



INSTITUTE
FOR ECONOMIC RESEARCH
AND POLICY CONSULTING

UKRAINE'S FIGHT AGAINST CORRUPTION: THE ECONOMIC FRONT.

**ECONOMIC ASSESSMENT OF ANTICORRUPTION MEASURES
IMPLEMENTED 2014-2018**

KYIV. July 4, 2018



About report

This report was commissioned by the National Reform Council.

In this report we have focused our attention on the narrowing corruption opportunities brought about by reforms aimed at enhancing transparency and openness in the work of the government and increasing the efficiency of public administration.

For the purpose of the analysis a limited number of measures were chosen in the sectors where corruption was traditionally considered as Ukraine's calling card.

This report is prepared from sources and data which the authors believe to be reliable. Opinions and information provided are made as of the date of the report issue and are subject to change without notice.

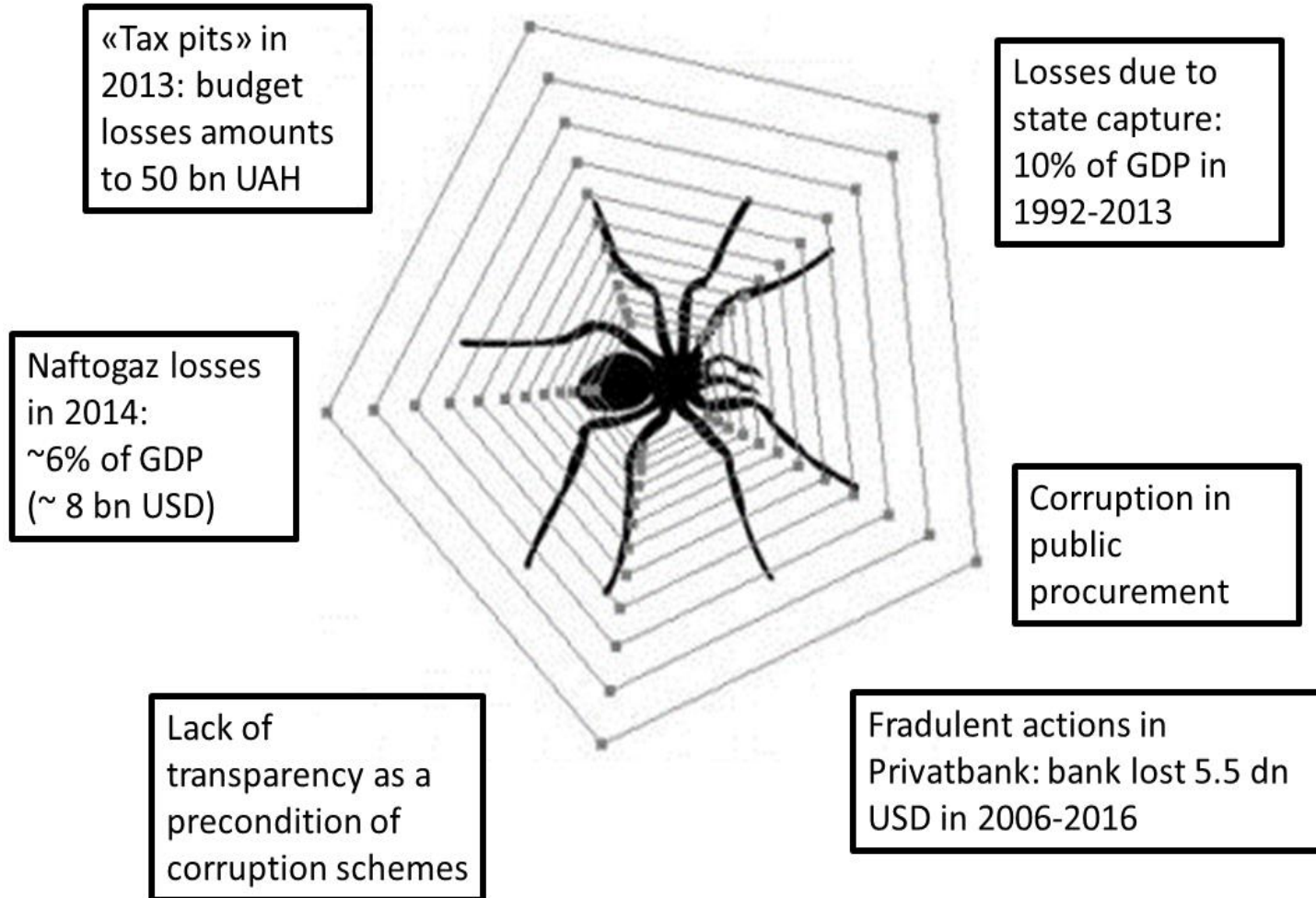
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Corruption heritage



Our approach

1. Traditionally corruption is broken into three functional types:

a) Political corruption –the manipulation by politicians with political decisions, rules, procedures and institutional activities in the area of resource allocation and financing, and also abuse by politicians of their powers to retain and increase their authority, assets and private gain.

b) Large-scale (grand) corruption - actions committed by the top level officials to obtain the benefit at the expense of society by means of exercising the distortive influence on the government policy and the government functioning mechanisms at the central (national) level

c) Small-scale, or petty, corruption is a daily abuse of powers by the mid and low-level officials in the process of their interaction with citizens seeking to solve personal problems.

