‘Assessing the Deliverables of Ukraine Reform’
Synthesis of Perspectives from Discussions at the
WEF Roundtables, and Background Data

Daniel Kaufmann, The World Bank Institute
www.worldbank.org/wbi/governance

Plenary Session and Feedback to Prime Minister
of Ukraine at the Extraordinary Ukraine
Roundtable by the World Economic Forum
Kyiv, Ukraine, June 17th, 2005
Structure of the Presentation

1. What the worldwide evidence suggests about the quality of governance in Ukraine – *in comparative perspective*

2. Governance and competitiveness standing of Ukraine – perspective of the firm and the investor: analysis based on a large enterprise survey carried out by the World Economic Forum

3. Main Lessons from the evidence worldwide: main points of emphasis in a governance strategy

4. Main messages emerging from the Ukraine WEF workshop sessions communicated to Prime Minister Yulia Tymoшенко in plenary meeting
Empirical Evidence is Consistent with results from workshop sessions: From the Governance databank

Governance as the set of traditions and institutions by which authority in a country is exercised – specifically:

• Process by which authority is selected and replaced
  – VOICE AND ACCOUNTABILITY
  – POLITICAL STABILITY & ABSENCE OF VIOLENCE/TERRORISM

• Capacity of government to formulate & implement policies
  – GOVERNMENT EFFECTIVENESS
  – REGULATORY QUALITY

• Respect of citizens & state for institutions that govern them
  – RULE OF LAW
  – CONTROL OF CORRUPTION
Control of Corruption: one Aggregate Indicator
(selected countries from 204 worldwide, for illustration, based on 2004 research data)

Source for data:\n\textquote{Governance Matters IV: Governance Indicators for 1996-2004', D. Kaufmann, A. Kraay and M. Mastruzzi, (http://www.worldbank.org/wbi/governance/govdata); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.}
Government Effectiveness, 2004: World Map

Source for data: 'Governance Matters IV: Governance Indicators for 1996-2004', D. Kaufmann, A. Kraay and M. Mastruzzi, (http://www.worldbank.org/wbi/governance/govdata); Colors are assigned according to the following criteria: Dark Red, bottom 10\textsuperscript{th} percentile rank; Light Red between 10\textsuperscript{th} and 25\textsuperscript{th}; Orange, between 25\textsuperscript{th} and 50\textsuperscript{th}; Yellow, between 50\textsuperscript{th} and 75\textsuperscript{th}; Light Green between 75\textsuperscript{th} and 90\textsuperscript{th}; Dark Green above 90\textsuperscript{th}. 

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Regulatory Quality, 2004: World Map

Source for data: ‘Governance Matters IV: Governance Indicators for 1996-2004’, D. Kaufmann, A. Kraay and M. Mastruzzi, (http://www.worldbank.org/wbi/governance/govdata); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Rule of Law, 2004: World Map

Source for data: ‘Governance Matters IV: Governance Indicators for 1996-2004’, D. Kaufmann, A. Kraay and M. Mastruzzi, (http://www.worldbank.org/wbi/governance/govdata/); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Governance Map: Control of Corruption, 2004

Source for data: ‘Governance Matters IV: Governance Indicators for 1996-2004’, D. Kaufmann, A. Kraay and M. Mastruzzi, (http://www.worldbank.org/wbi/governance/govdata); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
Governance Indicators for Croatia, 1996 & 2004

Governance Indicators for Ukraine, 1996 & 2004

Source for data: ‘Governance Matters IV: Governance Indicators for 1996-2004’, D. Kaufmann, A. Kraay and M. Mastruzzi, (http://www.worldbank.org/wbi/governance/govdata); Colors are assigned according to the following criteria: Dark Red, bottom 10th percentile rank; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.
How ‘World Competitive’ is Ukraine?

