INSTITUTIONAL AND VALUABLE BASICS OF REFORMS IN UKRAINE: EUROPEAN CONTEXT

Abstract. The institutional and value bases of the modernization path of development of Ukraine in the European context are analyzed. The reasons for systemic reforms are indicated. In particular, this is the technological backwardness and raw orientation of the Ukrainian economy, the need to ensure sustainable economic growth and the critical state of the social sphere. It is stated that the lack of systemic successful reforms and a vicious populist social policy for decades led to Ukraine becoming one of the poorest European countries.

The Association Agreement between Ukraine and the European Union has become an incentive for implementing the necessary reforms and institutional changes in the economy and the social sphere. The implementation of the Agreement means for Ukraine the need to enforce the legal norms of European legislation and the creation of institutional conditions that can ensure economic growth.

The institutional, psychosocial and political reasons for the inhibition of reforms are analyzed. In particular, it is proved that one of the obstacles to the success of Ukrainian reforms is the phenomenon of institutional traps. Reformers of-
fer a new system of socio-economic relations, but post-totalitarian institutions, functioning in the old values co-ordinates, do not perceive change. Therefore, the implementation of liberal doctrines leads to negative consequences. An institutional trap is a situation where destructive values and behavior patterns become stable norms of life and make any modernization strategy ineffective. The necessity of creating new macro-political and institutional bases of the state policy of reforms in Ukraine is being proved. The main directions of formation of institutional and value aspects of reform policy are indicated.

Keywords: state policy of reforms, reforms in Ukraine, institutional reforms, the European context of Ukrainian reforms.

ІНСТИТУЦІОНАЛЬНІ ТА ЦІННІСНІ ЗАСАДИ РЕФОРМ В УКРАЇНІ: ЄВРОПЕЙСЬКИЙ КОНТЕКСТ

Анотація. Дослідницьке завдання полягає в тому, щоб визначити інституціональні складові реформ і ціннісні засади модернізаційного шляху розвитку України в європейському контексті. Визначається кілька причин, які спонукають до впровадження системних реформ. Це — технологічна відсталість і сировинна орієнтація української економіки, необхідність забезпечення стійкого економічного зростання та критичний стан соціальної сфери. Відсутність системних успішних реформ та порочна популястська соціальна політика протягом десятиріч призвели до того, що Україна перетворилася на одну із найбідніших європейських країн.

Угода про Асоціацію між Україною та Європейським Союзом стала стимулом для реалізації необхідних реформ та інституціональних перетворень в економіці й суспільній сфері. Імплементація Угоди означає для України необхідність введення в дію правових норм європейського законодавства і створення інституційних умов для їх упровадження у суспільну практику.

Аналізуються інституційні, психосоціальні і політичні причини гальмування реформ. Зокрема, доводиться, що однією з перешкод на шляху до успіху українських реформ є феномен інституційної пастки. Реформатори пропонують нову систему соціально-економічних відносин, однак посттоталітарні інститути, функціонуючи в старих координатах цінностей, не сприймають зміни, тому реалізація ліберальних доктрин призводить до негативних наслідків. Інституційна пастка — це ситуація, коли згубні ціннісні установки та поведінкові моделі стають стійкими нормами життя і роблять неефективною будь-яку стратегію модернізації. Доводиться необхідність створення нових макрополітичних та інституційних засад державної політики реформ в Україні.

Ключові слова: державна політика реформ, реформи в Україні, інституційні реформи, європейський контекст українських реформ.

ІНСТИТУЦІОНАЛЬНЫЕ И ЦЕННОСТНЫЕ ОСНОВЫ РЕФОРМ В УКРАИНЕ: ЄВРОПЕЙСКИЙ КОНТЕКСТ

Аннотация. Определяются институциональные и ценностные основы модернизационного пути развития Украины в европейском контексте. Ука-
вызывается причины проведения системных реформ. В частности, это технолодическая отсталость и сырьевая ориентация украинской экономики, необходимость обеспечения устойчивого экономического роста и критическое состояние социальной сферы. Констатируется, что отсутствие системных успешных реформ и порочная популистская социальная политика в течение десятилетий привели к тому, что Украина превратилась в одну из беднейших европейских стран.

Соглашение об Ассоциации между Украиной и Европейским Союзом стало стимулом для реализации необходимых реформ и институциональных преобразований в экономике и социальной сфере. Имплементация Соглашения означает для Украины необходимость введения в действие правовых норм европейского законодательства и создание институциональных условий, которые могут обеспечить экономический рост.