We restricted ourselves to analysis of the measures aimed to overcome, mainly, political corruption.

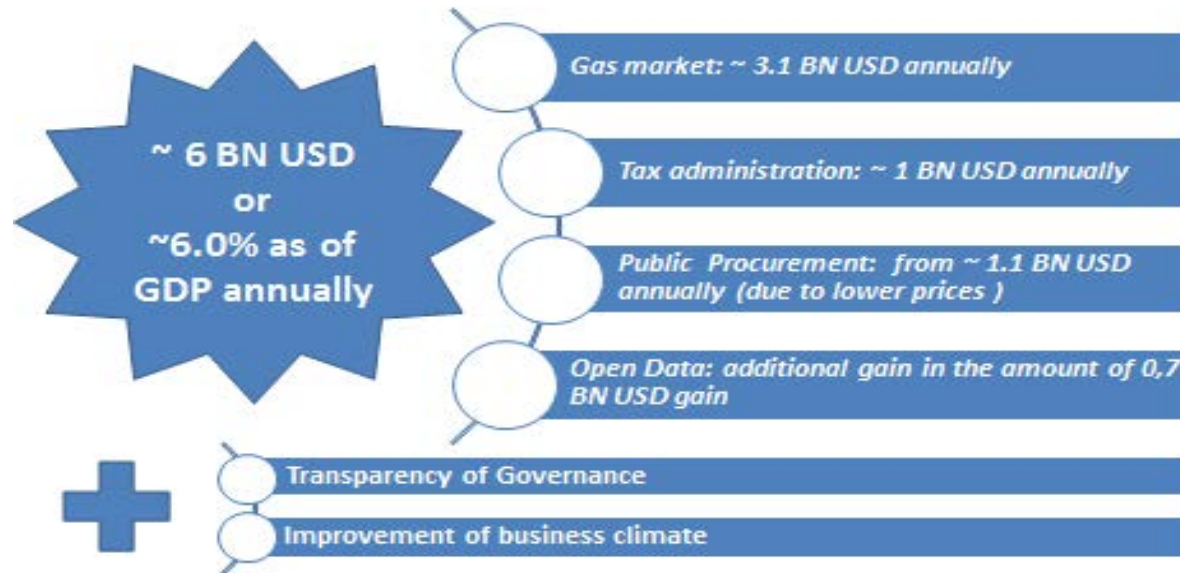
2. Two main driving forces to lower corruption levels:

- **Narrowing corruption opportunities through reforms** in different sectors.
- **Creation of efficient corruption fighting institutions**

Our attention has been focused on the first line of changes, brought about by reforms aimed at enhancing transparency and openness in the work of the government and increasing the efficiency of public administration.

A limited number of measures were chosen in the sectors considered the most corrupted ones

Economic effect of anticorruption measures undertaken in 2015-2017



Conclusions:

1. Even with the above-mentioned positive achievements, the fight against corruption has only just started.
2. Double challenge - to prevent the roll-back of the reforms that have brought about these achievements and to further strengthen the process of fighting corruption.

GAS market

What was done	<i>Anticorruption effect</i>
<ol style="list-style-type: none"> 1. Gas prices equalization for different categories of consumers 2. Tearing up product sharing agreements 3. Revision of gas supply contracts with RF 4. Use of alternative source of gas supply to Ukraine 5. Reform of corporate governance of Naftogaz 	<ol style="list-style-type: none"> 1. <i>Reduction of price arbitrage opportunities</i> 2. <i>Reduction of price arbitrage opportunities</i> 3. <i>Depoliticization of gas relations with RF</i> 4. <i>Minimizing opportunities to enjoy corruption rent due to existence of monopolistic supplier</i> 5. <i>Reducing intracompany corruption space</i> 6. <i>Strengthening company's resilience to external political influences that finally result in appearance of various corruption schemes</i>

Measures undertaken resulted in elimination of annual losses in the amount of circa USD 3 BN:

- **circa USD 2.82 BN due to overpayment for gas;**
- **Naftogas annual losses in the amount of USD 0.18 BN due to price arbitrage;**
- **Annual losses from production sharing agreements in the amount of UAH 1 BN (up to USD 125 MN)**

Tax administration

What was done	Anticorruption effect
2.1. Introduction of VAT electronic administration 2.2. Introduction of risk monitoring system related to VAT administration 2.3. Introduction of automatic VAT refund	1. Deshadowing financial flows 2. Minimizing the scale of “scheme-based” (fictitious) tax credits

Additional budget revenues due to close up of conversion platforms and fight against scheme-based (fictitious) tax credits in the amount of USD 3 BN in 2015-2017

Public procurement

What was done	Anticorruption effect
<ol style="list-style-type: none"> 1. Introduction of ProZorro electronic public procurement system 2. Creation of public procurement monitoring system under the State Audit Office of Ukraine 3. Creation of Dozorro - specialized monitoring portal for procurement 4. Procurement of medicines by international organizations 	<ol style="list-style-type: none"> 1. Ensuring direct competition among the suppliers 2. Identification of risks of abuse related to public procurement and risk minimization throughout all stages of procurement process 3. Public control over public procurement by all the parties concerned 4. Break-up of political corruption

Economy due to transition to new public procurement system makes saves USD 40 BN in 2015-2017 (USD 1.5 BN).

