative (public) services provided by executive authorities and local governments.*

*- Cutting several times the list of documents and copies subject to mandatory notarial certification. Approving an extended list of documents, copies and management signature specimens, validity of which may be certified by the employers' organisation's executive body for its member organisations.*

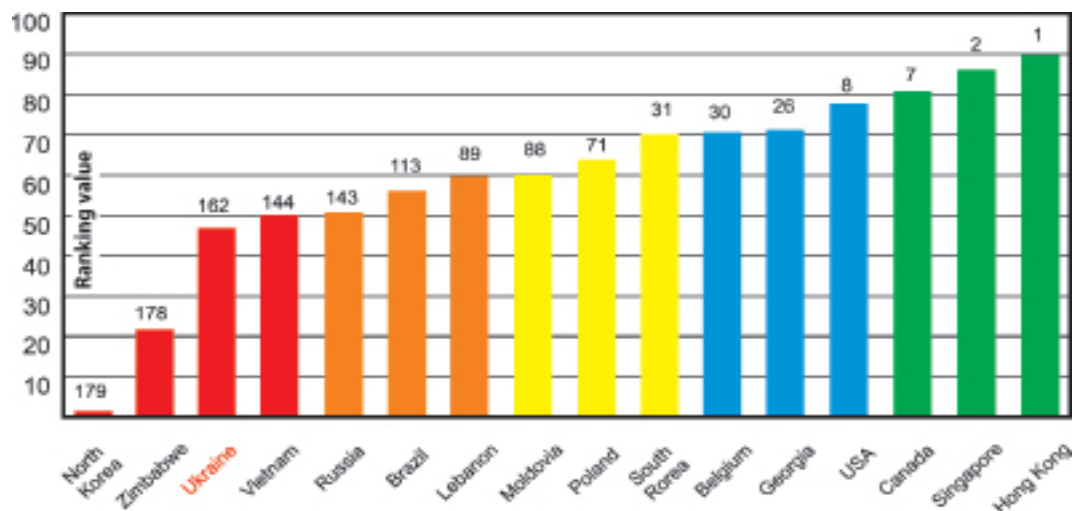
### **2.1.4 Decreasing the number of supervisory authorities, and setting distinct standards for submission of reports and conduct of inspections**

*- Reducing central executive authorities.*

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- *Establishing a ratio of functions, specifying a title common for the authority type, and cancelling duplicating supervisory functions with subsequent liquidation of supervisory authorities not necessary any more.*
- *Creating integrated labour inspection: achievement of this objective would allow reducing the number of supervisory authorities in the field of labour legislation at least three times, providing more comfortable business conditions, and saving for the national economy at least UAH 2 bn now spent on response to actions carried out by the state supervision system.*
- *Delegating some part of supervisory and controlling functions to professional self-governing employers' organisations.*
- *Implementing electronic governance in the system of executive authorities, i.e. creating a system to provide public services online via a single access point on the Internet.*
- *Introducing liability of state supervision (control) authorities for any loss caused to an economic entity by unlawful actions or by failure to comply with the state supervision (control) procedure.*



#### **Ukraine's position in the Index of Economic Freedom (IEF) in the world, 2010**

#### **Results achievement criteria for 2015:**

- *The total number of central executive authorities and governmental executive authorities reduced to 40% of the number as of June 2010;*
- *Public administration expenditure decreased to 30% compared to 2010;*
- *50% of supervisory and control functions delegated to professional self-governing organisations;*
- *No less than 70% of public services accessible via the Internet online.*

*Global criteria include higher competitiveness that finds its reflection in Ukraine's better position in the following rankings:*

- From position 143 to 67 (Poland's level) in the World Bank's Worldwide Governance Indicators;*
- No less than by 5 points in the Global Competitiveness ranking on the basis of public institutions quality;*
- No less than by 10 points in the Transparency International's Corruption Perceptions Index.*

## **2.2 Decreasing the tax burden on business**

Despite the numerous amendments permanently made to tax legislation and aimed at improving Ukraine's tax system, the national system is not free from serious shortcomings. Key ones of them are as follows:

- A high rate of tax burden on the entire economy (37.9% of GDP on average during 2005-2009, with payments to the Pension Fund and other social funds, including 39.1% in 2008 and 37.3% in 2009; the EU-12 countries have 34.4% on average, including 34.8% in Poland, 36.9% in the Czech Republic, 33.1% in Estonia, 30.5% in Latvia, 43.2% in Bulgaria) and on business in particular (the profit tax rate in Ukraine is 25% while the EU-12 average is 12-18.9% including 19% in Poland, 20% in the Czech Republic, 21% in Estonia, 15% in Latvia, and 10% in Bulgaria);*
- Lack of an economically grounded balance between fiscal and regulating functions of taxes; an inefficient system of state tax regulation, its disagreement with objectives of the national economic policy;*
- A great quantity of low-efficient taxes and a shorter duration of basic tax periods compared to European taxation systems (quarterly declaration and payment of profit tax while European countries do it once a year);*
- Unstable tax legislation that restricts economic entities' possibilities of financial and economic policy-making in the medium and long term;*
- Tax legislation is not in agreement with provisions drafted by other financial law institutions or included in other branches of legislation;*
- Violation of the fundamental equity principle in taxation, and the taxation system's failure to perform the function of income redistribution from the rich to the poor;*
- Distorted incentives to economic activity due to co-existence of two subsystems – general and simplified – in Ukraine's taxation system; small business entities are not interested in changing their status and, accordingly, in increasing their scope of activity; use of entrepreneurial*

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## MANIFESTO OF UKRAINIAN EMPLOYERS

*entities applying a special taxation regime in schemes of minimisation of tax liabilities at enterprises working under the general taxation regime;*

*- An imperfect and cost-consuming system of taxes and dues administration;*

*- Low level of tax culture, widespread use of tax minimisation and evasion schemes, which results in taxpayers' growing debts to the budget and state targeted funds as well as in underfeeding of state functions performance;*

*- An irrational system of tax relief's that cause violation of equity principles in taxation and lead to lower fiscal efficiency of underlying taxes;*

*- An irrational structure of contributions to the Pension Fund and other state social funds, due to which the major burden of contributions is shifted to employers. Existence of four autonomous social insurance funds and differentiated payments to each of them result in considerably higher costs of contribution administration compared to a consolidated system of their payment (a single social contribution).*

