

Partners in Public Administration

Improving Governance in Ukraine

by Ken Rasmussen

The Canada-Ukraine Partners Program/Public Administration (PIPA) is a 2-year, \$1.2 mln. program, sponsored by CIDA and administered by the Institute of Public Administration of Canada (IPAC).

One of the urgent issues in most Western democracies involves improving the performance of the public sector in terms of the quality of services delivered and cost effectiveness. These reforms have become necessary due to the rapid changes in information technology, fiscal pressures and a shifting balance between market and state, and between the state and citizens.

These same changes are being felt in Ukraine, only in an unimaginably heightened fashion. As the pace of reform in Ukraine quickens and the role of markets expands, the struggle to get the governance issues right becomes even more difficult. Yet good governance remains essential if Ukraine is to emerge as one of the successful economies of Eastern Europe.

The Partners in Public Administration Program (PIPA) is aimed directly at improving the structures and practices of governance. Twelve sub-projects have been created within the program, each aimed at building the capacity of various Ukrainian government partner institutions at the national and oblast levels. Subject areas include oil and gas royalties, environmental laboratory certification, taxation policy, legal drafting, economic development, business management training, and tourism development. All of the projects have direct or indirect implications for the economic development of Ukraine.

IPAC's approach has been to broker linkages between the responsible Ukrainian government organizations. The projects are designed to expose Ukrainian partners to Canadian and western approaches and to position them to structure larger scale interventions required to create policies and related legislation.

Royalty System for Oil and Gas

Most PIPA projects have some potential to bring about commercial returns in Canada by providing conditions that will allow Canadian businesses to succeed in Ukraine. A good example is the partnership created between Saskatchewan Energy and Mines, the Ukrainian Ministry of Environmental Protection and Nuclear Safety and the State Committee on Oil and Gas Production.

The area of royalties and taxation is a classic example of an area in which a variety of complex problems overlap in Ukraine. There is a desire to attract foreign capital to invest in oil and gas production. At present, Ukraine produces 10-15% of its own oil; the rest it imports almost exclusively from Russia. While Ukraine has significant oil and gas reserves, they are somewhat depleted. A proper system of royalty incentives would encourage foreign firms with improved drilling and recovery technologies to enter the market and extract remaining deposits. There is also a simple flat taxation which does not take into account various factors of production associated with different fields and different wells. There is also a slow process of

privatization in the sector and little new exploration. Coupled with some nationalist sentiments in certain parts of the bureaucracy that express concern over foreign business involvement in such a crucial sector of the economy, foreign investment in oil and gas exploration is slow in coming.

To overcome some of these problems, the partners have engaged in a number of cooperative efforts including bringing senior officials from Ukraine to Saskatchewan to observe first hand its system of royalty collection and taxation. Saskatchewan officials have also gone to Ukraine to present workshops and seminars on royalty systems and to provide technical support and guidance. Through discussions, debates and dialogues, workable solutions were found for the Ukrainian context.

While Ukraine does not have the technical capacity or database to monitor each and every oil and gas well as does Saskatchewan, they are now aware of how such a system can work both to increase production and increase returns to the state. With this first-hand knowledge in mind, they have been able to begin planning the overhaul of their royalty system. In turn, progress towards a reformed royalty structure has encouraged Canadian businesses to consider investing in Ukrainian oil and gas exploration. Companies such as Lateral Vector Resources and Nautilus Resource Corp., both from Saskatchewan, have taken the first steps to realizing the kinds of returns and potential returns which will be of benefit to both Ukraine and Canada. ➔



Participants in "Ethics and Values" seminar in Ivano-Frankivsk. 2nd left: Art Daniels, IPAC President; standing in back: Ken Rasmussen.



Project Laboratory Accreditation. Officials from the Manitoba Ministry of Environmental Protection & Nuclear Safety and Enviro-Test Laboratories.