Annual economy due to lower prices makes up USD 0.4-0.9 BN

Open data

What was done	Anticorruption effect
<ol style="list-style-type: none"> 1. Compilation of the list of Data Sets to be released in the Form of Open Data 2. Creation of Unified state open data portal and specialized open data portals 3. Creation of Unified State Register of Declarations of Persons Authorized to Perform Functions of the Central or Local government 	<ol style="list-style-type: none"> 1. Minimizing opportunities to manipulate and abuse the data 2. Broder opportunities for public control over regulatory and administrative authorities 3. Ensuring equal access to data for all interesting parties. 4. Prevention of abuses of officials

According to some calculations, the economic effect of transition to open data made up USD 700 MN in 2017 while by 2025 this indicator may grow up to USD 1.4 BN on an annualized basis

Looking ahead

1). The analysis proved that where there is political will, one may take difficult political and legal decisions

Risks:

- 1. The slow down in Ukraine's reforms is the greatest threat to the country today** - as unreformed and corrupted state has no historical perspective;
- 2. The transformation of a real fight against corruption into an instrument of unfair political** (e.g. requiring mandatory declaration of the status of anticorruption activists) **and economic competition;**
- 3. Lack of a comprehensive strategic approach to fighting corruption:** elimination of conditions (reform of state governance), punishment of corrupt officials (reform of the law-enforcement system as a whole and ensuring the effective work of newly created anticorruption bodies) and maintaining zero tolerance to corruption in the society.

2). In general Ukraine is successfully overcoming inherited political corruption in the form of vertically integrated schemes, the totality of which was the basis of the public administration previously.

Risks:

- 1. Lack of "sustainable" political consensus** on the content and tools for fighting corruption
- 2. Stakeholders' attempts to establish and pursue political control** over bodies of state power (state capture) and anticorruption institutions in particular.

Looking ahead ...

3). **The pace of overcoming corruption and observance of the principle of the rule of law does not yet meet the expectations of the Ukraine society and international partners.** It is now up to the authorities and society to do their utmost to make this process powerful and irreversible.

Risks:

1. **Establishment of political control** over anticorruption bodies or discrediting their activities through manipulations with civil society initiatives and discrediting public activists
2. **Failure to settle a number of problems** that newly established anticorruption bodies have already run into (for example, the inability to check electronic declarations of civil servants, etc.)
3. **Lack of adequate response** to the emergence of new corruption schemes.

4). **The scale of large-scale and petty (small) corruption continues to be substantial.** Counteracting the relevant schemes is among the top priorities of the anticorruption agenda.

Risks:

1. **Lack of effective actions** to combat large-scale and petty corruption
2. **Low efficiency** of anticorruption bodies activities in the medium term
3. **Public disappointment** with the ability of the state (government) to effectively fight corruption.

Looking ahead

5) **With the creation of the Anticorruption Court in Ukraine, the formation of a full institutional framework for detecting acts of corruption and punishing corrupt officials will be completed.**

Risks:

1. **Transformation of anticorruption law enforcement agencies** into hostages of political struggle
2. **Lack of proper coordination** among law-enforcement agencies
3. **Failure to ensure the inevitability of punishment** for those responsible for corruption crimes

6). **Adequately "designed" and implemented reforms are the best tool** to prevent corrupt behavior at all levels of government (areas - public administration, public finances, energy sector, and governance of state-owned enterprises, control functions of the state, regulatory environment, digital public services, and stakeholder engagement with the government).

Risks:

1. **The slow down in Ukraine's reforms** in general and anticorruption measures in particular
2. **Inconsistency** of legislative and executive actions
3. **Loss of support from the international community** (Ukraine fatigue syndrome).

7). **The lack of a real anticorruption consensus** within the Ukrainian political elite compromises the effectiveness of anticorruption policy, threatens the achievements of the anticorruption fight and slows down the anticorruption progress of Ukraine.

Risks:

1. **Forthcoming presidential and parliamentary elections provoke politicians** to increasingly resort to populist rhetoric and work mainly for their own political image;
2. **Lack of strategic vision of the Ukrainian politicum and society**, which should view anticorruption reforms as a long and complicated process: the success is conditioned by the adoption of politically unpopular and difficult decisions, while the positive effect can only materialize in the medium and long term.
3. **Underestimation of the fact** that combating corruption is not only a political but also an intellectual challenge for the authorities.

Combating corruption as national idea

Ukraine must nurture zero tolerance of its people to all manifestations of corruption.

To achieve this, it is necessary to change the ideology and state governance framework in such a way that all Ukrainian citizens could be confident that being honest is prestigious, rewarding and safe.

Thank you!

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