Data from mid-2004 -- benchmarking…
Out of 104 countries, according to the Global Competitive Index of the GCR (World Economic Forum)
– Ukraine’s Comparative Standing:

2004 Ukraine’s Overall GCI:  *Ranked 86<sup>th</sup>*

**Subcomponents:**

Technology: 83<sup>rd</sup>

Institutional Quality/Governance: 97<sup>th</sup>

Macro-Economy: 76<sup>th</sup>

2005 GCI for Ukraine?: some improvement, to 70s?

…*Charting a strategy to move to the 50s in 5 years*…
Some Key Constraints to Business – View of the Firm, 2004
% firms reporting constraints among top 3:

Source: EOS 2004. Question: Select among the following list of constraints the most problematic factors for doing business in your country… (only selected constraints (and countries) are shown, due to space limitations, illustrative)
Transparency of Government Policies (Views of Firms, 2004)

Source: EOS firm survey, WEF2002-04. Question: Are firms in your country usually informed clearly by the government on changes in policies and regulations affecting your industry?
‘Grand Corruption’: Bribery to ‘Purchase’ Laws, Policies, Regulations *(Responses by Firms, 2004)*

High Bribe Frequency

<table>
<thead>
<tr>
<th>Country</th>
<th>Frequency of Bribery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>3</td>
</tr>
<tr>
<td>Brazil</td>
<td>3</td>
</tr>
<tr>
<td>Chile</td>
<td>3</td>
</tr>
<tr>
<td>Estonia</td>
<td>3</td>
</tr>
<tr>
<td>Georgia</td>
<td>3</td>
</tr>
<tr>
<td>Ghana</td>
<td>6</td>
</tr>
<tr>
<td>Hungary</td>
<td>3</td>
</tr>
<tr>
<td>Lithuania</td>
<td>3</td>
</tr>
<tr>
<td>Mexico</td>
<td>3</td>
</tr>
<tr>
<td>Russia</td>
<td>4</td>
</tr>
<tr>
<td>Slovenia</td>
<td>4</td>
</tr>
<tr>
<td>Tunisia</td>
<td>6</td>
</tr>
<tr>
<td>Ukraine</td>
<td>3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3</td>
</tr>
<tr>
<td>Uruguay</td>
<td>1</td>
</tr>
<tr>
<td>Venezuela</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: EOS firm survey, WEF2002-04. Question: In your industry, how commonly firms make undocumented extra payments or bribes connected with influencing laws, policies, regulations or decrees to favor selected business interests?
Independence of Judiciary, Responses by Firms, 2004

Source: EOS firm survey, WEF2002-05. Question: Is the judiciary in your country independent from political influences of members of government, citizens and firms?
Transparency of Government Policies (Views of Firms, 2004)

Source: EOS firm survey, WEF2002-04. Question: Are firms in your country usually informed clearly by the government on changes in policies and regulations affecting your industry?
Control of ‘Grand Corruption’ (Capture) vs. Government Transparency (EOS 2004)

Sources: EOS firm survey, WEF 2004. Question: In your industry, how commonly firms make undocumented extra payments or bribes connected with influencing laws, policies, regulations or decrees to favor selected business interests? Question: Are firms in your country usually informed clearly by the government on changes in policies and regulations affecting your industry?
Impact on Global Competitiveness Index (GCI) Rank -- of Relaxation of specific Constraint to the Firm

Source: Constraints to Business data based on EOS 2004 (Question: “From the following list, please select the five most problematic factors for doing business in your country, and rank them from 1 to 5.”); GCI based on GCR team calculations for 2004/2005 Report; GDP per capita from World Bank. Calculations based on regression estimates of the impact on the GCI of an improvement in the constraint by one standard deviation.
Governance Matters

• Development dividend of good governance is large: one-standard-deviation improvement in governance (e.g. in Rule of Law, from Somalia → Laos → Lebanon → Italy → Canada) raise incomes by two- to three-fold each

• Important implication: most of the strong correlation between governance and incomes reflects this causation, from governance to incomes
  – very little evidence of reverse causation, with incomes raising governance
  – “discounting” weak governance performance due to low income (e.g. in Africa) is inappropriate
  – underscores urgency of interventions to improve governance, rising incomes alone won’t do
Development Dividend From Good Governance

Data Source for calculations: KK 2004. Y-axis measures predicted GDP per capita on the basis of Instrumental Variable (IV) results for each of the 3 categories. Estimations based on various authors’ studies, including Kaufmann and Kraay.
On Corporate Responsibility: Frequency of bribery by firms

Source: EOS 2004. The percentage of firms that report bribery takes place within its group in the country is depicted in each case. EOS Question on which these calculations are based: “In your industry, how commonly would you estimate that firms make undocumented extra payments or bribes connected with the following: public utilities, tax payments, awarding of public contracts? very common (1) / never occur (7)”. Any firms reporting answers 1 through 5 were considered to be reporting at least some frequency of bribery, while answers of 6 and 7 were not.
Governance Has Improved in Some Groups: e.g. “Pull Effect” of EU Accession

