

Index for Monitoring Reforms (iMoRe)

Release 66

Monitoring period: July 31 – August 13, 2017



IMoRe# 66. No vacation: the reform index is not slowing down

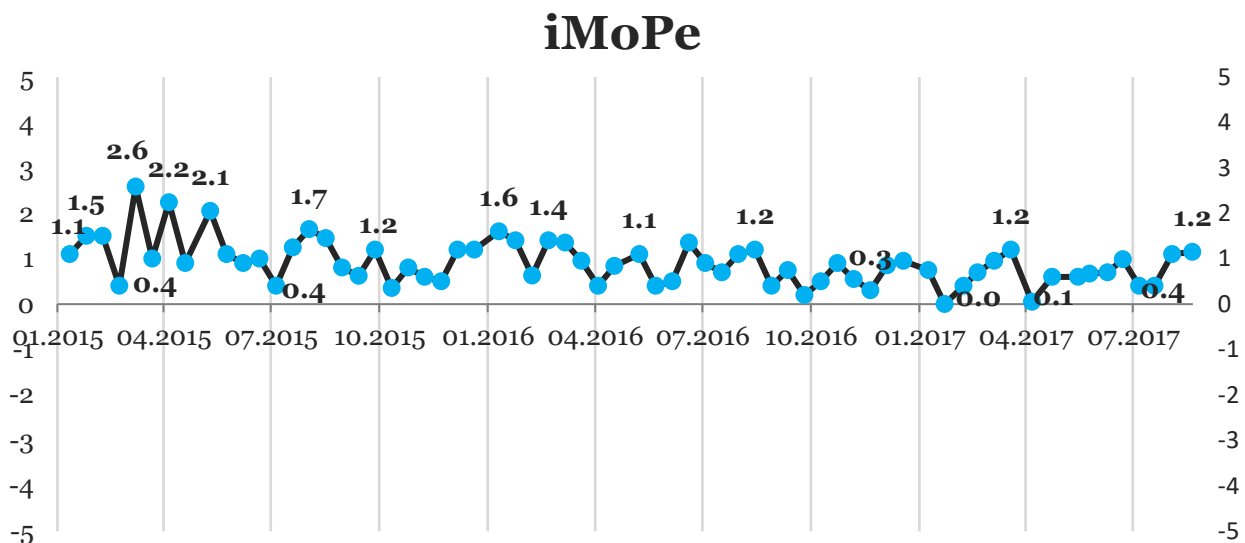
The index for monitoring of reforms (iMoRe) is +1.2 points on a scale of -5.0 to +5.0 for the period from July 31 to August 13, 2017 (+1.1 in the previous round). Certain positive developments were recorded in reforming the energy sector, public finance, the monetary system and the governance sphere. There were no reformist legislative changes affecting the business environment.

Among the major events that occurred during this round are:

- the Law on the Energy Efficiency Fund
- the decree on the selection of legal entities that carry out the execution of arrested assets, in accordance with the law on public procurement
- simplifying the terms for the purchase of eurobonds by banks
- delegation of State Migration Service powers in the field of registration of the place of residence to the registration authorities
- the distinction between medical subventions for primary and secondary medical care for cities of regional importance, districts and united territorial communities.

Anti-reform was also recorded - the law on prolonging the increased export duty on scrap.

Chart 1. iMoRe dynamics*



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

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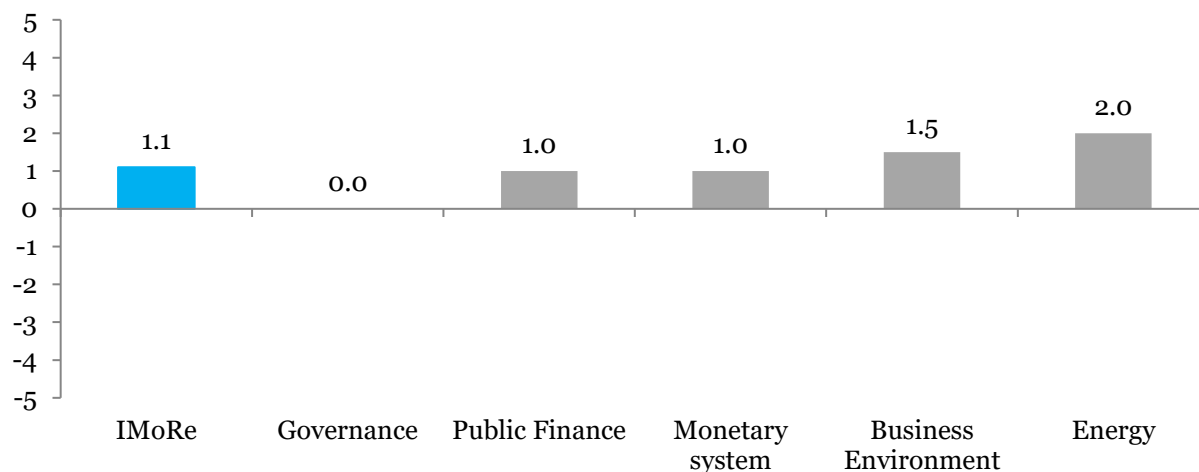
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Chart 2. iMoRe and its components in the current round



Top-events of the release

1. The Law on the Energy Efficiency Fund, +3.5 points

The vast majority of residential buildings in Ukraine use energy resources inefficiently. They require large-scale energy modernization. However, these measures require significant state support because of the lack of funds for the household investment. Such support should be provided by the Energy Efficiency Fund.

