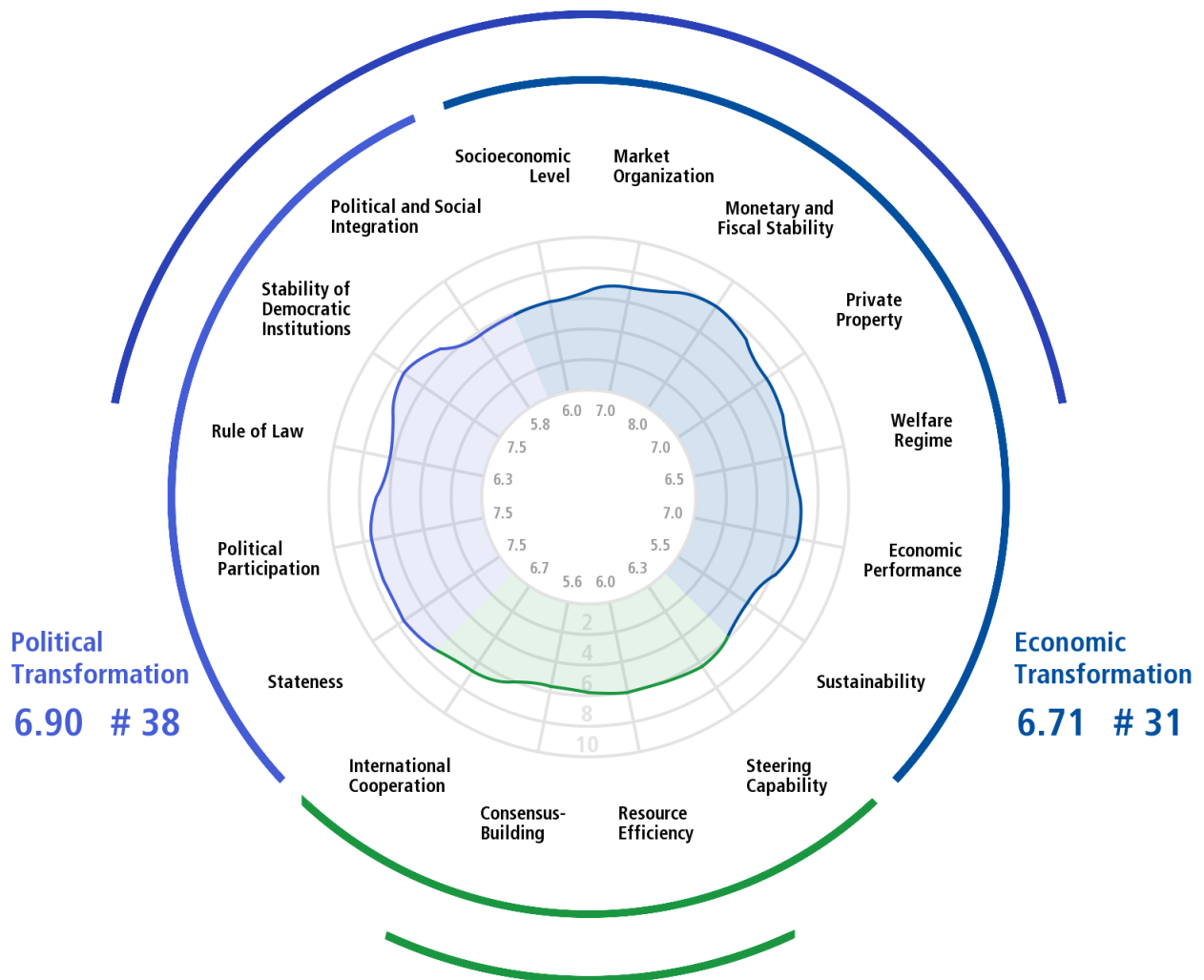


Ukraine

Status Index

6.81 # 30

on 1-10 scale out of 137



Political Transformation
6.90 # 38

Economic Transformation
6.71 # 31

Governance Index

5.52 # 44

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	44.6	HDI	0.750	GDP p.c., PPP \$	9233
Pop. growth ¹	% p.a.	-0.5	HDI rank of 189	88	Gini Index	25.0
Life expectancy	years	71.8	UN Education Index	0.797	Poverty ³	% 0.5
Urban population	%	69.4	Gender inequality ²	0.284	Aid per capita \$	26.0

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

To a large extent, the period under review represented a continuation of the previous post-Euromaidan phase. This phase has been characterized by the struggle between reformers, who want to overhaul the entire governance system, and beneficiaries of the old system and structures, who aim to preserve what can be described a “captured state.” Many reform initiatives launched between 2014 and 2016 continued to be implemented, while new reforms were launched. Yet, at the same time, the implementation of some reforms slowed down or even stalled. According to experts of the independent civil society initiative Reanimation Package of Reforms, decentralization, health care, pension and educational reforms, as well as reform of the army succeeded in 2018. The adoption of the Law on the High Anti-Corruption Court marked an important achievement. Public administration reform also merits recognition, as reform enclaves were established in the executive.

Economic policies launched after the Revolution of Dignity have started to bear fruit. After the period of economic decline, the macroeconomic situation stabilized in 2017 to 2018: real GDP growth amounted to 3.3% in 2018, compared to 2.4% in 2016 and 2.5% in 2017. By the end of 2017, GDP per capita in PPP terms reached \$8,667, marking a return to the level observed in 2014. Inflation has continued to fall. Regulatory changes, which aim to improve the business environment, were introduced. These changes included the introduction of a new law on foreign currency and new corporate regulations, the adoption of a bankruptcy code, the simplification of construction industry norms, and the abolishment of the price regulation.

Reform of the judiciary and efforts to tackle corruption progressed, but with significant setbacks, while agricultural land and electoral reforms de facto failed.

The war with Russia continued to shape Ukraine’s domestic agenda and its interactions with international partners. The conflict in Eastern Ukraine continued and leading to new casualties almost daily. The conflict escalated in November 2018 as Russia seized three Ukrainian navy ships in the Kerch Strait, which were traveling from Odessa on the Black Sea to Mariupol on the Azov

Sea. As a result of the incident, Ukraine proclaimed martial law for 30 days for the first time in its conflict with Russia. At the time of writing, the 24 Ukrainian sailors captured during the incident remain in detention in Russia. According to opinion polls, the war with Russia and related developments were perceived as the most significant political events in Ukraine in 2018. Some 64 Ukrainian political prisoners are still in jail in Russia. One of the most prominent cases is that of the Ukrainian film director Oleg Sentsov, who was sentenced by a Russian court to 20 years in prison on disputed terrorism charges in 2014. In 2018, Sentsov survived a 145-day hunger strike and was awarded the annual Sakharov Prize of the European Parliament – the first-ever Ukrainian to receive the prize. However, Sentsov remains in prison in Russia.

Other important events included the implementation of Ukraine's Association Agreement with the European Union in September 2017 (after a period of provisional implementation), the granting of visa-free travel in the European Union for Ukrainian citizens in June 2017, the decision of the U.S. Trump administration to start selling (lethal) weapons to Ukraine in December 2017 and the granting of autocephaly to the Ukrainian Orthodox Church by the patriarch in Constantinople in January 2019. These events brought Ukraine closer to the European Union and strengthened its resilience to Russian aggression.

