

Deregulation of the Ukrainian Economy:  
Problems and Peculiarities of Further Implementation

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### Abstract

This paper explores the features of the implementation of regulatory reforms aimed to foster competitiveness of business in both national and foreign markets. This paper considers the international practice of regulatory reform implementation to determine the ways of realization of regulatory reform in Ukraine in terms of integration. The paper determines that deregulation must establish a new paradigm of relations between the government and business entities that operate on the principles of social partnership to restore the trust between business entities and government and to improve the political and economic situation in Ukraine.

The article determines that the strategies and technologies of the regulatory reform in the world are different, but special attention takes “regulatory guillotine” (Jacobs, 2006), which doesn't require raising of additional funds and helps to use more effective and efficient limited resources. The article, based on academic and business research of regulatory reform, conducts that deregulation of economy, as an effective instrument of public policy, should be carried out.

*Keywords:* regulatory policy, regulatory reform, regulatory guillotine

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The features of modern economy are its globalization and tendency to its integration, so that the economy within the integration should be combined, built to the world economy and adapted to the requirements of external environment. The Ukrainian economy becomes more and more integrated into European market, so that public policy should be directed to the promotion of competitiveness of national business entities on the basis of efficiency, innovation, and adaptability.

In terms of integration Ukraine should harmonize legislation and standards to the conditions of the European Community. The process of harmonization includes the full range of necessary reforms, some of them is deregulation.

There are significant amounts of administrative and economic barriers of doing business in Ukraine. All of these barriers negatively affect not only on the business performance and development, but on the national economy. "Ukraine paralyzed by a huge amount of regulations" (S. Jacobs, V. Anatolyak, 2015).

Many bureaucratic obstacles reduce the business development and economic growth of the country. There is a considerable regulatory pressure, which consists of burdensome inspections of business entities and establishment of additional restrictions on entrepreneurial activities. Such governmental economic policy restrains the development of socio-economic processes, which are essential to overcome financial crisis.

The data of the World Bank rating «Doing Business» indicates the complication of doing business in Ukraine. In accordance to the statistical data, Ukraine ranked 152d in 2012. Only after 2015 the situation improved, Ukraine took 87th place in the rank.

The positive dynamics of Doing Business Rank indicates the correct direction of economic reforms, especially in the field of deregulation. In fact, components of Doing Business Rank indicator are improved. They are the following: starting business, registering property, paying taxes. However, compared with other countries of European Union, Doing Business Rank of Ukraine indicates some problems in the implementation of reforms.

Thus, the purpose of this study is to analyze the problems of deregulation reform in Ukraine; and to identify trends of further deregulation of Ukraine to ensure sustainable economic development and successful integration into the European economy.

### **Literature Review**

Sustainable economic growth is an important objective of public economic policy, which causes the high relevance of scientific researches to focus public regulation of the economy to foster competitiveness of business on national and foreign markets.

The discussions that are going in academic (Litvinov, 2012), political and business (S. Jacobs, V. Anatolyak, 2015) spheres about the impact of the level and intensity of state regulation come to conclusion of practicability and efficiency of deregulatory processes.

But it is required further investigation of the problems of deregulation reform in Ukraine and to determine the peculiarities of its further implementation.

### **Discussion**

As many countries, Ukraine is suffering from the overproduction of regulations and legislations (hyper-legislation), that do not assure economic growth, but also restrain business activities.

External economic entities came and invested to the Ukrainian market, wanted to have transparency rules for doing business. Nevertheless, representatives of foreign businesses often face with bureaucratization and imperfect business rules. To maintain a favorable investment climate it is necessary to bring the rules of doing business into accordance with international standards and to take into account best world practices.

European experience has shown that providing of economic growth is important to ensure business autonomy and limits of state intervention in the economy. International experience has shown that sustainable economic development is possible in terms of liberalism, and deregulation has become the basis of state regulatory policy.

Economic deregulation takes place when the government decreases the restrictions in a particular business to increase financial operations and to improve business environment.

