

Ukraine 2015



Total: 49.54

Political Freedom

Free and Fair Elections : 6.79

Since the turbulent political changes in Ukraine – the ousting of president Yanukovich, Euromaidan, Russia's annexation of the Crimean peninsula and heavy military engagement in Luhansk and Donetsk - Ukraine has conducted presidential and parliamentary elections. Both were labeled as free and fair. This positive development is reflected by this year's figure (in contrast to last year's FB findings). It brought to power a block of reformist parties, which is facing multitude of challenges. Due to the war and the annexation of Crimea a number of seats in the parliament – the Verkhovna Rada – remained empty.

Absence of Unconstitutional Veto Players : 5

The Euromaidan revolution has reduced the impact of unconstitutional veto players in Ukrainian politics. It remains to be seen whether or not more transparent procedures lead to a party landscape which corresponds more to the democratic needs of the country. Since Ukraine is in a state of war since the annexation of the Crimean peninsula and the beginning of a war in Eastern Ukraine, a vacuum might arise for new unconstitutional veto players. The representation in the Parliament is mainly dominated by oligarchs' interests. Along with the Poroshenko administration, their interests play the significant role in the formation of the government and legislative process. Small and medium sized businesses or other social groups in fact don't have a likewise strong representation on the central level in Ukraine.

Freedom of Press : 4.2

Press in Ukraine is partly free. The Euromaidan revolution with all its backlashes has brought to power politicians who might (hesitantly) start to acknowledge the independent role of media. However, since the country faces a war with its Eastern neighbour Russia, for many politicians (and journalists alike) it seems to be part of the patriotic duty not to criticize the government. As Freedom House states, problems such as self-censorship are still widespread. In the shadow of the war in Eastern Ukraine there is a war on information. The banning of fourteen Russian broadcasting channels with the explanation that they spread Russian propaganda shows the significance of media in shaping the picture of the enemy. It remains to be seen whether or not the newly created information ministry will seek a more rigid control of the press. The ownership

structure remained in place. The oligarchs still use the media as a vehicle to spread their messages. Civic control of the media is weak. There are alternative media that do not, however, have as high coverage as oligarch-owned TV channels.

Rule of Law

Independence of the Judiciary : 2.59

In spite of the highly spirited proclamations of dedication to the rule of law, the situation in the judiciary has not changed enough as compared to pre-Maidan years. Most of the problems remain. Judiciary is still among the most corrupt parts of public life. The law on lustration, carried in autumn 2014, was the first small step in establishing the transitional justice. Alas, many, including the EU, deny it efficacy in curbing corruption or other ills of the Ukraine's judiciary. Meanwhile, in the two eastern provinces held by pro-Russia rebels, there is a complete absence of any rule of law.

Corruption : 2.6

However political rights, democracy and pluralism in Ukraine had advanced due to the departure of President Yanukovich in early 2014 and subsequent changes, it has yet to affect the field of corruption. Ukraine is still the most corruption-struck European country. In the Transparency International's Corruption Perception Index 2014, Ukraine, with just 26 points, was ranked 142 of 175 countries of the world (as compared to 2013 when it was listed as 144 of 177, with 25 points). In 2013, security and law enforcement institutions (e.g. judiciary, police) were the worst corrupted. Outbreak of the armed conflict in eastern Ukraine in spring 2014 revealed that parts of the army were also corrupt. Faced with an existential threat, the country and its new democratic authorities concentrated on fighting corruption and the adjacent foreign influence in the fields vital for defense, such as army and police. Some measures, such as the law on lustration as of autumn 2014 were carried so as to broaden that struggle, but their efficacy was questionable. The system creates plenty of room for corruption, with its 1800 state-owned enterprises, price controls, monopolies, red tape as a norm in administration and non-transparent financing of political parties. It needs the change from top to bottom. Parallel to lustration, creation of anti-corruption bodies and more corruption-sensitive legislation as well as getting rid of the still omnipresent Soviet-style corruption mentality and culture have all begun. Those tasks are enormous, prosecution of corruption in particular, while at the same time Ukraine - still torn apart by conflict and facing threat both from the neighbourhood and from the internal chaos – needs quick improvements.

Protection of Human Rights : 5.77

The Russian annexation of Crimea immediately after the Euromaidan Revolution and the armed conflict that erupted in eastern Ukraine followed by the pro-Russia rebel's rule in significant parts of two eastern provinces, have all preoccupied Ukraine authorities. While affecting the situation in the country overall and the economy in particular, the situation should by no means hinder reforms but on the contrary speed them up. Nevertheless, a de facto war is on, whereby the freedom,

integrity and even existence of the entire country is at stake. New Russian authorities in Crimea have committed a number of grave violations of human rights. Disappearance and extrajudicial killings of pro-Ukraine activists, arbitrary arrests, forced change of citizenship and limiting various other rights and liberties of ethnic Ukrainians and Tatars are just some of the abuses. In the Donetsk and Luhansk provinces (self-proclaimed “people’s republics”), rebels have been doing similar or worse. Many clues indicate at their key role in shooting down a civilian airplane on the MH17 route and killing 298 people on board, in July 2014. In the mainland Ukraine, security and defense concerns hinder the advance of human rights. Yet in some fields there already have been improvements in spite of the conflict. Refugees (those from eastern Ukraine or other) have been ever better cared for, primarily due to the civil society efforts. The situation improved for international migrant workers. Trainings were held and improvements noticed in the attitude of the newly recruited police (btw, a third of them being women) towards equal and professional treatment of citizens, including less corruption. Minority rights are still a hotly disputed issue, where on an open-minded majority of Ukraine’s population is struggling for influence against outnumbered yet aggressive ultranationalist anti-minority paramilitary groups. On the other hand, civil society organizations have been playing a major role in all the progress achieved after the Maidan.