Presidential and parliamentary elections, both scheduled for 2019, were important factors driving political developments in 2018. Various political actors, including President Poroshenko, who is seeking to win a second term, started *de facto* campaigning long before the official campaign period started. The political scene was rather fragmented with several candidates from the former Orange (anti-Yanukovich) camp, several candidates from the former pro-Yanukovich camp and several new faces. Particular notable has been the sudden emergence of Volodymyr Zelensky, a showman with no political experience. By January 2019, Zelensky was the leading presidential candidate according to public opinion polling, which indicates a strong public demand for new political leadership. There is no common presidential candidate who represents pro-Euromaidan/reform-oriented positions, but is not backed by an oligarch.

In short, Ukraine continued to struggle to achieve reform and exercise international influence. Strong civil society, reform enclaves in public authorities and international pressure coupled with financial support and economic growth remained Ukraine's key strengths. Significant resistance to reform inside the country, the rise of populist and conservative forces, and Russian aggression are Ukraine's largest obstacles to transformation.

History and Characteristics of Transformation

Since Ukraine gained independence in 1991, its transformation has been largely determined by a narrow circle of elite groups. These groups shaped the new institutional framework according to their own particular interests. Amid sluggish reforms, influential industrial-economic groups and oligarchs emerged, and a patron-client relationship between the president and these groups developed. This was reinforced by nontransparent large-scale privatization. Due to flawed procedures and favoritism, many large enterprises were sold far below market value and ended up in the hands of these groups, resulting in what can be described a “captured state.”

From 1996 until 2005, Ukraine was formally a semi-presidential system. Leonid Kuchma’s second term (1999 – 2004) was characterized by increasing authoritarian tendencies and informal power relations. Various protests against his regime galvanized opposition movements, which led to the Orange Revolution. The Orange Revolution occurred at the end of 2004, triggered by fraudulent presidential elections. The key demand of the protesters, free and fair elections, was realized. The inauguration of Viktor Yushchenko as president in January 2005 and the parliamentary approval of Yulia Tymoshenko as prime minister in February 2005 marked a significant shift in power. However, few expectations and promises (more democracy, transparency and socioeconomic change) were realized, and public disillusionment ensued. During the Orange period between the 2004 and the 2010 presidential elections, most government activity suffered from internal disunity and constant jockeying for power, facilitated by pervasive corruption, a lack of expertise, and inadequate constitutional checks and balances. The constitution was amended in December 2004, with the changes taking effect on January 1, 2006. The amendments essentially established a parliamentary presidential system, reallocating power and competencies between the president, government and parliament.

In February 2010, Viktor Yanukovich won the presidential election by a narrow margin against Yulia Tymoshenko, who became leader of the opposition. The years of the Yanukovich presidency saw the restoration of the authoritarian state. Yanukovich repealed the constitutional amendments passed in 2004 and returned Ukraine to a semi-presidential system. Human rights and freedoms of expression and assembly deteriorated. The opposition, harassed by a subservient judiciary, proved weak and unable to offer significant resist. When Yanukovich declined to sign the Association Agreement with the European Union in November 2013, mass protests unexpectedly broke out and, despite state violence that took the lives of over 100 people, forced Yanukovich to flee the country.

Until 2000, Ukraine’s economic transformation was in recession. The first 10 years of independence were marked by hyperinflation, high unemployment and falling living standards. Between 2000 and 2008, Ukraine enjoyed a period of economic growth fueled by favorable external market conditions. Real GDP grew by about 7% on average. By 2005, the private sector’s share of GDP reached about 60%. Poverty was reduced and disposable incomes increased. The financial sector crisis, which hit Ukraine in 2008, revealed all the deficiencies of incomplete

reforms, which were partly forgotten amid the economic growth of the preceding years. Although the economic situation stabilized in 2010, the country did not return to a path of stable growth. Ukraine continued to suffer from nontransparent and clientelistic politics, and structural imbalances. Yanukovich's economic policy and corruption exacerbated the situation even more, almost bringing the country to default. The economic situation only began to stabilize by the end of 2015, with real GDP returning to growth in 2016, although at a low rate.

Until 2014, when Ukraine's Association Agreement with the European Union was finally signed, Ukraine maintained a balanced foreign policy between Russia and the West. After the Orange Revolution in 2004, the Ukrainian government drew closer to NATO and the European Union, while relations with Russia deteriorated. However, Ukraine's hopes for becoming a candidate for EU membership and being admitted to the NATO Membership Action Plan did not materialize. Ukraine became a part of the European Neighborhood Policy and later the Eastern Partnership Initiative. Meanwhile, relations with Russia turned increasingly problematic. There were repeated trade conflicts, as well as conflicts over gas deliveries, gas transit and payments. Moreover, Russia attempted to block the signing of the Association Agreement between Ukraine and the European Union, and make Ukraine join its Eurasian Economic Union. Russia's military aggression and the annexation of Crimea in spring 2014 ended the balancing act. The post-Euromaidan authorities embarked on a clear pro-European course, backed by strong public support for the European Union and (to varying degrees) for NATO.

The Euromaidan protests, also known as the Revolution of Dignity, opened up an opportunity, which was missed after the Orange Revolution, 10 years previously – an opportunity to dismantle the “captured” oligarchic-driven state, and stick to the European course in terms of choice of social contract and international orientation. Yet, the initial post-Euromaidan years showed that there will be no immediate “reform wonder.” Resistance to reform remains strong and old tendencies are deeply rooted. This can only be overcome through constant joint pressure on the part of civil society, reform-minded actors among the public authorities and international partners.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state does not hold a monopoly on the use of force throughout the territory of Ukraine. The state does not control Crimea, which was annexed by Russia in March 2014, and parts of the territory of Luhansk and Donetsk regions, where the so-called and self-proclaimed Luhansk People's Republic (LNR) and Donetsk People's Republic (DNR) were established in May 2014. Despite numerous attempts to establish a ceasefire, the war between the separatist territories of Donetsk and Luhansk (which receive comprehensive support from Russia) and the Ukrainian state continues.

With regard to the territory under the control of the Ukrainian state, in early 2014, a number of volunteer battalions were established, which are now all completely subordinated to the central command of the Ministry of Defense. However, risks stem from the number of illegal weapons circulating in Ukraine (up to five million units); the more than 300,000 Ukrainian veterans of the military operations in Donbas, who represent a socially vulnerable group; and the increasingly active radical extremist groups. These factors endanger the state's monopoly on the use of force. According to Ukraine's prosecution service, the number of assaults involving the use of firearms grew, including assassinations of prominent persons.

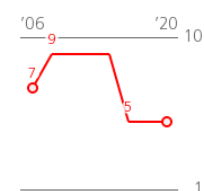
The Ukrainian nation-state is accepted by all relevant actors and groups in Ukraine, apart from Crimea and the temporarily occupied territories in Donbas. Before the Russian intervention, which started in 2014, there was no real challenge to the integrity of the Ukrainian state.

On the territory controlled by the Ukrainian state, identification with the Ukrainian state has been growing in recent years. According to polling conducted by the Democratic Initiatives Foundation in December 2018, 67.5% of those polled identify primarily as Ukrainian citizens, while regional identity was much less pronounced – 18%. Although there are regional differences, national identity prevailed in all

Question
Score

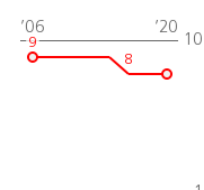
Monopoly on the
use of force

5



State identity

8



regions of Ukraine. Where external orientation is concerned, in December 2018, 59.4% supported accession to the European Union, while only 12.5% supported accession to the Eurasian Economic Union (i.e., a customs union with Russia, Belarus and Kazakhstan), compared to 57.3% and 16.3% in December 2014, and 46.4% and 35.7% in December 2013.