#### **Ukraine's position in the paying taxes ranking among countries of the world, 2010**

<b>Country</b>	<b>Tax payments</b>	<b>Time to comply, hrs</b>	<b>Total tax rate</b>	<b>Ranking</b>
Denmark	9	135	29.2	13
Canada	9	119	43.6	28
Sweden	2	122	54.6	42
Latvia	7	279	33.0	45
France	7	132	65.8	59
USA	10	187	46.3	61
Georgia	18	387	15.3	64
Germany	16	196	44.9	71
Greece	10	224	47.4	76
Bulgaria	17	616	31.4	95
Russia	11	320	48.3	103
Azerbaijan	22	376	40.9	108
Czech Republic	12	613	47.2	121
Hungary	14	330	57.5	122
Japan	13	355	55.7	123
China	7	504	63.8	125
Argentina	9	453	108.1	142
Romania	113	202	44.6	149
Brazil	10	2600	69.2	150
Poland	40	395	42.5	151
India	59	271	64.7	169
Ukraine	147	736	57.2	181
Belarus	107	900	99.7	183

To overcome the above-listed shortcomings, the Federation of Employers of Ukraine deems it reasonable to achieve the following objectives:

### 2.2.1 Securing the tax system stability

**Note:**

Approval of the Tax Code in November 2010 was a forced compromise among the government, employers, trade unions and the International Monetary Fund's requirements for continued funding of Ukraine. Employers do not regard the Tax Code as ideal but it sets more business-friendly "rules of the game" than the previous legislation. Employers believe that, if the document has been signed by the President of Ukraine, tripartite consultations must be held on results of Q1, 2011, to adjust some provisions of the Tax Code.

*- Amending the existing Ukrainian legislative acts that regulate tax matters, applying various tax measures within the bounds of implementation of a stabilising policy, particularly reforming the value-added taxation system towards stabilisation of VAT rates, implementing a system of automatic VAT refund, and securing a rather high rate of taxation of goods consumption of which adversely affects human health and environment.*

*- Clarifying some provisions of the Tax Code of Ukraine to eliminate such points as: non-uniformity and complicacy of the taxation regulatory legal framework; coherence and inconsistency of some legislative provisions; lack of uniform terminology; frequency of applying indirect-action norms in tax laws that leads to a greater number of bylaws and tax explanations as well as to a heavier burden upon the judiciary system because of increasing numbers of suits for tax law breach.*

*- Approximating the legislation on indirect taxation and corporate profit taxation to norms and standards of the EU tax law, particularly to basic EU regulations: Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax; Council Directive 95/59/EC of 27 November 1995 on taxes other than turnover taxes which affect the consumption of manufactured tobacco; Council Directive 92/80/EEC of 19 October 1992 on the approximation of taxes on manufactured tobacco other than cigarettes; Council Directive 92/83/EEC of 19 October 1992 on the harmonization of the structures of excise duties on alcohol and alcoholic beverages, as far as the excise duty structure is concerned.*

#### **Results achievement criteria for 2015:**

- 5% of existing regulations on taxation matters changed; 90% rate

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## MANIFESTO OF UKRAINIAN EMPLOYERS

of taxpayers' voluntary compliance with their tax obligations; the 90<sup>th</sup> position in the Doing Business 2011 ranking;  
- Shadow economy rate in 2015 equal to 35%.

### **2.2.2 Decreasing the general tax burden upon economy due to shifting the tax burden from mobile production factors to consumption and natural resources**

*- Reducing the rate of GDP redistribution via the consolidated budget using the taxation system.*

*- Gradually changing the proportion of contributions between employers and employees as a result of increase in the single social contribution rate for employees and its decrease for employers.*

#### **Results achievement criteria for 2015:**

Tax coefficient (*it shows the rate of GDP redistribution via the country's consolidated budget by the taxation system*) equal to 25% in 2015 (2010: 40%).

### **2.2.3 Reducing the total rate of wage fund taxation**

*- Setting an efficient and economically grounded rate of single social contribution in Ukraine that affects the general tax coefficient level, tax burden upon labour, and wage shadowing scope. It is necessary to consider experience of social payments in the EU Member States having a similar demographic situation and pursuing a socially oriented policy.*

*- Adopting amendments to acts aimed at concerted multidirectional change in environmental tax rates and contributions to social funds.*

*- Streamlining the tax burden upon self-employed persons and introducing for them a principle of annual income taxation with advanced payments on the expected income (profit) but no less than the previous period's payments.*

*- Establishing more equitable approaches to provision of privileges taking account of a person's declared income, considering the principle of solvency in individual income taxation by means of increasing the tax burden upon high-income population groups through:*

*- increasing the tax rate for income exceeding the monthly maximum wage from which insurance contributions to social funds are paid;*

*- introducing taxation at a higher rate for income in the form of interest on deposit banking accounts, deposits with non-banking financial institutions, or interest (discount income) on deposit (saving) certificates the annual amount of*

which exceeds the monthly maximum wage from which insurance contributions to social fund are paid;

- unifying approaches to taxation of passive income in order to encourage investment activity;

- applying the methods of revealing cost excess over declared income (except for costs allowed to be accounted for in taxation) in order to prevent avoidance of the constitutional obligation concerning tax payment.

#### **Results achievement criteria for 2015:**

- Ukraine's position in the tax system favourability ranking, Paying Taxes 2010, prepared by the World Bank in cooperation with PricewaterhouseCoopers improved from 181 to 130 in 2015;

- Probability of revealing cases of avoidance of tax payment and non-payments in 2015 equal to 95% (2010: 60%).

#### **2.2.4 Achieving an economically grounded balance between the state tax regulation goals and the state economic policy objectives**

- *Improving conditions for the implementation of modernisation and innovation projects by means of strengthening the tax system's stimulating function through the establishment of a full-fledged system for performance monitoring of suggested projects related to tax novelties.*

- *Reducing antidumping investigations and facilitating settlement of controversial points as a mechanism for increasing the volume of export operations.*

- *Meeting the needs of innovation-based reconstruction of basic economic branches (particularly metal production, chemical industry, machine-building and industries producing consumer goods) by means of stimulating innovative imports through a system of tax bills.*

#### **Results achievement criteria for 2015:**

1. Ukraine's competitiveness index improved from 3.9, corresponding to position 139 in the World Economic Forum's Global Competitiveness Index, to the average global index in 2013 (4.18) and to 5.0 in 2015.