In terms of doing business simplification entrepreneurial entities have the opportunity to release financial resources and to foster the efforts to strength their own positions on the markets and to search for new capabilities to ensure the effectiveness of financial activities and to provide competitiveness in the external environment. Competitiveness of business means that Ukraine should try to keep up and also go faster than other economies to provide successful government and business performance in Europe. So that, Ukraine should implement reforms, that will support business entities and insure the integration of the country with the least losses and minimum risks for national economy.

Regulatory reforms become more popular in the world due to their considerable effectiveness. In accordance to the report of the International Finance Corporation and the World Bank, governments of 125 countries out of 183 have implemented 245 business regulation reforms in 2010-2011. About 163 countries have established a favorable regulatory environment for doing business through the implementation of regulatory reforms for the last 6 years.

The strategies and technologies of the regulatory reforms are different. They include: overregulation, improvement of certain regulations, implementation of regulatory management and reasonable regulation. Among the variety of regulatory reform strategies special attention is paid to “regulatory guillotine” (Jacobs, 2006). It is explained by the fact, that this regulatory reform doesn’t require raising additional funds and is mainly aimed at improving government regulation by enhancement the process of preparing regulatory acts. Such approach of regulatory reform helps to use more effective and efficient limited resources and to carry out fundamental analysis of benefits and costs of regulatory reform implementation.

For the last 6 years Ukrainian government has made some efforts to implement “regulatory guillotine”. In general, principles of “regulatory guillotine” are the same, but features of its implementation in various countries are different. It is possible to have various speed, scope and results, which depend on features of economic development of the country.

Since 2010 the attempts to implement reforms called “expedited revision of regulatory acts” (2010) have been made in Ukraine. However, fruitful results have not been received. Moreover, during the reform period the information and organizational support hasn’t been established. That’s why experts confirmed “Ukrainian experience of reform impresses of lost opportunities” (Litvinov, 2012, p. 84).

There are certain problems of implementation of regulatory reform:

- unreasonably short period of expedited revision of regulatory acts;
- lack of material and technical support of local self-governments;
- significant amount of documents and laws that must be reviewed during the process of "regulatory guillotine";
- shortage of qualified personnel with experience of regulatory reform implementation;
- lack of information and unbroken public communication and others.

International practice with “regulatory guillotine” approach is positive in many countries. Poland, Croatia, Hungary and other countries successfully used deregulation, which helped to eliminate lots of unnecessary business regulations. But successful result of “regulatory guillotine” will occur if the reform is well-prepared and has got political support.

So foreign experience of Poland, Romania, Croatia, Hungary and other countries, where deregulation has been implemented, is available, but it needs to be adopted to Ukrainian conditions, because the economy of each country has its own unique historic way which is characterized of particular features at all stages of its development.

It is important to note, that nowadays relations between society and government in Ukraine have a high level of distrust that adversely affects on effectiveness of government management and state regulatory reform. As a result, deregulation must establish a new paradigm of relations between the government and business entities that operate on the principles of social partnership.

Social partnership must be considered as a real mechanism of creation and functioning of civil society. The management “to serve the people”, within the established rules of society, should be provide as the basis for sustainable development of the national economy.

"Social partnership can serve as an effective tool of economic efficiency and social justice in society ... adequate deliberate governmental policy, aimed at promoting of social dialogue, should play a decisive role" (Olentsevich, 2013, p. 466). The government should realize the role of the implementation on the principles of social partnership.

To ensure the democratic principles of relationship between society and the government, to restore confidence of governmental bodies and improve the political situation it is important to recognize public responsibility.

The effectiveness of deregulation reform also depends on the human capacity of public sector employees. So it is important to provide the process of deregulation by the well-trained public sector employees, which are able to make decisions of deregulation and rapid respond to unstable environment. It is also important to implement the administrative reform, which is going in Ukraine. The decentralization reform of local self-governments should be ensured by deregulation at the regional level.