Ukraine is a country with many national groups. While Ukrainians constitute the majority of the population, Russians make up 17.3% of the citizens and other national groups make up less than 1% (self-perceived ethnicity according to the 2001 census). In some districts of the Transcarpathia, Chernivtsi and Odesa regions, as well as Crimea, there are other national groups, although Ukrainians continue to constitute the majority of the population.

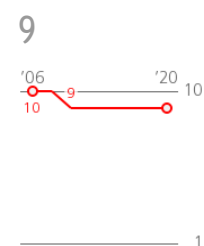
All citizens enjoy the same civil rights. Yet, in the course of 2017 to 2018, policies promoting Ukrainian language in broadcasting and education provoked rigorous discussions and criticism from international partners.

In 2018 and early 2019 important developments occurred that changed the religious landscape of Ukraine. The country's political authorities were involved in this process. In December 2018, the Unification Council of the Orthodox Churches in Ukraine in Kyiv created a single Ukrainian Orthodox Church by merging the Orthodox Church of the Kyiv Patriarchate and the Autocephalous Ukrainian Church. Two bishops and several priests from the Ukrainian Orthodox Church of the Moscow Patriarchate joined the new Ukrainian church; others are welcome to join, but it is unclear how many will eventually do so given pressure from Moscow. On January 5 and 6, 2019, the Ecumenical Patriarch Bartholomew affirmed the independence of the new Ukrainian church in Istanbul and handed over the tomos, the decree of independence, to the newly elected leader of the new church in the presence of Ukrainian President Poroshenko and the chairman of the Verkhovna Rada, Parubiy.

Due to these changes, there are now four major churches in Ukraine: the new Ukrainian Orthodox Church (which has now the largest number of parishes and adherents, with the number continuing to grow as parishes of the Moscow Patriarchate join the new church now that it has been officially recognized), the Ukrainian Church of the Moscow Patriarchate, the Ukrainian Greek Catholic Church (the third largest, which dominates in the west of Ukraine) and the Roman Catholic Church. Other churches have shares of less than 3% of the population. No church functions as a state church. In addition, there are Jewish and Muslim communities, and a growing number of protestant and evangelical groups.

Church and state are separated, and the political process is secular. Yet, the above-mentioned developments had a strong political dimension from the very beginning. President Poroshenko de facto led the process, and the positive and relatively swift decision from the patriarch in Istanbul was partially the result of his efforts.

No interference of religious dogmas



1

Due to this decision, the Ukrainian Orthodox Church joins the 14 other autocephalous churches that comprise the Orthodox Christian world. Before this decision, only the Ukrainian Orthodox Church of the Moscow Patriarchate had canonical status, while the other two Ukrainian orthodox churches did not. The former has been an effective instrument of Kremlin influence in Ukraine. Poroshenko promised that the church and the state in Ukraine would stay separate, although he used his role in the process of granting tomos to strengthen his popularity with a view to the upcoming presidential election. On December 20, 2018, the Verkhovna Rada, the parliament of Ukraine, adopted a law that obliges the church of the Moscow Patriarchate to change its name so that it would be clear that it is linked to Russia, which has acted aggressively against Ukraine.

According to an expert opinion poll on the issue conducted by the Democratic Initiatives Foundation in September 2018, the majority of experts share the impression that the granting of autocephaly to the Ukrainian Orthodox Church is largely a politically motivated, rather than a religious, move.

However, political support for the autocephaly (independence) of the Ukrainian Orthodox Church does not mean that the secular character of the Ukrainian state will be compromised. No church in Ukraine has political influence significant enough to ensure the direct transfer of religious norms into laws.

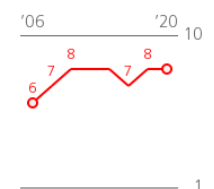
Public administration functions on all administrative levels (with the exception of Crimea and the separatist-controlled areas of Donbas), albeit with varying degrees of effectiveness and state capture by economic actors.

Since 2014, important institutional foundations to improve public administration were laid and have already affected the provision of services. Increased local budgets because of fiscal decentralization, the one-window policy for administrative services, increased access to and transparency of public information and the development of e-governance give citizens opportunities to make better use of public resources. However, the lack of clear lines of responsibility and high levels of corruption are still a major concern of citizens when dealing with administrative agencies.

With regard to public infrastructure in the area controlled by the Ukrainian government, 98% of the population has access to running water and 95% has adequate access to improved sanitation facilities.

Basic
administration

8



2 | Political Participation

The distribution of political offices takes place through general elections, which are conducted regularly, based on universal suffrage and secret ballots, and in which all political parties that adhere to Ukrainian laws are able to run.

A controversial case is the Communist Party of Ukraine. The party, which had not won a single seat in the 2014 national elections, was banned by the Ukrainian government in the following year on the basis of a law that prohibited the use of communist symbols. However, as of 2018, the ban was yet to be imposed, as the party had appealed against it.

During the review period, no national (parliamentary or presidential) election took place – both presidential and parliamentary elections are scheduled for 2019.

Reform of electoral legislation did not succeed in the period under review. The issue has been debated by parliament since summer 2014. Independent experts have recommended a proportional system for parliamentary elections, with open party lists, instead of the current mixed system. However, a new Electoral Code was passed on its first reading in November 2017 by a very slim majority. Most observers doubt that the new code will be passed in time for the upcoming elections.

Due to the process of decentralization, founding elections took place in a number of newly created communities all over Ukraine. The domestic network of election observers OPORA noted problems mostly related to imperfections in local election legislation. By the end of 2018, elections had been held in 805 communities.

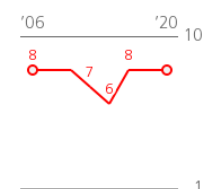
The ruling coalition government, although formally consisting of only 219 members of parliament on board from two factions (three other factions left the initial coalition in early 2016), managed to adopt several laws, since a sufficient number of members of parliament from factions that left the coalition as well as independent members of parliament voted with the coalition. In 2017 and 2018, 174 and 158 laws were adopted, respectively, which is less than in previous years. In 2015 and 2016, 320 and 212 laws were adopted, respectively.

The government headed by Volodymyr Groysman proved to be rather successful, especially since early 2017 following the establishment of the Reform Delivery Office, which is staffed by young western-educated professionals, within the Cabinet of Ministers.

The military, the clergy and landowners are not politically relevant actors in Ukraine. However, business elites, commonly referred to as oligarchs, are still seen by many as very influential. Laws against the business interests of prominent oligarchs have rarely secured a majority in the parliament.

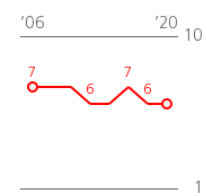
Free and fair elections

8



Effective power to govern

6



External actors (e.g., the IMF and the European Union) have also acquired some veto powers in Ukrainian politics, as the country depends on their financial support. IMF and EU conditions have led to several important legislative changes. These external actors aim to be a “force for good,” promoting, for example, the fight against corruption. However, normative assessments apart, these external actors clearly have some veto powers in the Ukrainian political decision-making.

