

# **RECOMMENDATIONS OF THE FOUN ECONOMY & ENERGY TASK FORCE FOR 2020 (September 2019)**

The Economic Security Task Force is focused on four areas that have major implications for Ukraine's economy: the general economic situation, the energy sector, humanitarian issues and the defense sector. The respective area group chairs are Anders Aslund, Edward Chow, Dawn Calabria and David Rigsby. The overall task force chairman is Ambassador Roman Popadiuk.

While the general economic situation appears to have improved as seen by the continued cooperation with the International Monetary Fund and the lowered inflation rate, Ukraine continues to struggle with issues of transparency and corruption which hamper business development. Added to these economic challenges is the most recent Russian aggression and activities in the Sea of Azov that have interfered with Ukraine's shipping and negatively impacted the economy. On the energy front, while gas prices have been moved toward market prices there is still a long way to go, particularly as regards attracting foreign investment and developing domestic sources. The task force is making a number of specific recommendations to move Ukraine forward on these fronts. The humanitarian issue, caused by Russian aggression, is particularly troubling. The international community has fallen short in providing the wide range of support Ukraine needs. Currently, about 3.4 million Ukrainians need some form of humanitarian assistance and of these about 1.5 million are internally displaced persons who need particular attention. We are recommending increased funding for all areas of humanitarian assistance and particular assistance in dealing with the dangers of landmines. Ukraine is considered one of the most heavily landmine-contaminated countries in the world. The defense sector needs greater transparency and a better procurement process as well as an in-depth analysis to determine the actual needs of Ukraine's front-line forces. Our recommendations are aimed at creating a more efficient defense structure that will be able to meet the military's battlefield requirements and help develop the private defense sector. The election of President Volodymyr Zelenskyy, a newcomer to politics, presents an opportunity for reform. By electing him with 73% of the vote and by giving his party a majority in Parliament, the Ukrainian electorate clearly rejected the old ruling class and presented Zelenskyy with a mandate to reform the economy and end corruption. It remains to be seen whether or not the political environment can be shaped to move forward on these issues.

## **ECONOMIC**

The Ukrainian economy has stabilized, and this stabilization needs to be secured while the government should carry out further structural reforms to promote higher economic growth.

- Support the conclusion between the International Monetary Fund and Ukraine of a new 3 to 4 - year Extended Fund Facility program with \$6-8 billion of financing to maintain Ukraine's macroeconomic stability
- Promote generous international financing for Ukraine's economic development through the World Bank, the European Bank for Reconstruction and Development, the ExIm Bank and OPIC
- Support with the assistance of USAID structural reforms to open up the Ukrainian market for both domestic and international competition
- Encourage early private sales of agricultural land to promote investment
- Encourage reforms of the General Prosecutor's Office and the Security Service of Ukraine to ascertain securer property rights and investment
- Promote privatization of the many remaining state enterprises and continue the improvement of corporate governance of state-owned enterprises

## **ENERGY**

- Support public debate on market reform, including the proper roles of the state, state-owned enterprises, and private business, for a sector that has been a major source of vulnerability for Ukraine ever since regaining independence but also holds tremendous potential for releasing economic value through efficiency improvement and increased domestic production • Assist technically resulting policy and action plans that provide transparent and stable regulatory environment for a competitive energy market and capital formation to modernize the sector
- Leverage public resources to attract private investment, including privatization of underperforming state assets, particularly in promising areas such as domestic gas production and renewable energy
- Develop a comprehensive investment plan in combined heat and power to attract private capital
- Promote engagement by U.S. financial institutions such as OPIC, EXIM, TDA, and the newly formed U.S. International Development Finance Corporation to encourage U.S. private investment in the Ukrainian energy sector
- Work with the EU in its efforts to regulate the Nord Stream II pipeline and the onward flow of Turk Stream second line and to help secure Ukraine's gas supply and transit
- Reduce the country's oil import dependency by helping to revive the collapsed domestic refining industry and stop the import of contraband petroleum products

## **HUMANITARIAN**

- Greater access to areas with greatest needs in the conflict zone
- Increased attention and assistance to neutralize mines and other explosives in eastern Ukraine

- More U.S. assistance, including in kind and personnel to administer to immediate needs
- Humanitarian agencies need donors early support of essential programs
- A UN-led pledging conference to increase donor support for health, nutrition, education and shelter

## **PRIVATE SECTOR DEFENSE ENVIRONMENT AND DEVELOPMENT**

- Private defense companies provide about 60% of Ukraine's in-country-sourced military requirements
- Private military-industrial complex of Ukraine is comprised of more than 100 companies of wide variety of specialization
- Consider expanding the use of the United States Ukrainian security assistance funds to support and expand the contribution of Ukraine's private defense companies to Ukraine's defense and its economy
- Needs improved Western investment and partnering opportunities
- Ukroboronprom (UOP) provides the balance of in-country-sourced military requirements
- Regulatory environment is complex, hide-bound, delay inducing, and export-revenue focused
- Needs better system to capture, analyze and prioritize data collected from combat and exercise operations
- Needs improved communications between military, private industry and UOP to deliver most essential capabilities to fighting forces fastest
- Needs to focus U.S. assistance programs on meeting current requirements
- Needs to focus on building its own capabilities to provide needed requirements