

iMoRe #45. The Sad Autumn: the Groysman Government can't Accelerate Reforms

For the second round in a row, the index for Monitoring Reforms (iMoRe) has given a low score to Ukraine's ongoing reform efforts. Our progress assessment for September 26 - October 9 is only +0.5 out of a possible 5 points. Little progress was observed in reforming public administration, public finance, and business environment.

iMoRe experts positively evaluated the following reforms: the approval of a new cash-saving measure for the NBU, a new rule that provides the possibility to transfer government functions to the private sector, a decision to transfer 100% of Naftogaz shares to the control of the Cabinet of Ministers, the establishment of a database to track internally displaced persons, the innovation of paid telemedicine services, and a measure that will return unused money allocated toward heating back to the budget when the heat shuts off in the spring.

Chart 1. iMoRe dynamics*



* The iMoRe team considers index value of at least 2 an acceptable pace of reform

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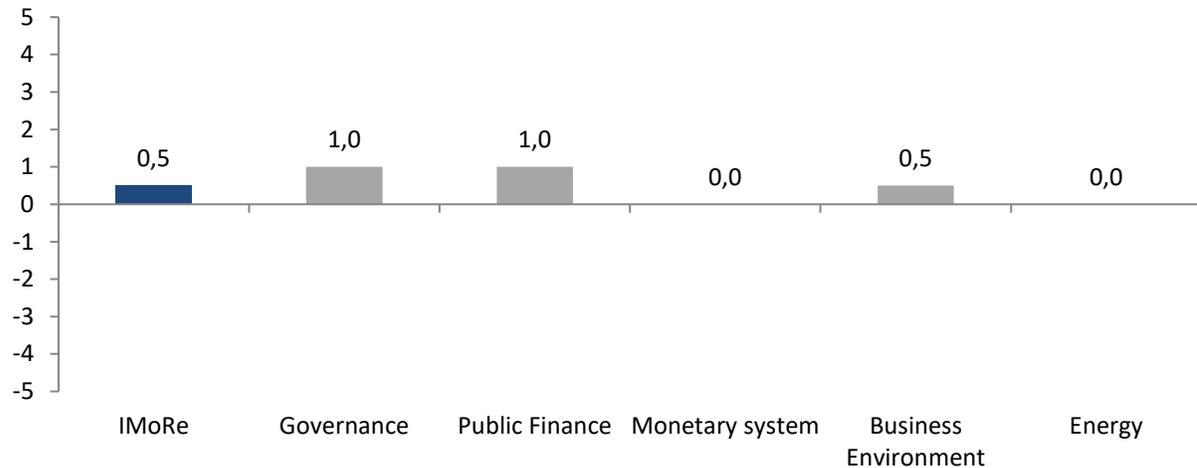
Index for Monitoring Reforms (iMoRe)



Release 45

Monitoring period: September 26 -October 9, 2016

Chart 2. iMoRe and its components in the current round**



**Titles of components were shortened for convenience, while their content remained the same

Expert assessments of these events were low (+1 point). The reform that elicited the strongest response in society was the decision to transfer 100% of “Naftogaz of Ukraine” shares from the management The Ministry of Economic Development and Trade (MEDT) to the Cabinet of Ministers.

Developments

MEDT transferred 100% of shares of Naftogaz to the control of the Cabinet of Ministers, +1.0 point

With decree #675 of 22/09/2016 the Government resolved to hand over the management of Naftogaz corporate rights from the Ministry of Economic Development and Trade (MEDT) to the Cabinet of Ministers. Transfer of shares to the management is the part of the reform of corporate governance of state enterprises.

It is a worthy reminder that according to the decision of the Cabinet #1002 of 12.05.2015, since December 2015 Naftogaz was subordinate to MEDT, the Ministry that deals with the reform of the management of state enterprises. But, at the beginning of September this year, a scandal emerged about Naftogaz due to the opaque way MEDT took over the management of JSC Ukrtransgaz, the branch of Naftogaz that manages the transportation and storage of natural gas. The decision contradicted the Action Plan on corporate governance reform at Naftogaz, which adoption has enabled the company to receive \$ 300 million loan from the European Bank for Reconstruction and Development (EBRD) for the purchase of gas (VoxUkraine opinion on this issue). After the intervention of international lenders, management functions PJSC "Ukrtransgaz" were returned to Naftogaz.