2. Ukrainian economy's innovation index increased from 4.0 (82<sup>nd</sup> position among 133 countries) to 6.0 in 2013 and 7.2 in 2015 due to improvement of ranking indices in the Global Competitiveness Index pillars:

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### MANIFESTO OF UKRAINIAN EMPLOYERS

- Institutions: from position 134 to position 100 in 2015;
- Macroeconomic environment: from position 132 to position 100 in 2015;
- Goods market efficiency: from position 129 to position 100 in 2015;
- Financial market development: from position 119 in 2010 to position 100 in 2015;
- Business sophistication: from position 100 in 2010 to position 75 in 2015;
- in 2015 - position 90 in the ranking of business environment favorability (Doing Business 2011).

### **2.2.5 Resuming the taxation function as a mechanism for equitable redistribution of national income among various population groups**

*- Reducing the rate of GDP redistribution via the country's consolidated budget (as per 2.2.2).*

*- Unifying approaches to taxation of passive income in order to encourage investment activity;*

*- Regulating the procedure of income taxation for the persons carrying out independent professional activities; streamlining the procedures of taxation of property sale income as well as income in the form of inheritance and gifts.*

*- Establishing more equitable approaches to provision of privileges taking account of a person's declared income, considering the principle of solvency in individual income taxation by means of increasing the tax burden upon high-income population groups through:*

- increasing the tax rate for income exceeding the monthly maximum wage from which insurance contributions to social funds are paid;
- introducing taxation at a higher rate for income in the form of interest on deposit banking accounts, deposits with non-banking financial institutions, or interest (discount income) on deposit (saving) certificates the annual amount of which exceeds the monthly maximum wage from which insurance contributions to social fund are paid;

*- Streamlining the tax burden upon self-employed persons and introducing for them a principle of annual income taxation with advanced payments on the expected income (profit) but no less than the previous period's payments.*

*- Introducing a system of automatic VAT refund.*

## **2.2.6 Ensuring the harmonisation of tax, currency, customs tariff, foreign economic and civil legislations**

- *Eliminating economically ungrounded differences between the provisions of the Law of Ukraine on Corporate Profit Taxation and the accounting provisions (standards) on recognition and evaluation of income and costs in order to provide conditions for the preparation of profit declarations based on accounting data.*
- *Improving the procedure for depreciation of fixed and intangible assets by means of introducing depreciation rates that would stimulate renovation of fixed assets.*
- *Modifying the “regular prices” mechanism, which would promote reliable reflection of economic transactions, in order to counteract understatement of tax liabilities.*
- *Adhering to international rules on the application of a zero tax rate only for taxation of export operations.*
- *Streamlining the preferential taxation regime in various industries provided on the sectoral basis.*
- *Bringing the procedure of taxation of transactions related to movement of goods across Ukraine’s customs border, provision of tourist services, importation/exportation of give-and-take raw materials to/from the customs territory and exportation/importation of finished products made thereof, as well as transactions carried out by non-residents, particularly in the field of information technology, into conformity with international rules (standards).*
- *Developing and adopting a new Customs Code considering European experience.*
- *Introducing e-customs and an electronic bill of entry.*
- *Creating a “one-stop shop” system, combining customs control with phytosanitary, veterinary, environmental and radiological control.*

### **Results achievement criteria:**

90% rate of taxpayers’ voluntary compliance with their tax obligations in 2015 (2010: 65%).

# PART 2

## MANIFESTO OF UKRAINIAN EMPLOYERS

### **2.2.7 Ensuring democratisation of the tax service**

- *Altering the tax service ideology by subordinating its activities to the achievement of the goal of providing Ukrainian taxpayers with higher-quality services through assistance in explanation of tax provisions and in promotion of compliance with taxpayer duties.*
- *Securing political and party neutrality of the supreme tax service management.*
- *Granting taxpayers the right to examine, at any time at their wish, electronic information on the status of their settlements with the budget and the status of budget refund to taxpayers; creating a VAT budget debt register.*
- *Providing taxpayers with free-of-charge access to tax return forms and instruction thereto, preparing simple instructions for filling-in of tax return forms;*
- *Involving representatives of employers' organisations in settlement of debatable issues between tax service bodies and taxpayers.*
- *Increasing transparency and publicity of state tax service bodies' work by means of providing the public with timely information on decisions made by the tax bodies, results of their work, amounts and areas of spending on tax service maintenance.*
- *Ensuring compliance with principles of stability and elimination of contradictions in the tax administration process (securing the same understanding of tax provisions by taxpayers and administrators; providing official interpretation of tax law provisions solely by the Constitutional Court of Ukraine).*
- *Codifying the legislative provisions that establish liability for breach of tax law provisions, and agreeing them with relevant provisions of financial, administrative and criminal legislation.*
- *Unifying tax and business accounting.*

#### **Results achievement criteria for 2015:**

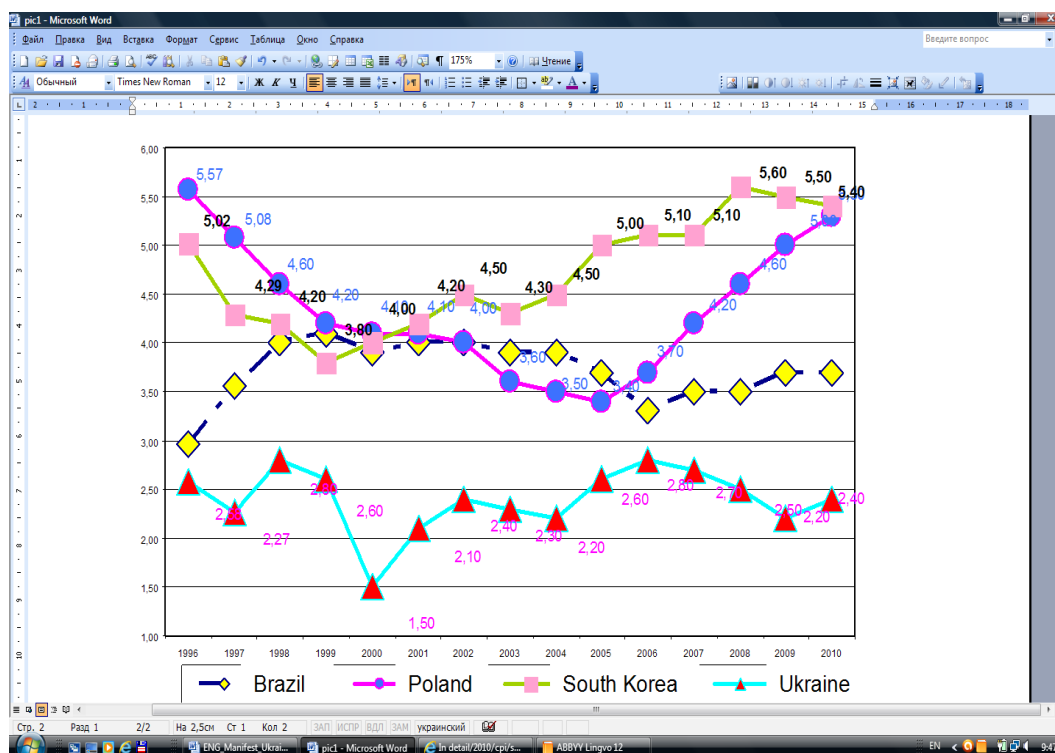
- The Tax Code adopted in 2010 with possible subsequent adjustment of some of its provisions in 2011 on the quarterly basis;
- Ukraine's position in the international ranking of the Ease of Doing Business index in terms of tax payment improved by no less than 30 points by late 2015;
- Shadow economy rate decreased to 35% in 2015.

