

# ICPS newsletter<sup>®</sup>

## Ukraine needs a new educational policy

***When it comes to higher education, the state's main purpose is to meet the society's needs for skilled workers. Despite the large number of educational institutions in Ukraine, the education and training of suitable personnel remain difficult. Post-secondary educational institutions are not keeping up with the needs of the domestic labor market. They educate and train a large number of graduates who may have been needed several years ago but now no longer are. Recently, Labor and Social Policy Minister Mykhailo Papiyev stated that if the state did not pay proper attention to wages and social policy, the country would soon face a shortage of skilled labor. ICPS Director Volodymyr Nikitin says the main problem with higher education is poor educational policy and inadequate mechanisms for implementing it***

In January 2007, Development Ukraine Fund, a charity belonging to System Capital Management, a company, published materials from a roundtable entitled "The Quality of Professional Development on the Ukrainian Labor Market." Participants in the 29 November 2006 roundtable included more than 70 professionals in education and professional development, and representatives of employer associations, the community, and top think-tanks. ICPS Director Volodymyr Nikitin presented the Centre's analysis of the problems with higher education in Ukraine.

### A good system responds rapidly to market shifts

Ukraine is currently in the middle of transition from the closed soviet educational system to an open, competitive system. Nowadays, the key criterion of success for a post-secondary institution is its effectiveness on the educational services market. Education today has to react to a rapidly changing labor market. A degree in higher education is a necessary, but not sufficient, condition to build a career. For professionals to be successful, they must constantly reaffirm their competencies and acquire new knowledge and new skills. This is what we call professional development.

The professional worker needs to be ready for ongoing transformations on the job market. How do people handle this in the West? The academic core of a post-secondary institution is regularly enhanced with new departments or schools that develop new competencies for new specializations. These entities base their

work not on simply transferring knowledge, but on organizing workshops, seminars, projects, and imitation games.

Unfortunately, state standards for higher education in their current form prevent the emergence of new ways of preparing professionals for the market. This Ukrainian reality is based on standards of an industrial era that focused attention on end products rather than on the processes that result in those products, i.e., a post-industrial era.

The Ukrainian school system is designed to fulfill social objectives, whereas western systems focus more on development objectives and global challenges. First of all, this means the contents of the humanities, that area of education that should ensure a country's security, however surprising this may sound. Ukraine simply does not have enough designers, planners and analysts.

### Independent universities: Taking care of your graduates

The Bologna process that Ukraine is also part of has certainly had a positive impact on document flow and on the mobility of graduates. But Ukraine's accession to the Bologna process in the form of credits and modular education will not ensure the integrity of educational processes here or make educational institutions independent players on the educational services market.

Only an autonomous institution can flexibly respond to changes in the market. Ukrainian institutions are not ready to be independent and—more importantly—to take some responsibility for their graduates. Which Ukrainian institution has

### By the way...

- Over 9–10 February 2007, ICPS Director of Political Analysis and Security Programs Viktor Chumak participated in a conference called "The power of informal networks: countering the new terrorism" in London. This conference was organized by the UK Defense Academy and the Royal College in London. The main goal of this event was to look at ways to counter terrorism. Participants reached the conclusion that chains of informal associations are an alternative way to counter terrorism.

relevant strategies, financial management, marketing services, recruiting—the things that are actually needed to make it a really autonomous entity?

Mass higher education on the scale that is currently provided in Ukraine is not much of a blessing for society. On the contrary, it lowers the overall quality of education. In addition, there are gaps in the education and professional development of mid-level specialists in Ukraine. The objective of the state should be to fill in these gaps.

What kind of educational policy, then, does this country need?

Government officials, analysts and academics need to search for the answer to this question together. There is no doubt that the ideology and practical aspects of a multi-stage finishing system of education should not exclude the principle of "life-long education." Along with the regular educational system, the infrastructure for such learning is needed: recruiting, informing, tutoring, and financing. ■

*ICPS regularly works with the Government and educators to develop the capacity to formulate and implement education and science policy, and to establish an organizational system for studies that is coordinated as to goals and forms, based on evident potential.*

*For more detail on ICPS educational work, visit us online at [http://www.icps.com.ua/eng/activity/education\\_policy.htm](http://www.icps.com.ua/eng/activity/education_policy.htm). For additional information, contact Volodymyr Nikitin by telephone at (380-44) 484-4400 or via e-mail at [vnikitin@icps.kiev.ua](mailto:vnikitin@icps.kiev.ua).*