Synthesis: 7 Points of Reform Emphasis from General Lessons of International Experience

1. Major Reduction in *Regulations* (and in Administrative Obstacles to Business)


3. ‘Voice’: bottom-up participation and oversight from citizens, youth, NGOs – with Data, surveys

4. Depoliticization and Reform of Civil Service

5. Reform of the Judiciary

6. Accountability by Large Conglomerates/Firms (and Multinationals)

7. Role of the Rich Countries and International Financial Institutions: *Collective Responsibility*
Key Messages and Lessons from WEF Workshop Sessions: *for Discussion and Feedback with Prime Minister at the Plenary Session (I)*

A. Achievements So Far – first 130 days:
   - Dynamic and empowered Civil Society, political openness and unprecedented freedom of expression
   - Abolition of special tax and related privileges to companies
   - Reform of Customs, with improved integrity
   - Major improvement in tax collection
   - Macro-economic Stability & sound exchange rate management
   - Commitment to Anti-Corruption by top leadership
Key Messages and Lessons from WEF Workshop Sessions: *for Discussion and Feedback with Prime Minister at the Plenary Session (II)*

B. Challenges and Priorities Ahead

1. **Transparency / Anti-corruption reforms** [see details in next slide]:
   - Enacting conflict of interest laws -- separating business/gov’t
   - **Financial (Banking) ownership transparency**

2. **Major Deregulation**: 0-based deregulation; ‘1-stop’ shop, business-gov’t independent commission to deregulate

3. **Predictability of policies and clear strategy/program of reforms**: clear time-bound scorecard with specific monitorable actions

4. **Civil Service Reform**: Reduce Political appointments; Pay Reform, Retrenchment, Meritocracy

5. **Judiciary reforms**: Revamp, bring new cadre, pay reform, integrity

6. **Corporate Governance**: Minority shareholder protection; Registry

7. **Tax Reforms**: simplify, reduce, stable, predictable – eg eliminate profit tax reinvestment

8. **Collaboration with west on capacity**: bringing best practices & concrete expertise; building capacity for reform implementation, learning from reformed countries (including non-EU, such as Chile)
Ukraine III: Basic Scorecard on 11 Transparency Reform Components: *How does the country rate?*

2. Public Disclosure of Political Campaign contributions by individuals and firms, and of campaign expenditures
3. Public Disclosure of Parliamentary Votes, *without exceptions*
4. Effective Implementation of Conflict of Interest Laws, separating business, politics, legislation, and government
5. Publicly blacklisting firms bribing in public procurement
6. Effective Implementation of Freedom of Information Law, with easy access to all to government information
7. Fiscal transparency in central and local budgets (web)
8. E*procurement: transparency (web) and competition
9. Adoption and implementation of ‘Lobby Law’
10. Judiciary transparency and disclosure on funding, assets of judges, and on full disclosure of judicial decisions

- *What is Ukraine’s scorecard rating on these 11 points today --2005?*
- *What will Ukraine’s scorecard rating be within one year -- 2006?*
Ukraine IV: General Priorities & Messages, Cont.

• Forward-looking strategy: not to be paralyzed by ‘re-privatization’/’re-nationalization’, or much backward-look

• Concerted progress to WTO accession: *parliamentary work*

• Removal of Parliamentary Immunity

• Learning from concrete leadership examples of other countries: e.g. Thabo Mbeki’s firing of his popular Vicepresident because of corruption allegations; Sakashvilli’s abolition of the corrupt traffic police; Chile’s dramatic reduction in political appointees to official positions, etc.

• Need for a concerted strategy and continuing progress on Anti-Corruption (even if some specific improvements have taken place): i) emphasis on Transparency reforms (previous slide); ii) Major Deregulation; iii) Blacklisting of Firms; iii) Civil Service (and Pay) Reform; iv) Procurement reform

• *In addition to previously mentioned corporate governance measures:* adoption of International Financial Accounting Standards
Data for Analysis and Informing Policy Advice, Not for Precise Rankings

Any data on Governance, Institutions, and Investment Climate is subject to a margin of error. It is not intended for precise country rankings, but to highlight relative strengths and weaknesses and draw analytical and policy lessons. The data presented here and in the Report do not necessarily reflect official views on rankings by the World Bank or its Board of Directors. Errors are responsibility of the authors.

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General:  www.worldbank.org/wbi/governance
Data:  www.worldbank.org/wbi/governance/govdata/