Анализируются институциональные, психосоциальные и политические причины торможения реформ. В частности, доказывается, что одним из препятствий на пути к успеху украинских реформ является феномен институциональной ловушки. Реформаторы предлагают новую систему социально-экономических отношений, однако посттоталитарные институты, функционируя в старых координатах ценностей, не воспринимают изменения. Поэтому реализация либеральных доктрин приводит к негативным последствиям. Институциональная ловушка — это ситуация, когда пагубные ценностные установки и поведенческие модели становятся устойчивыми нормами жизни и делают неэффективной любую стратегию модернизации. Доказывается необходимость создания новых макрополитических и институциональных основ государственной политики реформ в Украине. Указываются основные направления формирования институциональных и ценностных аспектов политики реформ.

Ключевые слова: государственная политика реформ, реформы в Украине, институциональные реформы, европейский контекст украинских реформ.

**Formulation of the problem.** The need for institutional reforms is being constantly on the agenda of Ukrainian society. At the moment, it should be noted that after the entry into force of the Association Agreement between Ukraine and the EU, there are no convincing advances in reform policy, therefore, it is necessary to give a real assessment of the specifics of the current socio-economic situation to identify the directions of institutional reforms and to indicate the values of the policy of Ukrainian reforms in the European context.

**The purpose of the article** is to analyze the institutional constituents and values of Ukrainian reforms in the European context. As current practice shows, the proclaimed course of cardinal reforms on the way to their implementation is facing obstacles. Therefore, the research task is to determine the institutional components of the re-
forms and the values of the modernization path of Ukraine’s development in the European context.

Main material presentation.

Socio-economic reasons to provide institutional reforms. At the time of the establishment of an independent state Ukraine was a developed industrial-agrarian republic. The share of industry in the structure of its economy in 1990 was 37.9% [1]. For twenty-six years, Ukraine’s real GDP has decreased by 35%. According to the World Bank, this is one of the worst indicators in the world. In the economy the process of de-industrialization has begun. Thus, in 2017 the share of industry in GDP fell to 14% [2]. At the same time, agrarian and raw material specialization of the economy intensified. Over the past five years, the share of agricultural products in the structure of Ukraine’s export earnings has increased from 26% in 2012 to 42% in 2016, with the export of raw materials being the basis of agricultural exports [3].

The period of 2014–2015 appeared to be dramatic for the economy. The volume of Ukrainian GDP during this period decreased by 15%. In 2017 the Ukrainian economy showed an increase of 2.5%, which is not enough to reach the pre-crisis level. According to the consensus forecast released by the Ministry of Economic Development, the GDP growth in 2018 will be 3%, in 2019 – 3.6%, in 2020 – 4% [4], although, in order for Ukraine to be able to overcome the consequences of the fall that took place during 2014–2015, it is necessary in the near future to ensure a higher rate of economic growth. So, according to forecasts in 2018, the expected growth of developing countries will be about 4.7%. Even showing a slight growth, the lag of the Ukrainian economy from the world will only increase. Obvious is the lag in comparison with the closest neighbors of Ukraine. According to some calculations, if we take GDP per capita by purchasing power parity in order to come up with Belarus, provided that if the Ukrainian economy grows by 5% per year while Belarus will remain at the same level, it will take 17 years. To come up with Russia in the same conditions Ukraine will need twenty five years, and to come up with Poland it will need 33 years. But this is a calculation for an “ideal situation”, i.e. if all the economies stop growing, and the Ukrainian one will add 5% a year [5].

A serious problem that prompts implementation of systemic reforms is the technological backwardness and raw material orientation of the Ukrainian economy. There is a trend of outdated production capacity growing in the economy. Thus, in recent years the level of deterioration of fixed assets has increased from 43.7% in 2000 to 85% in 2016. According to experts, “During the years of independence, the country lost not just individual enterprises and scientific complexes, but the whole industries. Technological decline “granted” to Ukraine not only raw material economy, but declining economy. Losing the old technological base, the domestic economy appeared to be tied to the world market conditions for raw materials” [6]. Despite the enormous amounts of public debt, experts estimate that since 1991, about $148 billion of capital has been withdrawn from Ukraine to offshore entities [7].
Thus, the first and main reason for the implementation of systemic institutional reforms is the need to ensure sustainable economic growth, without which Ukraine has a risk to be on the verge of the historical process.

The next reason for the implementation of radical reforms is the critical state of the social sphere. The lack of systematic successful reforms and vicious populist social policies during decades resulted that Ukraine became one of the poorest European countries. According to the United Nations, about 60% of population in our country is under the line of poverty. The country has set low social standards, unemployment remains. There is a need of cardinal economic reforms and social innovations that could protect the population of the country from the enhancing poverty.

The problem of the spread of labor migration from Ukraine is acute. Today, according to various estimates, there are from 2 to 7 million people working abroad. According to the National Bank of Ukraine, the amount of money transfers of labor migrants to the country in 2017 amounted to $9.3 billion, which is 5.2 times more than the volume of foreign direct investment in the economy ($1.8 billion). At the same time, millions of our citizens are potential migrant workers and gastarbeiters.