# New Bill on SEZs and TPDs limits negative aspects without eliminating them

*The new Bill on special economic zones (SEZs) and territories of priority development (TPDs) corrects a slew of problems with the previous regime governing these special investment zones, says ICPS economist Hanna Cherednychenko*

First, stimulating commercial activity on these special territories is not likely to seriously distort the overall competitive environment in Ukraine. Now, SEZs will be able to function only as a duty-free zone. They will be considered outside the customs territory of Ukraine and, as thus, will be subject to mandatory fencing and operating under a full customs control regime. Moreover, all goods manufactured in these zones will be treated as imports if they enter the customs territory of Ukraine. In this way, goods manufactured on privileged terms in SEZs will not squeeze out manufacturing on the customs territory of Ukraine.

At the same time, there will be no privileges for raw materials and supplies imported to SEZs and TPDs, which should eliminate the previously widespread practice of importing goods at duty-free for further domestic sale.

Second, with TPDs, where tax breaks are intended to attract investors to otherwise unappealing economic environments, a strict list of qualification criteria has been established. In this way, the possibility of giving unwarranted tax breaks to economically healthy territories will be eliminated.

Third, the approach to spurring commercial activity in SEZs and TPDs are better than the regime that was in place until 2005. Tax breaks now generally kick in when the results

of commercial activities have been assessed (profit tax), that is, when it can be confirmed that the investment was made and the production cycle is complete. Opportunities for significant tax breaks without actually manufacturing anything have pretty well been eliminated, among others, because there are no longer any tax breaks on imported raw materials and supplies.

Fourth, the proposed measures to foster development in economically backward areas are more effective than those that were used in the previous program. The application for tax breaks on TPDs is now possible only in specific settled areas that have been declared "underdeveloped" on the basis of competitive criteria. This increases the likelihood that economically lagging areas will develop more rapidly, compared to the situation earlier, where huge but unevenly developed territories were given the right to have tax breaks and their most developed areas attracted all the investment. What is more, the Bill calls for a mechanism for TPDs to be instituted to promote infrastructure development, the lack of which is often the main reason why regions lag economically: the cost of establishing or improving public capital assets within an investment project will partly count as a deduction against profit tax liabilities.

Still, the ICPS expert says that the Bill has its negative moments. The main one of these is that a narrow range of instruments

has been established to stimulate commercial activities on SEZs and TPDs, that is, tax breaks, while other important measures to improve business conditions are not anticipated. In particular, the regulatory barriers to launching commercial business, especially export operations, have not been lowered, which means that SEZs and TPDs are unlikely to make a serious difference to the country's economic development.

The Bill also fails to completely regulate the issue of instituting tax breaks for those investors who registered projects under the previous SEZ/TPD regime. The Bill gives such investors the right to continue working under the rules of the SEZ/TPD regimes in place at the time of registration. According to the ICPS analyst, since the previous set of privileges—including duty-free import of goods—effectively remains in place, those particular SEZs and TPDs need to be transformed into proper customs zones to prevent a repeat of the distortions to the competitive environment and huge losses to the Budget.

Finally, although the Bill establishes the use of a regular import regime on the entry of goods from these zones onto the customs territory of Ukraine, it does not provide a mechanism for controlling the execution of this norm, especially the requirement to equip the boundaries of the relevant TPDs according to the standard rules of customs control. ■

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## ***The work of Policy Analysis Groups in the Government will be expanded***

After ICPS successfully implemented the "The Activity of Policy Analysis Groups (PAGs) in Government Bodies in Ukraine" project, the Cabinet of Ministers instructed the Main Department of the Civil Service to support the operation of PAGs in the Cabinet of Ministers Secretariat, ministries and departments. The Cabinet also requested that methods and organizational support be provided, as well as funding under the Budget-funded "Applied Studies and Professional Development in the Civil Service and Its Adjustment to EU Standards" program in 2007. It is expected that, unlike the previous year, when 10 groups worked in government agencies, 14–15 PAGs will be set up in 2007.

"The Activity of PAGs in Government Bodies in Ukraine" project that ICPS implemented with funding from the State Budget between December 2005 and November 2006 was commissioned by the Center for Facilitating the Institutional Development of the Civil Service under the Main Department of the Civil Service of Ukraine. This project was a logical extension of an initiative by ICPS, the International Renaissance Foundation and the Open Society Institute, which was implemented over 2000–2001 as part of a cooperation agreement with the Cabinet of Ministers. *For more information about this project, visit us online at <http://www.icps.com.ua/eng/project.html?pid=102>.*

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