Freedoms of association and assembly are guaranteed in the constitution and have been widely respected since the transition of power after the Revolution of Dignity in 2014. Since then, numerous peaceful gatherings have taken place throughout Ukraine, including those organized by civil society activists or by the political opposition near public buildings to advocate, or protest against, certain laws and decisions. They faced no restrictions. Threats and violence by non-state actors sometimes prevent groups from holding gatherings, particularly those advocating equal rights for LGBT people, despite police protection.

Ukrainian human rights experts argue that amendments to legislation should be introduced to better protect freedom of assembly against volatile political influence, particularly at the regional and local levels, and grant greater freedom in organizing assemblies without prior notice, or limitations on setting up tents or other constructions.

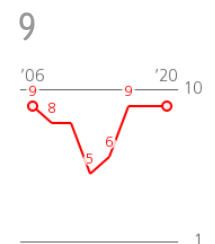
In Ukraine, freedom of expression and the prohibition of censorship are guaranteed by the constitution and a number of laws. During the period under review, those were largely respected and the Ukrainian media landscape features considerable pluralism and open criticism of the government. At the same time, TV remains the most influential media. The most popular TV channels belong to business groups and serve as tools to promote business and political interests.

The Institute of Mass Information, an independent NGO, registered 194 cases involving violations of media freedoms in 2018, compared to 281 cases in 2017, 264 cases in 2016, 310 cases in 2015 and 995 cases in 2014. Most violations involved obstructing journalists’ work, followed by intimidation and assault. The level of censorship remains low.

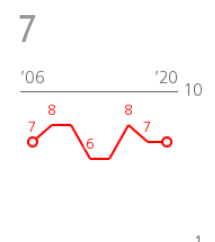
In the context of the conflict with Russia, stronger measures have been implemented. Ukrainian authorities continued to ban Russian media content. For example, over 600 films have been banned in Ukraine over the last four years. Experts have questioned the legality of these rather indiscriminate bans (e.g., the ban on a popular Soviet children’s cartoon).

Moreover, Russian media workers have been banned from entering Ukraine. The Russian social networks VKontakte and Odnoklassniki were banned in May 2017 “on the grounds of national security.” In July 2018, the Committee on National Security and Defense of the Verkhovna Rada approved a bill, which allows the

Association /
assembly rights



Freedom of
expression



government to ban internet webpages without a court decision, if the webpages are suspected of violating Ukrainian law – a step criticized by human rights organizations.

The situation in Crimea and separatist occupied parts of Ukraine is a different story – it is marked by severe violations of the right to free expression.

3 | Rule of Law

The Ukrainian constitution provides for the separation of powers. Yet the functions within the executive (between the president and the government) are not clearly delineated, giving too much space for informal arrangements. But in the current constellation, President Poroshenko and Prime Minister Groysman have managed to cooperate constructively. Although Groysman, appointed in April 2016, was believed to be dependent on Poroshenko, his government proved to be able to work coherently and independently of the president. The parliament has by and large demonstrated that it is able to put a check on the government, while Groysman had to secure the support of members of parliament for governmental bills.

The political independence of the judiciary and law enforcement has not yet been achieved, largely due to the highly volatile political situation in the country and the lack of a tradition of rule of law. Judicial reform has been hampered not only by political forces, but also by leading representatives of the judicial branch.

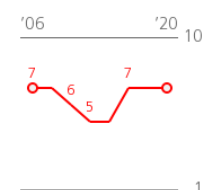
As a result, the judiciary is not fully able to enforce the rule of law against politicians of the executive and legislative branches. This is most obvious in the fight against corruption, where cases against politicians – which are brought to court by independent anti-corruption agencies – have so far mostly been delayed or obstructed.

The judiciary in Ukraine has been one of the most corrupt and politically dependent state institutions with the lowest level of trust in society. Despite considerable pressure from civil society and the West, reforms in this area have experienced significant setbacks in recent years.

A restructuring of the Supreme Court (according to legislation in 2016, the only cassation court in Ukraine's judicial system) and the appointment of new judges failed. The High Qualification Commission of Judges (HQCJ), a judicial body in charge of judicial selection and qualification assessment, failed to fairly and transparently select 114 judicial positions. In addition, the HQCJ did not take into consideration the opinion of the Public Integrity Council (PIC), a civic institution established in 2016 with the authority to verify judges and candidates' integrity and professional ethics. Instead, the HQCJ suggested incumbent and retired judges, who were eventually approved by President Poroshenko in November 2017. In autumn

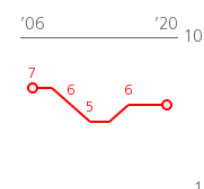
Separation of powers

7



Independent judiciary

6



2018, the selection of some 80 additional judges began, although this was still underway as of January 2019.

Furthermore, in the process of verifying 6,000 judges, the PIC withdrew in March 2018 in protest, since the HQCJ interfered in the work of the PIC, dismissed its concerns and selected judges over its objections. Experts claim that as of early 2019 some 85% of judges that ruled against Euromaidan activists continue to work.

The only success was that in June 2018 the Law on the High Anti-Corruption Court was adopted, though only under the threat of not receiving an IMF loan. This court is responsible for dealing with cases investigated by the National Anti-Corruption Bureau of Ukraine (NABU) involving high-level officials. Most importantly, the law empowers the Civil Society Council of International Experts (CSCEE) to veto candidates for the court who lack integrity and professionalism. Thus, by the end of January 2019, 42 candidates had been dropped, with 71 continuing to compete for 39 positions in the future court.

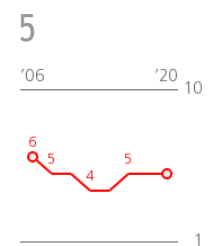
Although institutions that aim to limit the space for corrupt practices have been established in Ukraine, punitive actions against corrupt officials have been weak overall. By mid-2018, the National Anti-Corruption Bureau of Ukraine (NABU) filed charges in 207 cases, but secured only 19 convictions and none involving high-level officials. The first-instance courts have been blocking or delaying progress of these cases. It is to be hoped that the establishment of the High Anti-Corruption Court, which is expected in March 2019, will change this unsatisfactory situation.

The National Agency for the Prevention of Corruption (NAPC) did not initiate investigations against any senior officials at all. The Prosecutor's Office launched cases against several officials from the times of Viktor Yanukovich's presidency and Prosecutor General Yuri Lutsenko announced that several big cases would be investigated, including against officials currently in office. However, no such cases ended up in court.

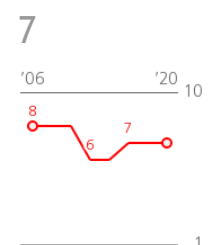
Respect for civil rights has considerably improved after the Euromaidan. The government reduced the level of interference by tax and other authorities in business operations. In addition, the powers of the prosecutor's office to engage in general supervision were revoked.

Freedom of movement and freedom of religion are, by and large, ensured. The current anti-discrimination legislation contains an open list of criteria on which discrimination is prohibited, namely race, skin color, gender, age, disability, ethnic and social origin, family and property status, place of residence, language, and political, religious and other beliefs. The legislation also provides an open list of spheres to which it applies. The Criminal Code of Ukraine prescribes liability for importing, producing and disseminating products that propagate violence and cruelty, and racial, national and religious intolerance and discrimination. Motives of racial,

Prosecution of office abuse



Civil rights



ethnic or religious hatred are viewed as aggravating circumstances and a qualifying element of other crimes. In practice, some discrimination occurs, especially with respect to Roma and the LGBT community.