According to a survey conducted by the “Rating” Sociological Group, in September 2017 more than a third of Ukrainians (35%) declared their intention to leave the country for permanent residence, while 44% of respondents indicated that they would like to work outside the country. Among young people aged 18 to 35 years, 54% wanted to leave the country for permanent residence [8].

The above list of socio-economic negative processes faced by Ukrainian society is not exhaustive, but these trends are enough to conclude that the destructive processes can be overcome only if there are systematic socio-economic reforms that could stop the crisis processes and would allow our society to enter the orbit of sustainable growth.

**European Context of Reform Policy: challenges for the future.** The Association Agreement between Ukraine and the European Union has become an incentive for the implementation of the necessary reforms and institutional changes in the economy and the public sphere of the country. Implementation of the Agreement means for Ukraine the necessity of putting into effect the legal norms of European legislation, creating institutional conditions for their implementation into public practice and ensuring positive impact on the economic situation in the country. The agreement became the basis for the development of documents of the state reform policy.

The political and economic significance of the Association of Ukraine with the EU will gradually become more valuable, because the success of reforms in our country largely depends on the attractiveness of the European model for the modernization of other countries that have embarked on the path of democratic development. The defeat of the Ukrainian project of European choice may jeopardize the civilization appeal of the European vector of development in the region and in the world.
Realization of the policy of reforms has already brought some positive results. As noted by the co-chairman of the Strategic Group of Advisers for Reform Support in Ukraine Ivan Miklosh, the best results were achieved in the field of macroeconomic stabilization, stabilization of public finances, inflation reduction, exchange rate stabilization and banking sector clearing. He describes these factors as “the necessary conditions for economic growth.” I. Miklosh notes that “Ukraine has the potential to achieve a high and sustainable growth of about 6–7 % per year, but only if it supports and further improves macroeconomic conditions and provides for deeper and more complex structural and institutional reforms” [9].

In 2017 the Cabinet of Ministers of Ukraine approved an updated Action Plan to implement the EU-Ukraine Association Agreement. This Plan, in particular, determines that European integration is an integral part of the strategic planning and policy development of each ministry. The action plan is an obligation in twenty-four areas of state policy that relates to the socio-economic spheres of public life. The document identifies more than two thousand specific tasks related to the implementation of the provisions of the Agreement and more than five thousand measures for their implementation. At the same time, it must be noted that the implementation of the Agreement is in an unsatisfactory state. According to the data of the government office of coordination of European and Euro-Atlantic integration, in 2017 only 41 % of the planned European integration work was implemented. In general, the parliament performed the planned work by 32 %, the government — by 42 %, other bodies — by 50 % [10].

In the report “Ukraine and the Association Agreement: monitoring implementation from December 1, 2016 till November 1, 2017”, prepared by the public organization Ukrainian Center for European Policy, the following reasons for the unsatisfactory implementation of the Agreement are identified:

- insufficient staffing capacity of responsible institutions to ensure the process of legislative approximation and too bureaucratic procedure for the development, approval and adoption of legislative acts;
- conflicts of interest between different state bodies regarding the division of powers, which causes delays in the process of consideration of bills;
- failure to take into account the norms of the current legislation in the process of adaptation of legislation, which causes duplication of norms;
- blocking the passage of acts by various stakeholders and interest groups afraid of changes envisaging adaptation of legislation, which entails prolonged consideration of bills in the committees of the Verkhovna Rada of Ukraine in the absence of a constructive dialogue between the participants in the process and finding compromise solutions [11].

**The main documents of the state reform policy.** The Ukraine-2020 Sustainable Development Strategy is the basic document (“road map”), which formulates the leading areas of reform. The strategy defines 62 reforms and development programs. Implementation of the Strategy involves the achievement of 25 key indicators assessing progress in the implementation of reforms.
and programs. These indicators cover a wide range of indicators relating to socio-economic and humanitarian development of society [12].

The “European Ukraine” agreement was signed in December 2014 by fractions that at that time formed a parliamentary coalition which included the majority of the constitutional composition of deputies of the Verkhovna Rada of Ukraine [13]. This coalition agreement identifies ways of modernizing seventeen areas in the economic, social and humanitarian spheres of society. However, after a series of parliamentary interfacial conflicts, the implementation of the Agreement went into the background and reformist romanticism in the people’s deputies fell. At the moment, it can be stated that, despite the fact that the Agreement is in force, it is unlikely that some political force will assume the responsibility to report to the society on the course of its implementation.

In 2015 the Parliament approved the Plan of Legislative Support of Reforms in Ukraine [14]. It identifies seven areas of legislative work in various spheres of society. In total, it was planned to approve 488 bills, with 46 of them being prioritized. According to its concept, this Plan combines the reforms outlined in the Strategy 2020, the Coalition Agreement, the Association Agreement with the EU and the Government Action Program. However, after the destruction of the parliamentary coalition deputies lost interest in the implementation of the Plan.