The Law 2095-VIII of June 8, 2017 defined the foundations for the creation of such a fund, its statute, main tasks and principles of activity. Experts from the EU and German Government, who are ready for further technical support to the Fund, took part in the elaboration of the law.

The fund will provide funding to condominiums or households via banks in the form of loans or grants. Owners of housing will be able to receive from 20 to 50 percent of the compensation from the total cost expenses of energy savings. The main requirement of the fund for obtaining funds for energy saving will be conducting the preliminary professional energy audit, which will determine the energy efficiency class of the building and help identify the spots of greatest heat loss.

2. Law on the prolongation of the increased export duty on scrap, -1.0 points

According to Ukraine's obligations to the WTO, assigned in the Ukrainian legislation, the export of ferrous scrap should be subject to customs duty of \$ 10 per ton.

At the same time, for the scrap metal, there was a norm for the registration of export contracts. Registration, in fact, acted as a "hidden quotation" and large-scale corruption schemes stood behind it.

The Law 1455-VIII, from September (2016), canceled the registration of contracts. In the meantime, the duty on scrap metal was set at \$ 30 per ton for a period of one year. In particular, this was due to the need to support domestic manufacturers of military engineering and metallurgy. Even then, the iMoRe experts

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noted that such a decision was a violation of Ukraine's obligations both to the EU and within the framework of the WTO.

The Law 2142-VIII of 13.07.2017 extended the period of validity of the increased duty (\$ 30) for another year.

Expert's Comment

"Extending the increased duty on scrap metal, despite the warnings of the European Commission, the authorities of Ukraine again violated their promise, given to the international partners. Thus, the short-term goal of improving the situation of metallurgists overcame the long-term goal of building a reputation of Ukraine as a partner who respects its obligations and therefore respects the rules of the game adopted in the civilized world "

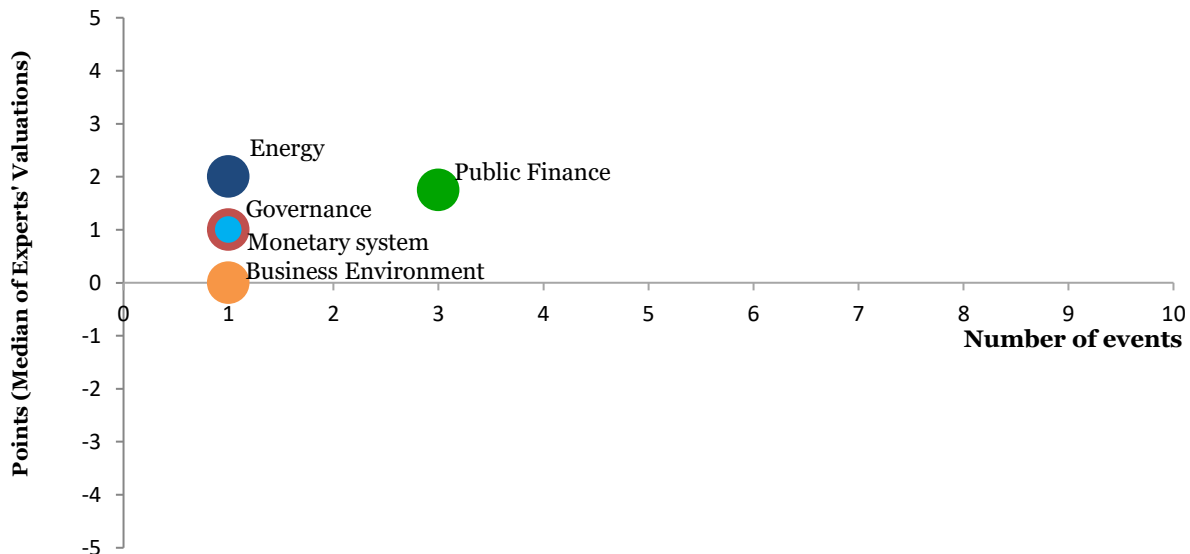
Ilona Sologub, Kyiv School of Economics, Editorial board of VoxUkraine

International partner's comment

Export duties on metal scrap, which were introduced in summer 2016 initially for 12 months only, were recently extended to September 2018. For the EU, this represents another major trade irritant alongside the wood export ban. Such protectionist measures are unsustainable, backwards-looking and benefit only a specific interest group (in this case steel producers) at the expense of other economic operators in the Ukrainian economy. Like the wood ban, the export duties are in breach of Ukraine's WTO and DCFTA commitments. Furthermore, one of the conditions for the disbursement of the 3rd tranche of the EU's macro-financial assistance is that Ukraine shall not introduce new trade restrictions. Although top Ukrainian officials have assured the EU verbally that the export duties on metal scrap will not be applied to exports to the EU, we are awaiting clear evidence that this will in fact be the case.

Nicholas Burge, Head of Trade and Economic Section, EU Delegation to Ukraine

Chart 3. Value of iMoRe components and number of events



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

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.org.

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