## 2.3 Reducing corruption

Prevalence of corruption in Ukraine can be analysed by taking account of the Transparency International's Corruption Perceptions Index reports. For example, having 2.8 points in 2006, Ukraine occupied position 99-104 among 163 countries under survey but in 2009, having 2.2 points, Ukraine already found itself at position 146-153 among 180 countries covered by the index. The Corruption Perceptions Index (CPI) for 2010 shows that corruption remains quite a serious problem to Ukraine. The Ukrainian authorities aim efforts at overcoming the phenomenon threatening security of the State and its citizens, but the figure of 2.4 against the last year's 2.2 (out of possible 10) stands very far from a desired result. The Federation of Employers of Ukraine regards any result lower than 3 points as "shame to the nation" that has to live in a totally corrupted country. This is caused by payments and bribes (the 127<sup>th</sup> position in the world), favouritism in decision-making by civil servants (127), and the situation with independence of the judiciary (134).

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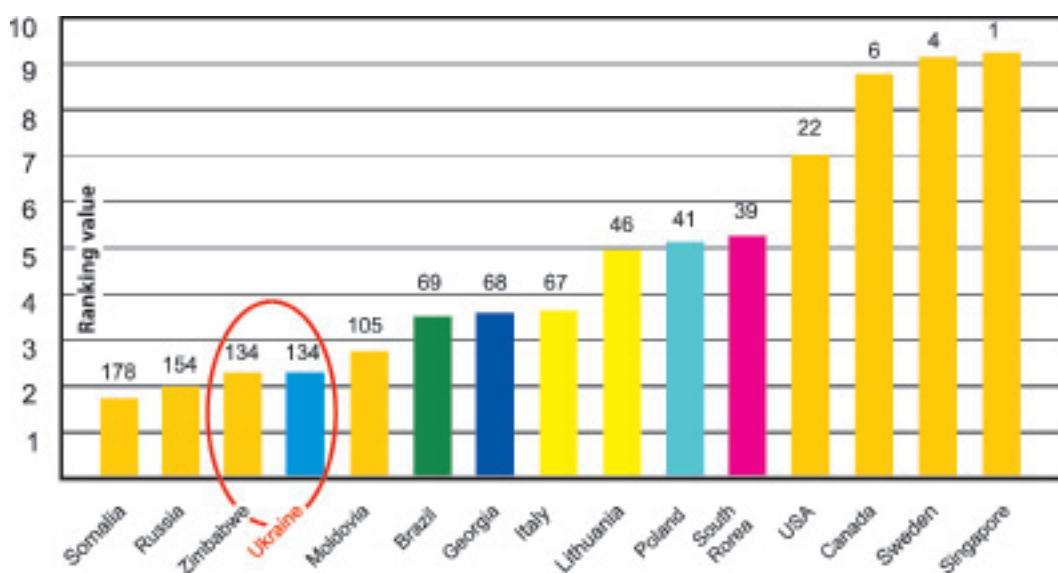


### Dynamics of Ukraine's position in the world in the Transparency International's Corruption Perceptions Index (CPI) ranking, 1996-2010

It is planned to ensure Ukraine's fast entry into the club of the world's well-off states by means of implementing ambitious national projects, which in turn requires attraction of tens of billions of Euros to Ukraine in the form of investments. However, is Ukraine able to

guarantee investors proper management of financial resources in the situation when corruption remains a catastrophically widespread phenomenon in Ukraine? This question is rather rhetorical.

As the Accounts Chamber of Ukraine officially states, more than 52% of GDP is covered by shadow economy. According to the National Bank of Ukraine, over USD 15 bn is outside official money circulation. Ukraine is currently demonstrating a slight tendency towards a lower corruption level in the country. This foundation was laid as far back as 2009 when the parliament adopted a package of anti-corruption laws, the Cabinet of Ministers of Ukraine established the post of the Governmental Representative for Anticorruption Policy and began to implement measures to combat corruption in the systemic way; efforts against groundless provision of paid services are being applied.



**Ukraine's position in the Corruption Perceptions Index ranking, 2010**

The main tool to reduce corruption should consist of deregulation of the administrative functions, uncharacteristic of the State under social market economy, by means of implementing a mechanism of self-regulation, inter-sectoral self-regulation, and supervision over compliance with the standards of corporate law and fair business.