A worrisome trend has been numerous assaults against civil society activists. In 2018, alone human rights experts registered at least 53 such assaults, among them murders and attempted murders. This is more than during 2015 to 2017 taken together. Some of the most prominent cases were the murder of Kherson activist Kateryna Handzyuk following an acid attack and attempted murder of Odesa activist Oleg Mykhailyk who was shot. Human rights observers argue that impunity might be an important cause of the problem.

The situation in the conflict zone in Eastern Ukraine is different. Human rights organizations have repeatedly documented large numbers of cases where members of volunteer battalions on the territory controlled by the state of Ukraine ignored individuals' right to life and security, the prohibition of torture, and engaged in cruel and inhuman treatment.

4 | Stability of Democratic Institutions

The major democratic institutions, which were re-established after the Euromaidan protests, completed their term. Although the parliamentary coalition broke up in early 2016, early parliamentary elections were avoided as a new coalition government was formed in April 2016, which remains in power at the time of writing. Both presidential and parliamentary elections will take place as scheduled in 2019. In the process of decentralization, by early 2019, 876 communities were created, covering a quarter of the Ukrainian population.

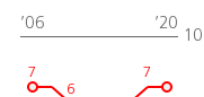
The effectiveness of these institutions is partly impaired as a result of the legacy of previous regimes. The judiciary, the civil service, the Office of the General Prosecutor and other institutions are still dominated by people who represent the old system, particularistic networks and inefficient procedures. These problems are being tackled by some reform initiatives, but slowly and with setbacks.

All influential political actors formally and rhetorically accept democratic institutions. No political force claims that democracy is alien to Ukraine or that it has been imposed from outside. However, in practice there is a temptation to misuse and abuse political power and therefore to undermine democratic principles.

The political culture in Ukraine is not mature enough and democratic institutions are very fragile. Many political actors seem unaware of some of the basic ideas of a democratic system, such as respect for opponents' views and there are many examples of undemocratic behavior within democratic institutions. Moreover, some democratic institutions are not accepted as legitimate on the basis of accusations that

Performance of democratic institutions

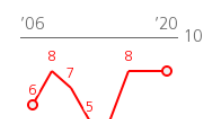
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Commitment to democratic institutions

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they are prone to corruption and politically dependent, such as parts of judiciary, law enforcement and civil service. Associations, civic organizations and the military work within democratic norms, while some interest groups, such as oligarchs, still prefer informal networks to promote their interests.

5 | Political and Social Integration

The party system in Ukraine is very unstable and volatile. There are numerous political projects, rather than parties, that appear and disappear depending on circumstances. They have no clear programmatic differences and continue to be primarily political vehicles for particularistic interests of leading politicians or businesspeople, rather than aggregating and representing societal interests. On the whole, the battle lines between parties are blurred and change frequently, driven by power interests rather than ideology or party programs.

As the 2019 presidential and parliamentary elections approach, this has become particularly evident, as some potentially successful parties have recently been created. The Oppositional Platform For Life, which is close to Viktor Medvedchuk (a confidant of Vladimir Putin), and the Servant of the People, led by showman Vladimir Zelensky, were both established in 2018.

Two important trends are obvious in the run-up to the 2019 elections. First, deep dissatisfaction with the authorities produced a demand for “new faces” and populist agendas. Hence, unexpected support for the presidential candidacy of Zelensky and not only for his party. Second, the reform-minded active part of society wants reform-minded parties and presidential candidates (e.g., Democratic Alliance, People’s Power, Self-Help and Citizens’ View) to run as a coalition and elect a single candidate for the presidential elections.

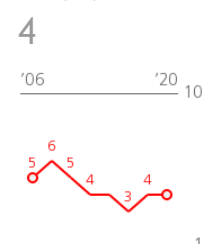
Thus, the Ukrainian party system is in constant flux and no party has deep roots in society. In fact, each time elections take place, the party system presents itself anew, building upon the immediate expectations and needs of society.

At the national level, the formal channels for communicating societal or group interests are not well defined. The network of interest groups is relatively close-knit, but their influence is very unequal.

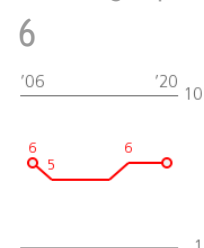
Civil society has managed to increase its presence in public discourse and policy-making by forming platforms and coalitions. One of the most prominent examples is the Reanimation Package of Reforms, a platform of NGOs and experts that advocates for reform.

Financial and industrial groups or oligarchs are well represented in decision-making, although mostly through nontransparent channels. Such groups include System Capital Management (Rinat Akhmetov), Privat (Ihor Kolomoisky) and Interpipe

Party system



Interest groups



(Victor Pinchuk). These groups own popular media outlets, finance political parties and influence government decision-making through informal channels, ensuring that their interests are represented at the national and local levels.

Other societal interests are less well represented. Ethnic, nationalist and religious mobilization has not played a role in the formation of interest groups in Ukraine. Despite relatively high (formal) membership in trade unions, these have played a marginal role in promoting issues of concern for employees. Consumers in Ukraine, although potentially the largest interest group, have not been sufficiently organized to influence policy. Business associations became more active in representing their interests to the government. However, the influence of such groups has remained weak, not the least due to their low capacity to set agendas and articulate interests.

The people of Ukraine generally endorse democratic norms and slightly over half of the population agree that democracy is the best system of governance for Ukraine. Yet, people are dissatisfied with the functioning of democracy in Ukraine. In a poll conducted by the Democratic Initiatives Foundation in September 2018, only 20% of people were satisfied with the functioning of democracy in the country. Against this background, 60.5% agreed that a strong hand is needed to achieve substantial development in the country.

The popular trust in public institutions remains low. Not a single politician or public authority in Ukraine enjoys more trust than mistrust. The parliament, state apparatus, courts, commercial banks, the National Bank of Ukraine, parliament, prosecutors and political parties poll the highest levels of distrust. The level of distrust in the government, the president and other institutions is also high.

The growth of social capital in Ukraine has been remarkable, a trend that has its roots in the Euromaidan protests, where civil society organizations, voluntary initiatives and ordinary people played a decisive role (in contrast to political parties). Since Euromaidan, in the face of Russian aggression, people formed voluntary initiatives providing support to the army and voluntary battalions have sprung up. According to a 2018 poll by Corestone Group and GfK Ukraine, 70% of Ukrainians donated money or material goods.

NGOs in Ukraine also enjoy considerable trust among the population – a trend that has been stable since 2014. Among public institutions in Ukraine, very few enjoy a positive balance of trust. These are voluntary organizations (+37%), the army (+37%), churches (+25%) and civil society organizations (+4%).

In a poll conducted by the Democratic Initiatives Foundation in May 2018, 60% of those polled thought that civil society organizations (CSOs) were useful. At the same time, over 60% were not informed about CSOs in their cities or towns. Only 8% were actively involved in the work of CSOs, but some 42% wanted to support CSOs through their taxes.

Approval of democracy

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Social capital

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The level of trust among the population is also relatively high. According to a poll conducted by the Kyiv International Institute of Sociology in December 2018, ordinary people living nearby is the most trusted group among Ukrainians (68% in 2018 and 73% in 2017).