Reformer's comment:

“This government decision is certainly a positive one, since it creates a chance for further progress of the corporate governance reform at Naftogaz, the flagship case of corporate governance in Ukraine. The Cabinet of Ministers is

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a better candidate for performing the shareholder function than any ministry. First, it is a collegiate body, in which sudden, single-handed politicised decisions are impossible. Second, the Cabinet has a much smaller conflict of interest as the owner of Naftogaz and the policymaker.

There are two reservations, though. First, this decision does not exhaust the situation: for that purpose, the Cabinet of Ministers has established a working group that is now elaborating a number of key governance details relating to the powers of Naftogaz over Ukrtransgaz. Second, although the Cabinet is a better entity for performing the shareholder function, it is not ideal, either. In the future, Ukraine should establish a fully politically insulated, centralised ownership entity (a "National Wealth Fund") to own Naftogaz."

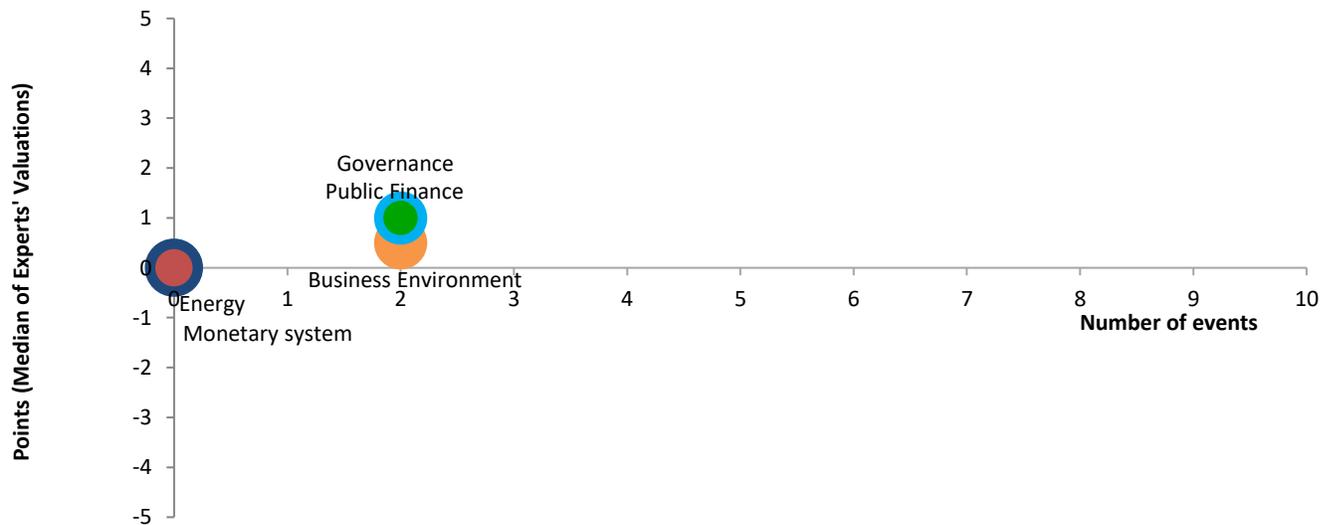
Andriy Boytsun, the Group of Strategic Advisors on the Support for Reforms in Ukraine, Centre for Economic Strategy

Expert's comment:

"The transfer of 100% share management of " Naftogaz Ukraine " from the Ministry of Economy to the Cabinet of Ministers allowed to resolve the conflict and bring the debate on the issue of company restructuring to the highest political level. Unfortunately, this is the only positive aspect, because in fact, the problem of transport function separation is not solved. Moreover, until GTS operator is not separated and his independent status is not consolidated according to the government plan, the risks of illegal political or corporate influence will be retained "

Roman Nitsovych, DiXi Group

Chart 3. Value of iMoRe components and number of events September 26 – October 9, 2016



(Please see other charts on the website http://imorevox.in.ua/?page_id=577, http://imorevox.in.ua/list_rounds.php)

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Note: Index for Monitoring Reforms (iMoRe) from VoxUkraine aims to provide a comprehensive assessment of reform efforts by Ukraine's authorities. The Index is based on expert assessments of changes in the regulatory environment in five areas:

1. *Governance*
2. *Public Finance*
3. *Monetary system*
4. *Business Environment*
5. *Energy*

For details please visit imorevox.in.ua.

[VoxUkraine](#) is a group of global economists and members of the Ukrainian policy community who are working on reforms in Ukraine. The goals of VoxUkraine are to promote research-based policy analysis and commentary on economic developments in Ukraine, to formulate a systemic approach to reforms, to provide high-quality discussion platforms, and to integrate Ukraine into the global network of economists and public policy leaders.

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