However, there is no guarantee now that society will join the fight against corruption because fundamental democratic rights and freedoms are restricted, particularly the Ukrainian citizens' rights to access information according to the draft Law on Access to Public Information and the draft National Anticorruption Strategy. Hence, evaluating rates of corruption prevalence in Ukraine and their possible

consequences for business, the FEU will demand in 2011-2020 that executive authorities and the parliament of Ukraine **establish an effective and efficient mechanism for implementation of anticorruption legislation through realisation of a number of measures:**

### 2.3.1. Securing adoption of rule-making documents

- *Approving the draft Law on Access to Public Information.*

- *Developing the State Programme to Prevent and Counteract Corruption for 2011-2014, with account for experience and achievements of the Governmental Anticorruption Representative and civil society organisations.*

- *Improving anticorruption legislation further on, including the following draft laws:*

- **on the Basics of Preventing and Counteracting Corruption** (to specify legal and organisational basics of preventing, revealing and stopping corruption in public and private domains, indemnify for damage caused by corruption-related offences, renew rights and legitimate interests of natural and legal persons and the State, regulate international cooperation in counteraction to corruption);

- **on Liability of Legal Persons for Committing Corruption-Related Offences** (to establish liability of legal persons for committing corruption-related offences as well as to specify the procedure of holding liable, particularly by means of outlining a range of corruption-related offences for committing which a legal person may be held liable, defining grounds for such liability and the rules of proceedings in cases of corruption-related offences committed by legal persons);

- **on Amending Some Legislative Acts of Ukraine Concerning Liability for Corruption-Related Offences** (to specify concrete elements particularly of corruption-related crimes as well as of other corrupt acts and corruption-related offences, and to regulate the procedure of holding criminally and administratively liable) as well as a draft Law of Ukraine;

- **on Honest Behaviour of Persons Authorised to Perform the Functions of the State and Local Governments** (to establish the general requirements to the behaviour of persons authorized to perform the functions of the State and equivalent persons, which they must be guided by in performance of their official duties and according to which the public appraises honesty, impartiality and effectiveness of their work);

- **on State Financial Control over Declaration and Spending of Income by Persons Authorised to Perform the Functions of the State, Their Family Members and Immediate Relatives;**

- **on Electronic Signature.**

- *Developing and adopting the Law on Lobbying in Ukraine.*

# PART 2

## MANIFESTO OF UKRAINIAN EMPLOYERS

### **2.3.2. Implementing new mechanisms for the organisation and supervision concerning corrupt practices on the part of civil servants and local government officials**

- *Organising real work of the National Anticorruption Committee under the President of Ukraine by clearly specifying its powers and working principles.*
- *Involving a civil society organisation in practical realisation of the state anticorruption policy.*
- *Implementing an effective mechanism for interaction and information exchange among Ukrainian law-enforcement bodies on preventing, revealing and stopping corrupt acts and malfeasances.*
- *Completing the creation of the Uniform State Register of persons who committed corruption-related offences.*
- *Implementing and monitoring efficiency of new anticorruption legislation.*

### **2.3.3 Implementing recommendations of the Group of States against Corruption (GRECO) – central executive authorities**

It is expected that Ukraine will rank the 67<sup>th</sup> in the world in the Corruption Perceptions Index in 2020.

MANIFESTO  
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EMPLOYERS

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INNOVATIONS,  
A DRIVING  
FORCE FOR  
COMPETITIVENESS

PART 3

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## **3. Innovations, a driving force for competitiveness**

### **3.1 Creating a competitive system of knowledge generation:**

**3.1.1** Drafting laws on amending the Law of Ukraine **on Scientific and Scientific-Technical Activities** and the Law of Ukraine **on Priority Lines of Science and Technology Development** (to adjust priority lines of science and technology development), drafting and adopting the Law **on State Support for Sectoral Science**.

**3.1.2 Establishing scientific and training centres** based on leading state university (academies), and creating a system of research universities.

**3.1.3 Optimising the ratio between the volumes of budget funding of fundamental and applied scientific research and developments** with account for evaluation of their performance as broken down by scientific sector and by budget funds administrator. Shifting to funding of scientific and technological developments mainly on the open tender basis.

**3.1.4 Implementing a system of grant support** for carrying out research by domestic scientists.

**3.1.5 Forming** and continuously updating **an electronic database on created scientific and technical products by priority area of science and technology development**, designing appropriate software.

**3.1.6 Establishing the State Fund of Applied Research** to support implementation of promising scientific and technical projects by priority area of innovation activities, and strengthening the competitive procedure for their selection.

**3.1.7 Increasing the amount of financing for research and development gradually** through mobilisation of private investments using public-private partnership mechanisms.

### **3.2 Forming an innovation infrastructure and a technology transfer system:**

**3.2.1 Creating a network of innovation technology clusters** as innovation development poles, and grouping small innovative enterprises around them.

### **3.2.2 Creating a system for innovation economic development monitoring.**

**3.2.3 Creating and securing the functioning of a system of electronic information databases of research and development results and theses** with possible Internet-based access, and creating a specialised website.

**3.2.4 Adopting the draft Law of Ukraine on Scientific Parks** aimed at increasing efficiency of the utilisation of Ukraine's scientific and technological potential and that of its leading higher educational institutions.

## **3.3 Developing the intellectual property management system**

**3.3.1 Harmonising Ukrainian legislation on legal protection of intellectual property with the EU law**, and submitting a relevant draft law to the Verkhovna Rada of Ukraine.

**3.3.2 Summarising and systematising scientific, technical and economic information**, particularly patent and patent licensing information.

**3.3.3 Promoting patenting of promising inventions abroad.**

## **3.4 Stimulating innovation demand:**

**3.4.1 Implementing European principles of state stimulation of innovation activities** for all their participants regardless of the ownership pattern.

**3.4.2 Introducing state orders for innovative products.**

**3.4.3 Introducing a mechanism of investment and innovation tax credit** in the form of profit tax payment deferment for the period of implementation of investment (innovation) projects.

**3.4.4 Promoting innovation activities of the enterprises of strategic importance for national economy** and security by means of drafting the Law of Ukraine on Stimulating Innovative Production and Output of Hi-Tech Products in Ukraine and submitting it to the Verkhovna Rada of Ukraine for consideration.

## **3.5 Integrating Ukraine's scientific and technological potential into the global economy:**

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## MANIFESTO OF UKRAINIAN EMPLOYERS

**3.5.1 Providing conditions for probation of domestic students and specialists in the world's leading scientific centres.**

**3.5.2 Encouraging Ukrainian private capital to participate in research projects** within transnational financial and industrial groups, innovation clusters, and transnational strategic alliances – Ministry of Education and Science, Youth and Sports, 2009-2012.

**Expected results:**

- an intensified innovation component of economic development;
- an increased number of enterprises making innovative and hi-tech products;
- an increased number of scientific developments introduced into production;
- a created network of innovation clusters;
- an optimised structure of budget spending on science, and an increased amount of private funds allocated for funding of scientific developments;
- expanded participation of Ukrainian scientists in European research projects.

