PUBLIC PERCEPTION OF ECONOMIC AND SOCIAL REFORMS IN UKRAINE

POLICY & PROGRAM LEARNING
Executive Summary

CIPE created the Knowledge Hubs for Democratic and Market Transition project with the financial support of the National Endowment for Democracy (NED) to build a broader consensus around reform priorities in Ukraine, Tunisia, and Bolivia — three countries undergoing democratic transitions that have experienced serious political and economic challenges over the last decade. To help coordinate business and civil society efforts on reform and improve understanding among stakeholders, the initiative has supported surveys in each country on popular perceptions of the economy and economic reform.

In Ukraine, CIPE is engaging the business community and civil society to inject fresh thinking into a stagnant and divisive public debate over economic reform. CIPE adapted the questionnaire it used in Bolivia and Tunisia to the Ukrainian context and hired SUP, a leading Ukrainian research firm, to conduct a survey. As in Bolivia and Tunisia, the questionnaire covered themes such as economic growth, the government’s role in the economy, inequality, COVID-19’s impact on society, and the private sector’s contribution to the recovery.

The results of the survey, conducted in the fall of 2021, bring to light the complex and challenging dynamics of reform in Ukraine. Most of the respondents in the survey are pessimistic about the overall direction of the economy, blaming the political process, slow pace of economic reform, and the armed conflict with Russia.

Almost 60% of Ukrainians believe that government’s role in the economy should be strengthened and private enterprise more regulated. The respondents also have high trust in both small businesses (94%) and big business (73%). This parallels the belief of 66% respondents that the private sector is important for an economic recovery.

UKRAINE CONTEXT

Ukraine is a lower middle-income economy that grew by 7% on average from 2000 to 2008 before the Great Recession. Much of the growth was driven by strong exports of metals, chemicals and food during this period. In the immediate aftermath of the 2008 financial crisis, however, the economy contracted by 15%. Though growth recovered in 2010, the economy struggled to regain the momentum it had created in the previous decade. After the Maidan revolution in 2014, which resulted in direct conflict with Russia over Crimea, the economy experienced another significant drop. A partial recovery followed, but the ongoing security threats continued to hurt the economy and investment. Russia’s
invasion in February 2022 and the subsequent destruction of the country’s infrastructure and assets has ushered Ukraine into an uncertain era.

Figure 1. Over the last 10 years, Ukraine’s economic has lagged behind developing markets

![Annual GDP Growth (real)](image)

Source: International Monetary Fund (IMF)

Lesson #1: Most Ukrainians are not optimistic about the economy in the short run

This survey indicates that Ukrainians have a pessimistic outlook about the country’s economy in the short run. A majority (70%) of respondents believe that the economy will either deteriorate or remain unchanged, while 27% think that the outlook is brighter with improvement in the horizon over the next 12 months. When it comes to personal living standards, the future doesn’t look as bleak. 42% expect their personal living standards to improve, while 18% think their personal economic circumstances will become worse. Respondents who believe that no changes will occur in the overall economy in the next 12 months (33%) are almost parallel to those who expect their personal living standards to remain the
same (36%). This information highlights another overwhelming agreement among respondents (84%) that Ukrainian economy is in a state of crisis.

Figure 2. Most Ukrainians are pessimistic about the current state of the economy

<table>
<thead>
<tr>
<th>What changes do you expect about the economy in the next 12 months?</th>
<th>What about personal living standards?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve</td>
<td>Deteriorate</td>
</tr>
</tbody>
</table>

Source: Union of Ukrainian Entrepreneurs (SUP)

Lesson #2: Most Ukrainians want a stronger government role in the economy

Though not as strong as in countries like Tunisia where an overwhelming 90% of respondents believe in big government, 59% of the Ukrainians think that their government must play a more active role in the economy and strengthen private enterprise. This support for government becoming a more active player in the economy stands in contrast with the negative opinions most respondents express about an unprofessional government, corruption, oligarchs, and mismanagement of economic reform.

In an apparent contradiction, 62% of respondents say they either fully or partially distrust their government. A similar phenomenon can be noted in Bolivia and Tunisia, where majority of respondents distrust their government, while also wanting a stronger role for it in the economy.
Lesson #3: Ukrainians still believe that private enterprise is key to economic recovery

Though most Ukrainians want a bigger government role in the economy, when it comes to which institutions play a crucial role in economic recovery and growth, the respondents think that an array of private sector players are the most important in this process. According to respondents, small business (85%), entrepreneurs (83%), and foreign business (68%) are the top three institutions that can solve the country’s economic problems, while less than half (47%) think so of the government.