Economic Freedom

Security of Property Rights : 4.09

Private property is not well secured in Ukraine. As in most other countries of the region, main problems arise from the low level of judiciary independence due to the influence of political and business elites over the judiciary. The influence of offices of the state monopoly of force is particularly strong. Such an environment leads to politicized and partial legal proceedings and makes room for corruption and nepotism. Weak implementation of the insolvency regulation leads to very lengthy procedures, with substantial costs and very low recovery rates, practically denying property rights. Legal enforcement of contracts faces the same limitations, but the main problem lies in the weaknesses of the enforcement of judgment process. Implementation of electronic procedures that are used by notaries is expeditious, but the unreformed Land Cadaster creates bottlenecks in the process of registering property. Unclear property rights in the field of agricultural land pose problems in the functioning of the land market.

Size of Government: Expenditures, Taxes, and Enterprises : 5.34

Public expenditures in Ukraine are comparable to the European average, reaching 45.4% of the GDP in 2014, which is high for its level of development. These expenditures are financed not only through high taxes but also through significant budget deficits, standing at 4.5% of the GDP. Complicated political situation in the country (most notably the conflict in the Donbas region) had led to a strong recession that has even deepened in the first half of 2015. Increased public expenditures and a shrinking economy showed how unsustainable the level of Ukrainian public debt has been, exploding from 40% of GDP to envisaged 94% in just two years and calling for a

debt restructuring in order to evade default. There are still many companies in competitive markets owned by the public sector which rely on government subsidies for funding of their daily operations or investments. In fact, a large share of the national debt occurred as guaranteed debts of these companies (Ukrainian export-import bank, Oschadbank or the national railways). Those companies are an important source of corruption through public procurement and transfer prices. The wage bill is inflated by too many employees. Pension system is unsustainable, with a very low retirement age. High tax rates are thus needed to finance public expenditures. Corporate tax in the country is 18%, while personal income tax is set at 15% with a minor progression for high earners (with the rate of 20% above a high threshold of 10 minimum monthly wages). Standard VAT rate is set at 20%, with the reduced rate of 7%. However, very high social security contributions, mostly paid by the employer, in the range of 36.76% to 49.7%, lead to a substantial labour tax wedge of 41% on an average salary. Consequently, the size of the shadow economy in the country is substantial, reaching as high as 40% of the GDP.

Regulation of Credit, Labour, and Business : 4.58

Business regulation in Ukraine overall is not overly favourable towards entrepreneurial activities, with its major administrative requirements and high associated bureaucracy cost, detrimental to economic activities and fostering corruptive activities. Getting electricity is an expensive process which is also burdened with lengthy procedures. Compliance with tax procedures is also burdensome, due to the complicated procedures and high number of payments. However, the introduction of an electronic system of filing and paying labour taxes for companies somewhat alleviated this problem. On the other hand, starting a business is easy and inexpensive. Labour market regulations are a mixture of flexible and rigid rules. Flexibility is present in working-hours regulation, while rigidity concerns redundancy procedures, with mandatory notification to the trade union representatives and the priority rules for reemployment and redundancies, as well as assignment obligation. Severance pay is not high. It is remaining flat, with the respect to the years of tenure. The minimum wage is not set high as compared to the average, but the high tax wedge makes labour expensive, which, coupled with costly redundancy procedures, encourages shadow market employment.

Freedom to Trade Internationally : 8.58

Freedom to trade internationally is mostly respected. Tariffs on imported goods are low (reaching simple trade average of 5.8%), but could be exceptionally high in cases of some products (mostly of agriculture or heavy industry). On the other hand, regulatory trade barriers in the field of certification and standardization activities can be a significant burden on international trade, with long documentation preparation. Furthermore, customs service can be partial in their dealings, while corruptive practices are still present. Poor state of the transportation infrastructure is a significant obstacle to increased international economic cooperation, by increasing freight costs. The state of the roads, and to a lesser extent ports, is the main limitation factor. Bearing in mind that the economy is in recession, investments into this segment would be welcome to boost growth but current fiscal constraints of the government make this hard to achieve. More inclusion of the private sector through various private – public partnership arrangements, most notably concessions for motorways, could prove beneficial. Ukrainian main trade partners are the EU countries and the countries of the Commonwealth of Independent States (CIS), followed by China and Turkey. Therefore, most Ukrainian trade is conducted via World Trade Organization (WTO) rules, or by the Association Agreement (AA) signed with the EU but still not ratified by 5 EU

countries (Belgium, the Netherlands, Italy, Cyprus and the Czech Republic). The Deep and Comprehensive Free Trade Area is supposed to further liberalize trade with the EU. Heavy capital controls imposed by the Ukrainian central bank on capital flows are set in motion in order to maintain stability of the national currency.