II. Economic Transformation

6 | Level of Socioeconomic Development

The poverty in Ukraine has gradually declined as economic growth has returned, accompanied by a growth in real incomes.

The real disposable income of households grew by 10% annually between 2017 and 2018, more than in 2016. The growth was supported by higher wages and increased social payments, in particular, pensions.

According to the World Bank, the poverty rate (under \$3.20 per day in 2011 PPP) remained low at 0.5% of the population, while moderate poverty (poverty headcount ratio under \$5.50 per day in 2011 PPP) fell to 6.4% in 2016 from 7.8% a year before, but was still above the 3.3% registered in 2013.

The policies aimed at establishing a business-friendly environment in Ukraine were continued. The government continued to deregulate business activities (e.g., in construction). The number of licenses and permits was dramatically reduced and administrative services were moved online. A major liberalization of foreign currency operations was adopted in 2018 and will be launched in February 2019.

Ukraine ranked 88 out of 189 countries in the Human Development Index (HDI) 2017, with a score of 0.751. The inequality-adjusted HDI ranked Ukraine 20 places better than the standard HDI 2017. According to the World Bank, the Gini coefficient for Ukraine is 25.5, which is at the level of developed countries.

Gender inequality is moderate. Women have equal access to education, social protection and the labor market, but tend to receive lower wages and are severely underrepresented in politics. Moreover, the risk of poverty is considerably above average for single mothers.

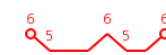
There are no specific social barriers associated with religion, but social exclusion is registered for some ethnic minorities like Roma. In addition, disabled people and people living with HIV/AIDS continue to experience social exclusion.

Question
Score

Socioeconomic
barriers

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Economic indicators		2015	2016	2017	2018
GDP	\$ M	91031.0	93356.0	112190.4	130832.4
GDP growth	%	-9.8	2.4	2.5	3.3
Inflation (CPI)	%	48.7	13.9	14.4	11.0
Unemployment	%	9.1	9.4	9.5	9.4
Foreign direct investment	% of GDP	3.4	3.7	2.5	1.9
Export growth	%	-13.2	-1.8	3.8	-1.6
Import growth	%	-16.7	9.3	12.6	3.2
Current account balance	\$ M	1616.0	-1340.0	-2442.0	-4287.0
Public debt	% of GDP	79.5	81.2	71.6	60.2
External debt	\$ M	117456.0	115006.4	115434.6	114511.8
Total debt service	\$ M	29591.2	12271.6	13084.7	14676.0
Net lending/borrowing	% of GDP	-1.5	-2.6	-1.4	-
Tax revenue	% of GDP	20.5	19.6	20.0	-
Government consumption	% of GDP	18.9	18.6	20.7	20.8
Public education spending	% of GDP	-	5.0	5.4	-
Public health spending	% of GDP	2.9	2.9	-	-
R&D expenditure	% of GDP	0.6	0.5	0.4	-
Military expenditure	% of GDP	4.0	3.7	3.2	3.8

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Essential elements of a market economy are in place in the country. Market entry has become comfortable, although many countries are still doing better. According to the Doing Business Report 2019, Ukraine ranked 56 in the category “starting a business,” with a score of 91 out of 100. It requires six procedures, 6.5 days and 0.6% of income per capita to start a business in Ukraine. There are no paid-in minimum capital requirements. Also, there are no gender differences in starting a business.

Since 2015, Ukraine’s government took important steps toward deregulation. The number of activities subject to licensing dropped by 40%, from 56 to 33. The number of activities requiring permits declined from 143 to 85. Many administrative services for business are available online.

The resolution of insolvency has remained a serious problem in 2017 to 2018, with Ukraine ranked 145 in the Doing Business Report 2019. Yet, by the end of 2018, a new Bankruptcy Code was adopted, which aims to improve and simplify the procedures for market exit.

Most prices are liberalized. According to the European Bank for Reconstruction and Development (EBRD), Ukraine’s price liberalization has scored 4 (scale: 1 to 4+) since 1997. In 2017, the government abolished the remaining administrative price regulation on several so-called social food products.

Utility, energy and telecommunication tariffs are regulated by designated regulatory bodies. The independence of the energy market regulator has been strengthened. Nevertheless, the adjustment of gas prices for households to the market level has not become automatic. Here, the understanding of the economic necessity for price adjustments is counteracted by negative social impacts, although it is largely mitigated by subsidies.

Ukraine’s national currency, the hryvnia, is not fully convertible. Ukraine adopted current account convertibility under the IMF’s articles in 1997, but foreign investors still face currency controls. However, an extensive liberalization of foreign currency regulation is about to be launched as the new law on foreign currency entered into force in February 2019. It is expected to significantly improve the business climate for foreign investors.

Foreign companies registered with local authorities receive important guarantees: (a) foreign investment cannot be nationalized or subjected to requisition, except for force majeure, and in this case investors have the right to restitution of losses; and (b) investors have the right to unimpeded repatriation of profits, dividends and investments after all dues are paid.

Market
organization

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The size of the shadow economy continued to decline compared to its peak in 2014. According to estimates of the Ministry of Economic Development and Trade, the shadow economy accounted for 32% of GDP in the first half of 2018.

The economic power of oligarchs has also been reduced due to reforms, clean-up of the banking system and the occupation of eastern territories by Russian insurgents, which resulted in a loss of assets and economic links. Still, the enforcement of competition rules can vary. The continuation of the judicial reform and especially the establishment of the High Anti-Corruption Court are expected to tip the balance and strengthen the rule of law in the country.

Key components of a competition policy framework are in place in the country. The key authority is the Anti-Monopoly Committee of Ukraine (AMCU). The AMCU is a member of the International Competition Network (ICN). Price setting in energy, utilities and telecommunication is regulated by independent national commissions, special regulatory bodies.

The responsibilities of the AMCU include the prevention of unfair competition and abuse of market power, control over concentration and collusion, control over price-setting in natural monopolies, and the protection of competition in public procurement.

The AMCU is controlled by the president of Ukraine and reports to the parliament, the Verkhovna Rada. As for other public institutions, since 2005 a public (advisory) council has exercised public control over AMCU activities. The council is comprised of 38 members representing Ukraine's major industry associations and NGOs.

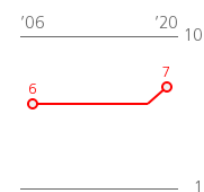
Ukraine moved forward in the implementation of the Deep and Comprehensive Free Trade Area (DCFTA) commitments in the sphere of competition policy, including its transparency and accountability. AMCU decisions are openly published, while the methodology for the imposition of sanctions has been improved.

In 2017 to 2018, the AMCU has been working on establishing itself as the key authority concerning state aid monitoring and authorization, although its capacity in this sphere requires further development.

As a result, the international assessment of the quality of competition policy in Ukraine has somewhat improved. According to the Global Competitiveness Report 2017 to 2018, Ukraine ranked 124 out of 137 countries for "effectiveness of anti-monopoly policy," an improvement of over 10 places. Ukraine ranked 78 out of 137 for domestic competition intensity, compared to 101 two years ago. Still, these rankings also show that there is more work to be done. For instance, the financial and staff capacities of the AMCU need to be strengthened, and its competences enlarged.

Competition policy

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Ukraine's foreign trade is sufficiently liberal, although some exceptions exist.

