

Ukraine 2030: A Development Strategy Executive Summary

Ukraine 2030 provides a solid analytic foundation to support the efforts of Ukrainian politicians to develop-and western policymakers to support-a policy framework to modernize Ukraine's economy and governance.

Ukraine 2030 proposes a specific strategy to foster development that will lead to a more prosperous Ukraine by 2030. Ukraine has enormous potential. It can follow the path to prosperity that many central European countries have taken since the dissolution of the Soviet Union. The wealth and potential of Ukraine lies in its human capital. Investing in people-in science, culture, education, and health-will result in a high-tech national economy that grows more inclusively and efficiently.

However, Ukraine has systematic problems that constrain this potential. Based on research from key experts at Ukraine's leading universities, Ukraine 2030 describes problems that inhibit the development of Ukraine and proposes specific steps to address these problems.

In addition to the critical problem of the war in the East of Ukraine and occupation of Crimea, which has caused thousands of deaths and has cost Ukraine 25% of its GDP, the problems addressed through this strategy include:

1. The closely related issues of corruption and the shadow economy, consisting of black market transactions and undeclared work. The shadow economy officially consists of at least 35% of Ukraine's GDP. Expert assessment put this figure closer to 50%. Ukraine can reduce the shadow economy to the EU average by 2030 if the government introduces e-governance, improves rule of law, and promotes the effective and equitable distribution of wealth. Corruption costs Ukraine 14% of its GDP. Ukraine can reduce this cost to 4% of GDP by 2030 by separating government and business activities to remove influence from oligarchs, through open transparent public tenders, and through reforms in the prosecutor's office.

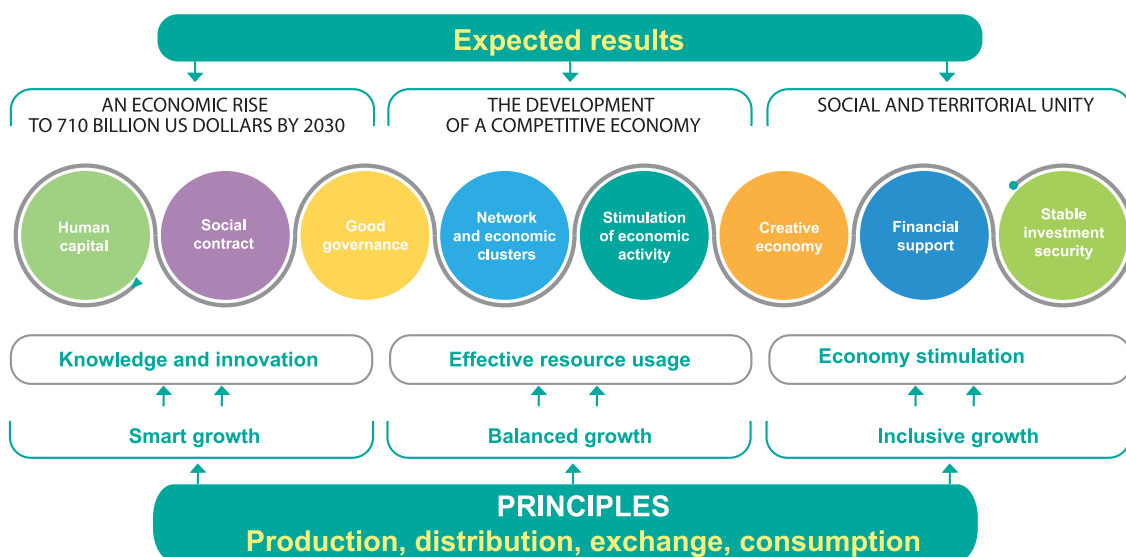
2. The inadequate, outdated pension system costs 13% of GDP. Pension reform can reduce the state budget burden to less than 5% of GDP, including by confirming that payments actually go to retirees, eliminating multiple taxation of pensions, and adopting legislation to reduce unreasonably high pensions.

3. High public debt. Public debt costs the country annually 9 billion USD (almost 10% of GDP) and puts destructive pressure on the national economy. Ukraine does not need an IMF loan, but rather needs to provide an attractive investment climate to increase domestic economic activity and the tax base.

4. Extremely high energy-intensity. Ukraine's is among the world's least energy efficient countries. Energy use per unit of production is three to five times the level of developed countries. Implementing structural reforms and fostering high-tech innovation can improve efficiency almost three-fold while also improving economic competitiveness.

To address these problems, Ukraine 2030 proposes that the national government of Ukraine lead an anti-crisis program, and that supportive countries and international financial institutions assist in this endeavour. This program includes specific steps in three related areas:

1. Improve governance, transparency, and rule of law
2. Improve health care and education
3. Stimulate the domestic economy



Governance, Transparency, and Rule of Law

To combat corruption, reduce the power of oligarchs and the monopolies they control, and increase transparency and participatory governance, Ukraine should:

1. Separate government and business activities to remove influence from oligarchs.
2. Implement transparent public tenders for government contracts that have clear qualifications requirements for participating companies.
3. Reform the prosecutor's office.
4. Create a system to return assets from abroad that derived from money laundering.
5. Create an automatic information exchange system to links border checkpoints with the foreign customs services to combat laundering.
6. Implement good governance, including by ensuring stakeholder participation in policymaking processes.