MANIFESTO  
OF UKRAINIAN  
EMPLOYERS

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LABOUR  
CAPITALISATION,  
A BASIS  
FOR SUCCESSFUL  
BUSINESS

PART

4



## **4. Labour capitalisation, a basis for successful business**

### **4.1 Creating competitive education**

#### **4.1.1 Improving quality of educational services**

*- Eliminating disparities between the occupational and skill structure of specialists trained by educational institutions and the labour market demand:*

- ensuring employers' involvement in the preparation of training programmes, educational and occupational standards; forming the governmental order;
- implementing a system for the formulation of specialist training plans with account for economic development forecasts and employers' needs;
- redirecting training programmes towards a greater share of the practical component; ensuring large-scale introduction of in-service secondment programmes;
- difference between the occupational and skill structure of specialists trained by educational institutions and the labour market demand must be no more than 15% by 2015.

*- Improving quality of higher education:*

- developing and adopting a draft new version of the Law of Ukraine on Higher Education (to adapt legislation to the Bologna Process requirements and bring it into conformity with economic needs) that should provide for the introduction of division of academic and practical training programmes in higher educational institution and for the development of occupationally oriented higher education;
- establishing independent qualification centres including for the certification of qualification in the European system of standards;
- at least two Ukrainian higher educational institutions should be present in leading international ratings of the best universities by 2015.

#### **4.1.2 Overcoming shortage of skilled specialists in worker occupations**

*- Developing and adopting the State Target Programme for the Vocational Education Development that would provide for specific measures to improve quality of vocational education, raise prestige of worker occupations, allocate funds for upgrading of training equipment in vocational education institutions as well as for introducing modern computer technologies into the educational process.*

- *Developing and adopting the draft Law of Ukraine on Amending Some Legislative Acts of Ukraine (as to improving the management of vocational education) that would provide for greater powers of local governments in the management of vocational education, strengthen autonomy of educational institutions in disposal of material, financial and human resources, and ensure broader involvement of employers in the training process, particularly by expanding trainee practice and secondment programmes.*

The measures suggested would result in considerable improvement of vocational education quality, in compliance of the knowledge and skills acquired in the education process with modern requirements, and in a greater number of graduates of vocational education institutions. By 2015, the shortage rate of skilled specialists in worker occupations should be 5% at most.

#### **4.1.3 Developing a long-term and stable state strategy of the education system development**

- *Drafting and adopting the Law of Ukraine on the General State Programme of Education Development in Ukraine.*

- *Reforming the legislation on education and bringing it into conformity with contemporary needs of Ukraine's socioeconomic development and with the European Union standards.*

**4.1.4 Adopting the Law of Ukraine on the National Qualifications System and developing on its basis the National Qualifications Framework** that would meet the EU standards and allow building a modern education system, which is based on human competency assessment and recognizes informal training results.

Since bringing Ukrainian laws into conformity with modern requirements and the EU standards assumes an in-depth reform of the national education system, implementation of the qualifications system should be a phased process. The Federation of Employers of Ukraine will apply efforts to ensure adoption of an appropriate draft law by 2012. Development and implementation of the National Qualifications Framework will take place during 2012-2015. By 2015, it is planned to have developed occupational standards and modular training programmes and have prepared competency requirements for at least 300 occupations.

## **4.2 Creating an efficient health care system**

The most promising way to improve stability and quality of these guarantees can consist of introduction of medical insurance. This area requires substantial public consultations because it is connected with essential ideological differences, with the need for considerable legislative amendments, and with thorough actuarial calculations.

**4.2.1** Developing and submitting for public discussion a relevant **draft law** according to which any risks under this type of insurance

# PART 4

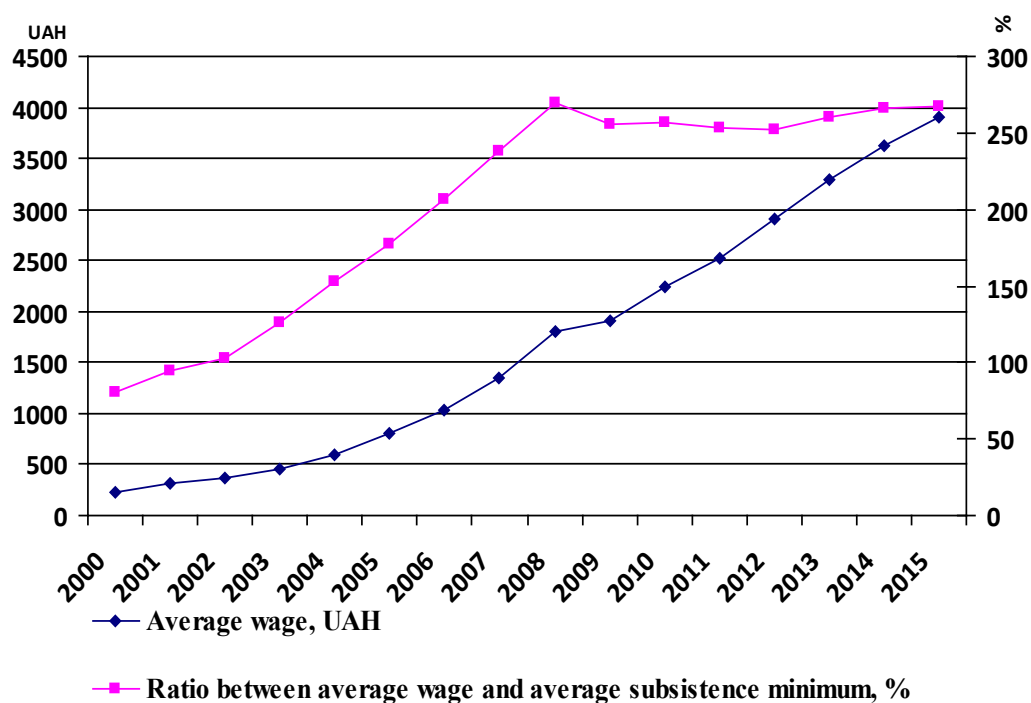
## MANIFESTO OF UKRAINIAN EMPLOYERS

must be insured by the risk-bearing party. Hence, medical insurance (except for occupational accidents and occupational diseases) must be provided, inter alia, at the expense of citizens' personal contributions from their income.