In 2017 the Medium-term Plan of Government Priorities until 2020, prepared for the implementation of the “Strategy 2020”, the Association Agreement with the EU and the Legislative Amendments Plan [15] was approved. It defined the methodological principles for implementing the reform policy. In particular, the document states that the Plan should become the basis for medium-term budget planning, the preparation of annual government action plans, strategic plans of ministries and other central executive bodies. This will improve the system of strategic planning, monitoring and evaluation in achieving the objectives of the implementation of the planned policies. The Plan contains several innovations, including the creation of a National Planning System. Among the innovations of the Plan attention should be paid to the creation of conditions for providing the necessary expert support to the implementation of reforms by the Government. With this purpose the Office of Reforms of the Cabinet of Ministers of Ukraine was created, which is a permanent advisory body of the Cabinet of Ministers of Ukraine. It turns out that monitoring implementation of the reforms introduced in the Plan will allow the Government and the public to control the overall impact on society.

In 2017 the Government focused on the implementation of several reforms identified as a priority. This is public privatization, in particular, the sale of inefficient state property, pension and land reform, as well as education and health reform. However, it must be admitted that the implementation of approved reform programs does not deliver the expected results. There are positive achievements, but their scale cannot satisfy Ukrainian society. First of all, it concerns the socio-economic sphere, where positive changes are not
enough critically. According to a sociological poll conducted by the Razumkov Center in October 2017, none of the reforms carried out during the year found support from more than 25% of the population. As it turned out, in the best way the citizens of Ukraine are referring to the reform of education, but 26% of respondents supported it, 41.8% opposed it. 21.2% of citizens respond positively to medical reform, negatively — 56.9%. Pension reform was supported by 19.9% of respondents, while 56.9% opposed. 14.6% of citizens respond positively to land reform, negatively — 52.3%. Judicial reform was supported by 12.6% of respondents, 49.1% were against it. 12.4% of citizens favored the planned privatization of state enterprises, 49.9% estimated it negatively. [16].

The data obtained should become the subject of the attention of the reform policy creators, since, in fact, half of Ukrainian citizens are skeptical of the reforms that were prioritized by the government in 2017. Obviously, a significant correction of the reform policy is needed in order for specific social groups to be able to benefit from their implementation.

Existing positive results in reforms implementation are clearly not enough. The general population for this moment does not feel improvement of its position. Current economic growth does not compensate for the huge losses that the Ukrainian economy has suffered. Moreover, the problems of reform are often used for populist purposes. The reality is that in the public consciousness the tiredness of the inconsistent policy of reform becomes stronger. As V. Gorbulin rightly notes, “After 2014 there were a lot of hopes that reforms would do the things that were failed to be done during the decades of Ukrainian independence, i.e. creation of a European model of state and economy, eradication of vicious phenomena and consolidation of the society. I would risk taking a provocative conclusion that the consolidation of society based on the theme of reform has failed. More precisely, it will be said that the de-consolidating role is carried out not by reforms themselves (the importance of which is unconditionally acknowledged), but by events that accompany them. At the same time, we cannot say that reforms are not being carried out. But although their number is high, quality suffers greatly” [17].

Conclusions. The administrative-oligarchic model formed in Ukraine is not capable to ensure sustainable economic growth and social well-being, and therefore successful reformation of the socio-economic system of Ukraine should be considered in the context of the need for systemic institutional changes aimed at destroying the existing model of society.

Summarizing the complexities that face the implementation of reforms, one can identify several reasons why innovations are slow. In particular, this is a factor of time. If during 2014–2017 the necessary legislation was adopted creating the legal basis for innovations, the first practical results should be evaluated in the near future. There is a negative impact on the effectiveness of the reform due to the war in the East of Ukraine. According to some estimates, about $5–7 million is spent per month on military needs. Finally, the negative impact of populism on the reform
policy is felt acutely, since permanent party conflicts make it impossible to consolidate political forces for reforms implementation.

It should be noted that one of the obstacles to the success of Ukrainian reforms is the phenomenon of an institutional trap. Reformers offer a new system of socio-economic relations, however, post-totalitarian institutions functioning in old co-ordinates of values do not accept changes, or the implementation of liberal doctrines leads to opposite consequences. Institutional trap is a situation where harmful value systems and behavioral models become sustainable standards of life and make any modernization strategy ineffective.

Ukrainian politicians and their “European partners” must abandon superficial ideas about reforms. In particular, the effectiveness of reforms should be understood not only to improve macroeconomic indicators, but also to strengthen the creative potential of society and cultural competences of the individual. The agenda includes the development of a meaningful state strategy of reforms aimed at re-industrialization of the Ukrainian economy and the development of cultural competence of citizens.

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