Consistent with this faith in private sector-led recovery, 77% of Ukrainians think that government should listen to the ideas offered by business community before making any decisions on economic policy. Big business also received the approval of 73% of respondents, while 93% expressed positive opinions about small businesses.
Lesson #4: Ukrainians trust entrepreneurs and military, distrust other government institutions

Ukrainians have high trust in small business (85%), entrepreneurs (80%) and the military (78%) while casting political parties, courts, and governments as the most distrustful institutions. These findings are the least surprising as research in other transition countries shows that typically people see volatility and corruption associated with political parties, the justice system and government. On the other hand, institutions such as the military or small business are the least associated with institutional mismanagement and corruption. The widespread distrust in government institutions mirrors the confidence and faith Ukrainians have in private sector institutions where even big business is more trusted than the police. In addition, this low trust in government also reflects the list of top concerns that occupy the Ukrainians as 95% think that corruption is the most serious problem holding back progress.
Lesson #5: Ukrainians are divided on equality vs economic growth dilemma

While Ukrainians want faster economic growth, they also want that growth to be inclusive. Unequal growth is a serious concern for half of the respondents in the survey, while the other half believe that economic growth is more important even if that creates unequal gains. Concern about inequality reflects the growing trend in Ukraine where, after falling for more than a decade, inequality has been rising steadily since the Maidan revolution in 2014. The widening disparities are especially prevalent in the urban-rural divide, which is generally explained by uneven educational and economic opportunities. Urban residents tend to have access to better jobs, education, and health, available in cities, while those living in rural regions lack the same opportunities.¹

¹https://openknowledge.worldbank.org/bitstream/handle/10986/30393/97814644813535.pdf?sequence=10&isAllowed=y
Lesson #6: Ukrainians believe private sector to be key to inclusive growth

Though unequal economic outcomes remain a concern for half of Ukrainians, an overwhelming majority believe that private business should offer opportunities that are inclusive and fair. Besides recognizing that the main role for a private company is to produce high quality goods and services, a majority of respondents also ranked ‘care for environment’, ‘exemplary employer’, and ‘reduce discrimination’ as among the most important considerations for the duties and role of private companies.

The notion that private sector firms must make environmental, social, and governance factors central to their investment is not specific to Ukraine. The opinions expressed on the subject here mirror a growing global consensus that societal and environmental factors should be main pillars of any new enterprise whether public or private.
Figure 6. Most Ukrainians want private firms to deliver fair and inclusive growth

Source: Ibid

Lesson #7 Belief and respect for entrepreneurship and business creativity trumps political divisions in Ukraine

While trust in small business was high at 85%, trust in big business only had a small majority, with respondents significantly more divided. 95% of respondents expressed concern that corruption is the number one issue holding Ukraine back from strengthening markets and democracy. Given this data, it is worth examining the implications and potential connections between the two responses and the role corruption plays in informing these answers.
One potential hypothesis explaining the discrepancy between trust in big and small business is the propensity for elite capture of larger institutions. Ukrainians expressed a great deal of concern for corruption in large institutions, and oligarchs continue to control large and disproportionate stakes of the private sector. Considering these findings and the necessity for economic rebuilding in Ukraine, small business can be a source of independent leadership during the economic recovery and rebuilding.

Conclusion

Transitions necessitate economic and social changes, often with no easy solutions or policy choices. This, in turn, causes political division, apathy, and distrust among a country’s polity. Like many other countries undergoing transformative changes, Ukraine is not immune to such consequences of transition. As seen in this survey, Ukrainians have low trust in key political institutions, the justice system, the media, and political parties. High corruption, inefficient government, and an extensive oligarchical structure that undermines the rule of law and sabotages democratic processes have overshadowed Ukraine’s economic achievements over the past twenty years.

One of those key achievements during this transition has been the country’s entrepreneurial spirit, innovation, and business creativity. As politics has divided the country, entrepreneurship and a thriving small business scene have unified most people in giving the highest marks of trust to these institutions. It is a testament to the ingenuity and resilience of ordinary Ukrainians who have the deepest faith in the marketplace of ideas in the private sector. This energy and creativity are expected to be a driving force in economic recovery and rebuilding once the reconstruction phase begins after the war with Russia.