**4.2.2 Carrying out reforms in the system of free medical aid** in order to optimise spending from the state budget allocated for its funding.

**4.2.3 Introducing a general mandatory state medical insurance system.**

### 4.3 Creating a stimulating and fair social protection system



**Changes in average wage rate and in its ratio to subsistence minimum (including the FEU's forecast for 2010-2015)**

**4.3.1 Optimising social protection programmes** and related funds, strengthening the targeted nature of state aid types, and preventing their misuse

- *Assessing efficiency of the whole package of social support types (privileges, benefits, subsidies, social insurance payments) in order to revise previously specified, including by laws, social guarantees to optimise them.*
- *Developing and adopting a number of draft regulatory acts on implementing the targeting principle for payments from the social*

protection system with account of people's income levels. Evaluating people's income levels must also include indirect methods.

- Introducing the social inspection institute to ensure targeted and efficient spending of funds allocated for social support and to prevent misuse among persons not in need of state aid.

**4.3.2 Seeking changes in approaches to the formulation of minimum guarantees on labour remuneration** in order to implement more flexible approaches in setting them

- Amending the legislation on labour remuneration and subsistence minimum in order to implement principally new approaches to guaranteeing a decent labour pay level, namely define a minimum labour remuneration level including all labour income of an employee. The subsistence minimum must be transformed into an analytical and statistical indicator of living standards.

**4.3.3 Transforming the social insurance system towards higher efficiency of the utilisation of insurance funds** and towards giving up related functions and payments not relevant to the system

- Drafting a law on amending the legislation on social insurance to reduce the burden upon employers, the largest among all the countries, concerning mandatory payments and insurance contributions. It is planned to achieve this goal, inter alia, by redistributing insurance contribution payment obligations between the employer and the employee, providing for non-reduction of the achieved wage levels for employees.

Over the longer term, the Federation sets the task to reduce the total single social contribution payment burden by the year 2015 to 20% as well as to eliminate the employers' obligation to reimburse for the first five days of earning loss in case of temporary loss of capacity for work.

**4.3.4 Reforming the pension system further**

- Taking systemic measures to eliminate existing considerable disparities in pension rates for various population categories and occupational groups.

- Implementing the funded component of pension insurance.

- Decreasing the percentage of pension insurance contributions paid by the employers (from 33.2% to 18% of the labour remuneration fund) in order to legalise people's income and the base for charging the single social contribution.

# PART 4

## MANIFESTO OF UKRAINIAN EMPLOYERS

- *Lifting the retirement age by 5 years for women and by 2 years for men, and achieving at least a 1.3 ratio between payers and non-working-age persons. Employers regard increase in average life expectancy in Ukraine as a mandatory precondition for retirement age lifting.*

- *Sequestering privileged pensions.*

- *Implementing occupational pension systems and shifting the privileged pension provision for the employees who worked in harmful and arduous conditions to insurance-based principles.*

## 4.4 Reforming the labour relations system

### 4.4.1 Reducing labour relations in the informal sector

- ***Drafting and submitting to the Verkhovna Rada of Ukraine for consideration the Law of Ukraine on Amending Some Laws of Ukraine (as to stimulating the processes of labour relations legalisation)*** that provides for achievement of such a balance between the interests of employers, employees and the State under which economical reasonability of using legal labour would overweigh risks related to breach of labour legislation and use of informal employment.

The above-mentioned Federation’s initiatives will promote decreasing the number of labour conflicts and strengthen flexible guarantees of employee protection and the role of dialogue between employers and trade unions in addressing problems of informal labour relations.

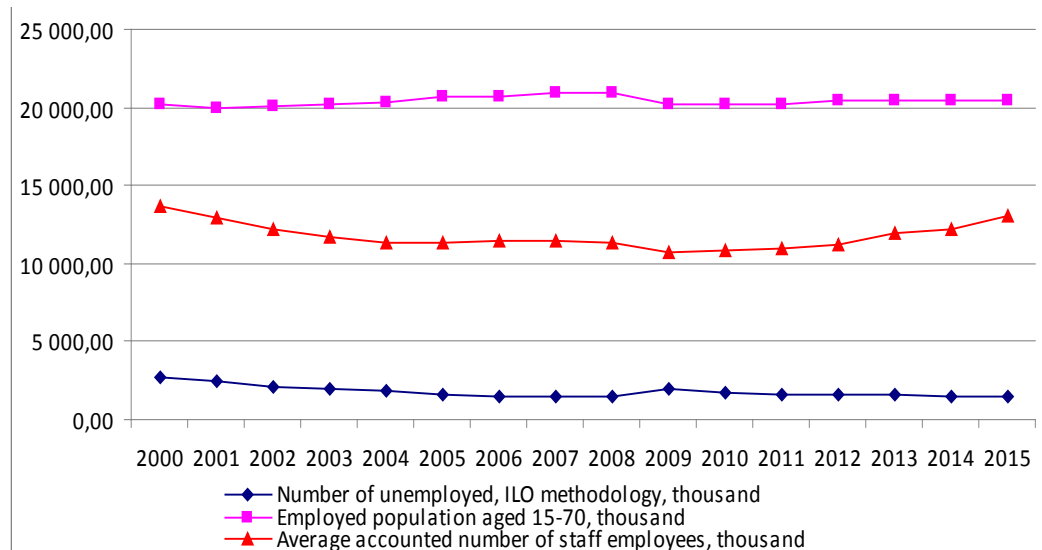


Table. Labour market indicators (with the FEU’s forecast calculations up to 2015)

### 4.4.2 Making qualitative amendments in legislation on the system of labour relations

The economic crisis again reminded of the need for expanding flexible forms of employment (partial home work and other forms), settling the issue on hired labour leasing, deregulating labour relations at the national level, and shifting a greater part to the collective-agreement relations level, as well as providing legislative regulation for the use of flexible approaches to labour remuneration, hours of work, working conditions, etc.

- *Promoting adoption of the new **Code of Labour Laws (Labour Code)** that would specify mechanisms for the application of flexible employment forms, expand the range of conditions that could be defined in employment contracts and collective agreements, provide a legislative notion of labour leasing, and streamline the rights and responsibilities of parties to these relations.*

Implementation of the above-mentioned measure will allow increasing the employment rate and legalising almost 3 million jobs already by 2015 in Ukraine. The unemployment rate according to the ILO methodology must return to the pre-crisis level by 2015.