Ukraine 2030

Health Care and Education

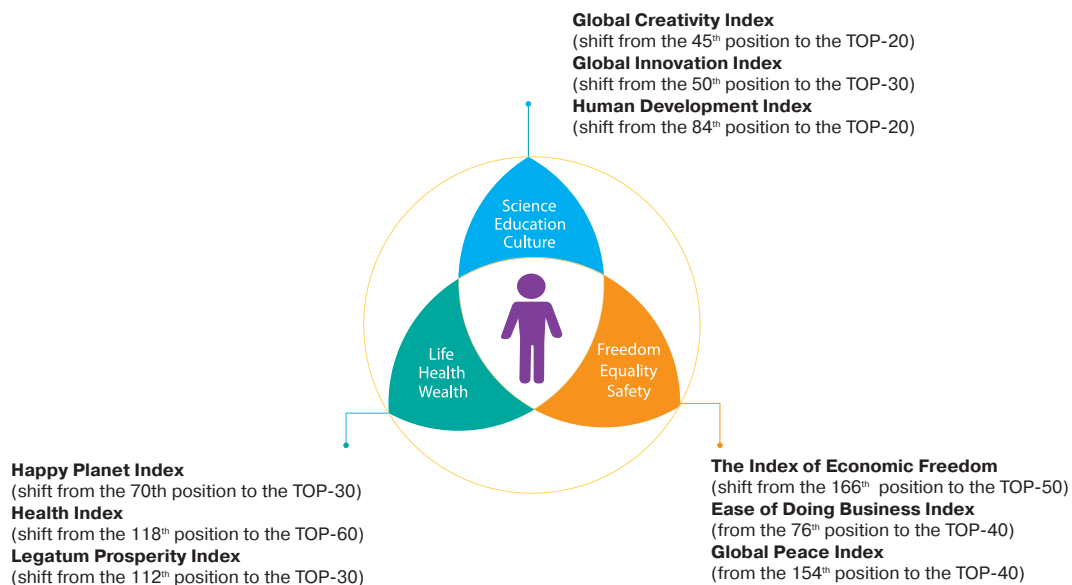
An essential prerequisite for advancement is sustained investments in human capital, in particular in health care and education.

Improving the health care system will require:

1. Reducing high health care costs by eliminating unnecessary procedures that health care practitioners perform.
2. Providing a mechanism for health care practitioners to receive formalized payments for the work they currently conduct in the shadow economy.
3. Reducing the duplication of medical services supported by the government.
4. Introducing insurance that covers both preventative and urgent health care.
5. Assisting health care practitioners to receive continuing medical education abroad.
6. Implement e-Health, a system of electronic patient records and registries, and creating an open e-Health market.

The national education system should prepare the citizens of Ukraine to respond to the challenges of the future by:

1. Tailoring university curricula to the projected demand for future specialists and future skills in the labor market, and stimulating the development of training programs in close cooperation with science centers and employers.
2. Providing a state order for training specialists that are critical for the national economy (at all educational levels, including the training of scientific and teaching staff). Ensure that students who commit to work in Ukraine following graduation get priority access to free collegiate education versus those who leave the country.
3. Ensuring free access to citizens from all economic backgrounds to primary, secondary, and collegiate education.



Stimulate the Domestic Economy

Ukraine's economy has contracted significantly in the last decade. However, this trend is beginning to reverse. The steps below can stimulate domestic economic activity and create sustained growth and inclusive prosperity throughout the decade to come. In addition taking to the good governance measures described above, Ukraine needs to:

1. Reform the National Bank of Ukraine to be more transparent, to reduce the number of state-owned banks and separate commercial from specialized banking functions, and to accelerate the adoption of European standards.
2. Reform the tax system, including by reducing the number of taxes, reducing tax rates to increase compliance, reducing taxes on profit that is reinvested in the development of high-tech industries, and creating incentives to return to Ukraine assets that were taken out of the country.
3. Promote small and medium-sized business and entrepreneurship, including by providing tax holidays, creating a Ukrainian Development Bank to lend to SMEs, and jointly creating and managing special funds for entrepreneurs with international development institutions.
4. Fundamentally redesign the moribund domestic stock market.
5. Privatize state-owned enterprises that do not provide infrastructure or other security functions.
6. Shift away from extractive and heavy industries by encouraging the development of economic clusters in key innovative and creative sectors that add substantial value.
7. Improve the climate for foreign direct investment by removing restrictions on investments and profits and by providing state guarantees for infrastructure and similar investment projects.

Implementing these changes will of course be enormously challenging. It will require increased awareness of the problems and the solutions by a broader spectrum of society, and Ukrainian citizens' active engagement in the policymaking process. Implementation will also benefit from the continued advice and support of policymakers and financial institutions in supportive countries.

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