Thus, simultaneously reform of deregulation and administrative reform will promote effective interaction between public sector employees within departments and will reduce bureaucracy. Such interaction should establish the system of cooperation between state and business entities that would protect the public interest, contribute into economic growth and ensure the approximation of national regulatory principles with standards of European Union.

For the successful implementation of regulatory reform, it is necessary to provide following components:

- the political will of the leadership for regulatory reform implementation;
- availability of institution that will coordinate and implement regulatory reform;
- a certain level of political and public support of regulatory reform;

- ensuring the well-trained public sector employees;
- motivated administrative system to liberal reforms.

### **Conclusions and Future Study**

To provide economic growth with the integration of Ukraine further deregulation should be carried. Further deregulation reforms should:

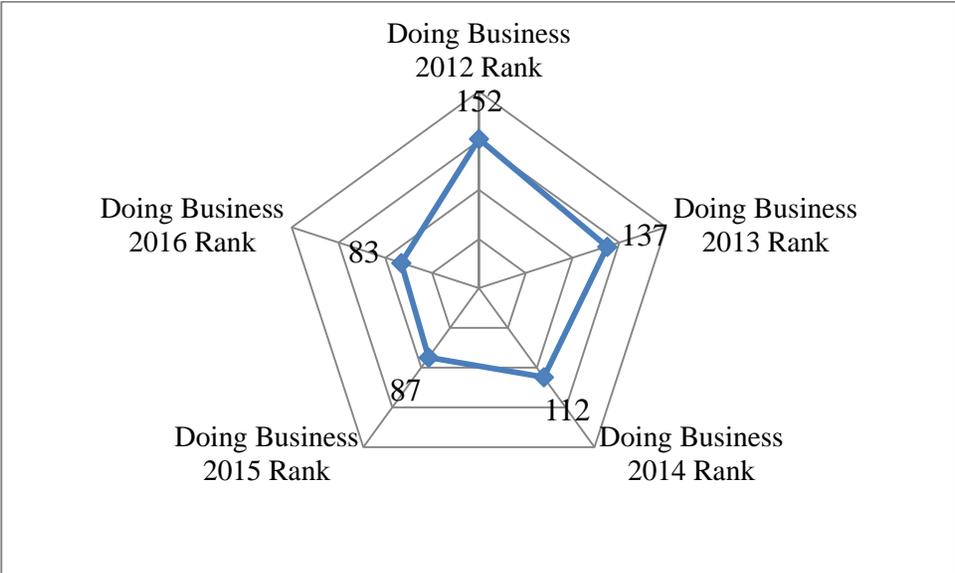
- reduce administrative and economic burdens and barriers, aimed at improving the conditions of doing business, paying taxes, trading across borders and others;
- provide qualified staff responsible for carrying out the reform;
- carry out a public campaign to gain public understanding and support;
- provide consulting with regulatory bodies of different levels;
- organize monitoring on all stages of reform deregulation and others.

The concept of deregulation of the economy, which would encourage economic growth and make it possible to solve the social and the economic problems at the level of the country through the effective management of local self-governments, should be formed in Ukraine. Moreover, deregulation of economy, as an effective instrument of public policy will ensure the integration of the national economy to the European economy.

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Appendix A  
Doing Business Rank of Ukraine (Measuring business regulation)



## Appendix B

### Key Indicators of Doing Business Rank of Ukraine

Table B1  
Key Indicators of Doing Business Rank of Ukraine

Key Indicators of Doing Business Rank	Years					Tendency of 2015-2016 (+ positive; - negative)
	2012	2013	2014	2015	2016	
Starting a Business	116	50	47	70	30	+
Registering property	168	149	97	64	61	+
Paying Taxes	183	165	164	106	107	+
Getting Electricity	170	166	172	138	137	+
Enforcing Contracts	44	42	45	98	98	-
Resolving Insolvency	158	157	162	141	141	+
Getting credit	23	23	13	17	19	-
Dealing with construction Permits	182	183	41	140	139	-
Trading Across Borders	144	145	148	109	109	+
Protecting Minority Investors	114	117	128	87	88	+

Appendix C  
Doing Business Rank, 2015