#### **4.4.3. Increasing the share of wages in the product cost structure by means of increasing labour productivity**

- *Drafting a number of regulatory legal acts to encourage modernisation of production, use of more efficient production processes, and decrease in energy and material intensity of economy.*

- *Modernising the state policy on promotion of development of domestic productions and technologies (technical parks) and depreciation of fixed assets, a customs tariff policy concerning import of advanced technologies and equipment, and a reasonable tax policy.*

- *Designing legislative initiatives to change the structure of enterprise operating costs and decrease the share of social contributions in favour of increase in the labour remuneration fund.*

#### **Expected results:**

Implementation of the above-mentioned measures will allow promoting an increase in the share of wages in product costs for some material-intensive branches where this indicator is groundlessly low, and achieving the level of 10-12% for this indicator on average over the country by 2015.

#### **4.4.4. Implementing innovative directions in the state employment policy**

- *Creating a system of quick and quality training or retraining of the unemployed according to the current labour market needs and of short-*

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*term improvement and enhancement of their competencies, which would promote shorter time to find a job and foster improvement of the employee's competitiveness. (As of 1 April 2011, 4 vocational training centres for employees have already been working under public employment services, established at the expense of funds contributed by employees and employers to the fund for social insurance against unemployment.)*

*- Implementing stimulating and supporting mechanisms for the use of budget funds and unemployment insurance funds in order to promote actively preservation of existing jobs, their modernisation, and creation of new jobs, including facilitation of access to credit resources for production re-equipment, organisation or expansion.*

## **5. Ukraine 2020 (position 50 in the CGI ranking)**

MANIFESTO  
OF UKRAINIAN  
EMPLOYERS

UKRAINE 2020  
(POSITION 50  
IN THE CGI RANKING)

PART 5



## 5.1 Forecast indicators of Ukraine's economic development for the period until 2020

**Table. Forecast indicators of Ukraine's economic development for the period until 2020 (according to Gapminder data)**

	Indicator	2009	2020
1	GDP (including the shadow sector), bn UAH	2,094.6	5,532.4
2	Nominal GDP growth rate year-on-year, %	4.5	10.2
3	Inflation rate, %	12	4
4	Nominal average monthly wage of employees, UAH	2,587	4,483.3
5	Unemployment rate according to the ILO methodology, %	8.1	3.8
6	State budget deficit, %	8.3	2-3
7	Tax burden upon economy, %	42.4	33.2
8	Shadow economy rate, %	52%	25%
9	GDP/capita, USD	5,731	17,246

**Table. Forecast indicators of Ukraine's economic development for the period until 2020**

Name of ranking	International abbreviation	Position in 2010	Position in 2020
Index of Economic Freedom	IEF	162	48
Corruption Perceptions Index	CPI	134	67
Human Development Index	HDI	69	23
Global Competitiveness Index	GCI	89	50
Ease of Doing Business ranking	DBI	145	80
Ranking of tax systems	Paying Taxes	181	110
Global Innovation Index	GII	64	39
Labour Productivity Index	LPI	72	28

A prerequisite to achieve the above-mentioned Ukraine 2020 development dynamics consists of mandatory "turnkey" implementation of the following **reforms**.

### 1. Tax and customs reform:

- decreasing the shadow economic sector's share: to **35%** in 2015 and to **25%** - in 2020;
- decreasing the rate of GDP redistribution via the tax system – to **25%** in 2015;
- decreasing the share of wage fund charges for social contributions – to **25%** in 2020;
- approving a new Customs Code of Ukraine.

### 2. Anticorruption reform:

- adopting the Law **on Lobbying in Ukraine**, creating in Ukraine a civilised lobbyism system accepted in advanced countries of the world;

- adopting the Law **on Access to Public Information**; *(the draft Manifesto of Ukrainian Employers was developed in November 2010. Inter alia due to employers' efforts, the Law was adopted by the Ukrainian parliament on 13 January 2011 and took effect on 9 May 2011.)*

- introducing by 2020 the practice of public reporting by officials on their income and income received by their intermediate relatives, and providing a possibility of examining this information via the Internet. *(Inter alia due to employers' efforts, the Law on Access to Public Information contains a provision on mandatory declaration by officials of their income and spending as well as of income and spending of their family members.)*

### **3. Regulatory reform:**

- reducing the total number of central and governmental executive authorities to **40%** by 2015 (including the number of ministries to **12**); *(The President of Ukraine began to implement this component of regulatory reform as soon as less than a month after the draft Manifesto of Ukrainian Employers had been prepared. For example, the number of ministries was reduced from 20 to 16 on 9 December 2010, following reorganisation of central executive authorities.)*

- reducing the number of officials by **50%** by 2015; *(As soon as less than a month after the draft Manifesto of Ukrainian Employers had been prepared, the Decree of the President of Ukraine of 9 December 2010 No. 1085/2010 "On optimisation of the system of central executive authorities" set the Cabinet of Ministers the task of reducing the number of civil servants working in central executive authorities by no less than 30%.)*

- decreasing public administration costs to **30%** by 2015;

- securing no less than **70%** accessibility of public services via the Internet (online) by 2015;

- decreasing the number of administrative services to the level corresponding to the average of ten top countries in the Ease of Doing Business ranking; *(As of November 2010, 2258 administrative services existed in Ukraine. On the employers' insistence, the Cabinet of Ministers plans to reduce the number of enterprises providing administrative services from 11 thousand to about 1.5 thousand.)*

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- delegating **50%** of supervisory and control functions performed by the State to professional self-governing associations by 2015;

- decreasing the number of activities subject to licensing **2** times by 2020 (*66 economic activities were subject to licensing in Ukraine as of November 2010*) and decreasing the number of authorisation documents **3** times. (*It should be noted that there were 227 types of authorisation documents in economic activities in Ukraine as of November 2010. Inter alia due to the employers' persistent work concerning the need for decreasing the number of authorisation document types, their number in May 2011 was 66.*)

#### **4. Economic reform:**

- ensuring the average economic growth rate during 2011-2020 at **10.2%**;

- decreasing the inflation rate to **4%** p.a. by 2020;

- reducing the average unemployment rate to **3.8%** by 2020;

- decreasing the state deficit budget to **2-3%** by 2020;

- increasing per capita income to **USD 17,246** in 2020.

**Kyiv 2011**