The country has been a WTO member since 2008. Ukraine has signed several free trade agreements (FTA), including multilateral CIS FTA and bilateral FTAs with all CIS members, as well as a FTA with EFTA, DCFTA with the European Union and a FTA with Canada. In January 2019, an FTA with Israel was signed. FTA talks with Turkey are still ongoing. The DCFTA with the European Union, Ukraine's largest trade partner, was ratified and fully enacted in September 2017. Moreover, in October 2017, the European Union provided additional unilateral trade preferences for three years.

For imports of agricultural products, the average MFN applied tariff rate is 9.2%, while for non-agricultural goods it is 3.7%. The majority of import tariffs are ad valorem. Ukraine uses only one global tariff quota, on raw cane sugar. The DCFTA with the European Union envisages tariff-rate quotas with duty-free in-quota imports for selected agricultural products.

Export duties are applied to only a few products including some oilseeds, live animals, hides, natural gas and metal scrap. The rates have been significantly reduced in the framework of implementation of WTO commitments.

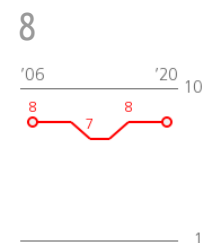
However, in mid-2016, Ukraine passed a law on a temporary increase of metal scrap export duties over the WTO-committed level. The decision has been extended several times, raising concerns over its compatibility with WTO commitments.

Import and export licenses are required for a limited number of goods, and their number is receding. Currently, licensing is applied predominantly to trade in ozone-depleting substances. The list of goods requiring licenses for foreign economic transactions is adopted annually by the Cabinet of Ministers.

The number of quantitative export restrictions remained very low. But in 2015, Ukraine imposed a 10-year ban on exports of wood logs, including to the European Union contrary to its DCFTA commitments. The measure was expected to be revised to reduce its trade-distorting effect, but no solution has as yet been found.

Ukraine progressed in reforming trade-related measures that could constitute non-tariff barriers to trade. Ukraine harmonized technical barriers to trade, and sanitary and phytosanitary-related regulations, and moved forward on customs reforms.

Liberalization of foreign trade



Ukraine has a two-tier banking system with the National Bank of Ukraine (NBU) serving as a supervisory and regulatory body, and commercial banks serving economic actors and private households. The independence of the NBU was strongly reinforced in 2015 in line with IMF requirements. In early 2019, the NBU won the Central Banking Award for Transparency.

As of the end of 2018, there were 77 licensed banks, including 37 banks with foreign capital. The clean-up of the banking system conducted in 2015 to 2016 resulted in a significant improvement in the stability, transparency and accountability of the banking system.

Important steps have included the introduction of new rules on disclosing ultimate beneficiaries, regular stress-testing with the publication of results and improved supervision. At the end of 2018, a law on the protection of creditor's rights was passed to facilitate credit. The banking system applied international standards of accounting and management.

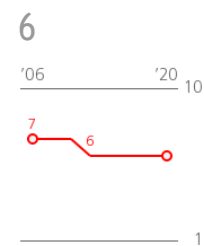
Main indicators of the banking system improved. The adequacy of regulatory capital (H2) increased to 16% by 2019 (minimum 10%), while other adequacy criteria also improved. The bank capital to assets ratio, according to the World Bank, reached 11.9% in 2017, compared to 9.8% in 2016 and 8.0% in 2015.

One of the most worrisome and persistent issues is the high share of non-performing loans, 54%. The issue elevates capital adequacy requirements for the banks and it remains unclear how the issue will be resolved.

Backed by reform, commercial bank performance improved. Amid increasing deposits, credits resumed in 2017, increasing by over 13% year-on-year in the summer of 2018 (but then started to decrease again).

While the banking system has revived, the stock market remained stagnant in 2017 to 2018.

Banking system



8 | Monetary and fiscal stability

The independence of the National Bank of Ukraine (NBU) was institutionalized during the review period, which is considered among Ukraine's key reform achievements since 2014. The NBU law was comprehensively amended in 2015. The amendments concern the Supervisory Council functions, budget transfers, NBU audits and other issues. The role of internal committees in decision-making was strengthened. According to the IMF (2018), "impressive progress was made in strengthening the independence and governance of the NBU."

Inflation targeting was launched in 2016 with the long-term target set at +5%/-2%, although the annual targets were not fulfilled in 2017 to 2018 due to reasons beyond the monetary authorities' control.

To curb inflation, the NBU gradually increased the interest rate, reaching 18% in September 2018. The NBU also strengthened its communications to affect inflationary expectations. This policy proved successful as the CPI declined from 13.7% in December 2017 to 9.8% in December 2018, below the 10% threshold for the first time since 2013.

Exchange rate fluctuations remained very moderate in the 2017 to 2018 period. The nominal exchange rate of the hryvnia lost only 6% of its value between 2016 and 2018, compared to the sharp devaluation in the previous review period. The real effective exchange rate (REER) of the currency strengthened. In 2017, the REER was 76.0, compared to 72.6 in 2016 and 73.7 in 2015.

In 2018, a major law regulating foreign currency was passed. It replaced the outdated decree dating back to the early 1990s and introduced a completely new regulatory architecture and major liberalization. The law will be enacted in February 2019.

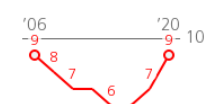
Ukraine continued its cooperation with the IMF. Although the implementation of the EFFP stalled in late 2017, Ukraine signed a new stand-by agreement for late 2018 to 2019 to support a smooth debt repayment in 2019 to 2020. The first tranche, \$1.4 billion, was received in December 2018.

In 2017 to 2018, fiscal stability remained a policy priority. The consolidated fiscal balance reduced to 1.4% in 2017, the lowest level in the last decade. Though it bounced back to about 2% of GDP in 2018, it still remained within the IMF target levels.

According to IMF figures, Ukraine's state debt decreased from 81% of GDP in 2016 to 72% in 2017. Ukraine's Ministry of Finance calculated that public debt further declined to 62% in 2018 against the background of economic growth and a much more balanced borrowing policy.

Monetary stability

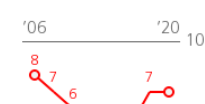
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Fiscal stability

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In December 2018, a new law on mid-term budgetary planning was passed and the system is expected to be introduced in 2020. A pilot has been underway since 2018.

The efficiency and transparency of public expenditures have improved. The online public procurement system ProZorro is recognized as a model system by the EBRD. The introduction of automatic export VAT refunds via a transparent online system also contributed to fiscal consolidation.

Although there are plans to introduce an exit capital tax (Estonian model) instead of the corporate profit tax, the potential fiscal impact de facto blocked the decision.

The continued gas sector reforms coupled with the SOE corporate governance reform facilitated the transition of Naftogaz from the largest public debtor to the largest taxpayer. Naftogaz's victory over Russia-owned Gazprom at the Stockholm Arbitrage Court meant that Ukraine would avoid repaying huge debts to Russia, which could have led to major macroeconomic destabilization. According to the decision of the arbitration, Gazprom owes \$2.4 billion, although it refuses to pay so the litigation continues.

Still, the fiscal situation remains quite fragile due to an extensive shadow economy and extensive social obligations, the adherence of which helps to fight poverty but creates fiscal pressures. The unexpected one-time doubling of the minimum wage in 2017 is an example of ad hoc policy decisions jeopardizing fiscal stability.

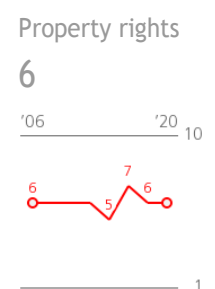
9 | Private Property

The constitution of Ukraine, the Civil Code and the Commercial Code guarantee the right to private property. However, property is weakly protected due to deficiencies in the judicial system and pervasive corruption.

Still, the reform efforts of 2014 to 2018, including judicial reform, multiple anti-raiding laws and laws strengthening intellectual property rights (IPRs), contributed to a slight improvement in the situation.

According to the Global Competitiveness Report 2018, Ukraine has very moderately improved its protection of property rights. In 2018, the country ranked 129 out of 140 countries (previously 131 out of 138) for protecting property rights and 114 out of 140 (previously 125 out of 138) for protecting intellectual rights. According to the Doing Business Report 2019, Ukraine ranked 72nd in the category "protecting minority investors," a slight decline compared to the previous period.

During 2017 to 2018, several important legal steps were taken to protect property rights, including the improvement of property rights in the case of collective land



ownership and the limitation of law enforcement agencies' rights to interfere in business activities.

Reform of the system protecting intellectual property rights proceeded. A specialized Supreme Court on Intellectual Property has been established, although it is still not fully operational. Laws enhancing copyrights on intellectual property were passed.

According to estimates by the Ministry of Economic Development and Trade (MEDT), Ukraine's economy is dominated by private business. The compound index measuring the share of SOEs based on income, profit, employment, number of enterprises and assets was less than 14% in 2018. The share of SOEs in sales is about 11%. But according to an IMF estimate, SOEs received state support equal to 5% of GDP in 2017.

The role of the state is still important in several spheres like energy (Naftogaz) and transport (railways). However, SOE corporate governance reform, although still incomplete, improved the efficiency of several publicly-owned giants, including Naftogaz and Ukrposhta.

Several legal acts simplifying the privatization process were adopted in 2017 to 2018, but there has been no large-scale privatization. However, small-scale privatizations through open auctions at ProZorro proved to be very successful for raising funds and getting rid of unneeded assets.

The SME sector is large and expanding. According to Ukrstat, SMEs and individual entrepreneurs accounted for over 99% of Ukraine's private sector enterprises in 2017, 65% of jobs (compared to 63% in 2015) and 57% of total sales (compared to 56% in 2015).

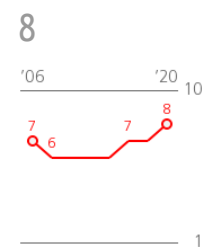
Inviolability of private property rights, including intellectual property rights, are stipulated in the constitution and multiple legislative acts. However, the enforcement of these rights has remained insufficient, although this is slowly improving.

10 | Welfare Regime

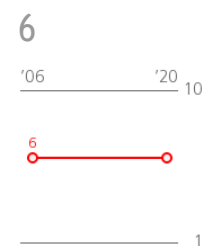
Social safety nets are well developed in the country and consist of two main components: services and money transfers.

The key element of the social safety net is the pension system. Currently, it consists of two pillars: the solidarity system (first pillar) and a non-state pension provision system based on voluntary participation (third pillar). However, the third pillar is hampered by the weak stock market, low incomes and lack of trust in financial institutions. The second pillar – compulsory individually funded pension insurance – has not been introduced yet.

Private enterprise



Social safety nets



In 2017, important changes in the pension system were implemented. Although the formal retirement age was not increased, the number of years that a person has to work to qualify for a pension increased substantially, which preferences official employment and longer working lives. Also, the pension level was linked to average wage and inflation trends to curb the deterioration in pensioners' incomes.

According to Ukrstat, in 2018, there were 11.7 million pensioners in Ukraine or 28% of the total population, one percentage point lower than in 2016. The ratio of employed working-age people to pensioners was about 1.4, but not all employed people contribute to the pension fund. For example, there are self-employed people working in agriculture who do not contribute. Therefore, the actual burden is higher.

The pension fund's expenditures in 2018 were UAH 352 billion or about 10% of GDP. Its own revenues constituted only 57% of its needs (compared to 43% in 2016). The rest was covered by a transfer from the central budget to cover special pensions, for example, to military personnel.

Legal changes in 2017 also concerned the revision of pensions. The average pension as of the beginning of 2018 was UAH 2,500 per month (\$90, slightly above the official subsistence level). Though still small, it was up 41% in U.S. dollar terms compared to 2016. The reform also reinstated the automatic indexation of pensions taking into account inflation and growth in average wages.

As old people constitute one of the most vulnerable groups in terms of poverty, pension reform plays an important role in the fight against poverty in Ukraine. Still, the increase in GDP and reduction of the shadow economy, including informal employment, could play an equally or even more important role in reducing poverty among pensioners.

Subsidies are another important component of the social safety net in Ukraine. The social protection expenditures (excluding pensions) accounted for 5% of GDP in 2017 to 2018, largely linked to household subsidies for housing and utility. An important reform adopted in 2018, which will be implemented in 2019, is the monetization of these subsidies to facilitate energy saving. A major challenge is the insufficient targeting of social security provisions by the state, although the situation has recently improved.

In 2017, a comprehensive reform of the health care system was launched. The first stage involves reform of primary health care based on the principle that money follows patients. A national health service was established to manage a new scheme of health care financing, which aims to pay for services not for hospital beds. The patients are to select their family doctors, who will be responsible for the provision of primary health care, disease prevention and referral of patients to other specialists whenever necessary.

For 2019 to 2020, a reform of the secondary (specialized) level of health care is planned.

Yet another component of health care reform is the provision of medicaments. The special public program “Affordable Medicine” has been launched. The program provides basic drugs for free or at a large discount on prescription.

A major challenge is the high level of informal payments by patients which will not be fully incorporated into the new official system.

Ongoing Russian aggression in Donbas significantly worsened social protections in territories not controlled by the Ukrainian government. People living in the occupied territories do not have proper access to social payments and the provision of social services has been disrupted.

Ukraine has established a legal framework for tackling discrimination. This framework is defined by the constitution, specific laws – including the Law on Principles of Prevention and Countering Discrimination (2012) – and through membership in international anti-discrimination conventions. Still, the implementation of the framework remains insufficient, resulting in inequality and the social exclusion of some groups.

Gender inequality is moderate. According to the Human Development Report 2017, Ukraine ranked 68 in the Inequality-Adjusted Human Development Index, 20 ranks better than its position in the standard HDI.

According to the Global Gender Gap Report 2018, produced by the World Economic Forum, Ukraine ranked 65 out of 149 countries with a score of 0.708, which is better than two years ago. Ukraine performs well for economic participation and opportunities (28th), and educational attainment (26th), but moderately on health and very low in women’s political empowerment.

There is no gender gap in the literacy ratio in the country, as well as no disparity in enrollment in primary and secondary educational establishments. In tertiary education, there are on average 20% more girls than boys enrolled. The gross enrollment ratio is high at 99.9% for primary education, 96.8% for secondary education and 83.4% for tertiary education (in the latter, Ukraine ranked 6 out of 130 countries). Women constitute 47.4% of the total labor force in the country.

There is a strong sentiment against equal opportunities for sexual minorities in society and among political decision-makers. In 2015, the parliament showed strong resistance before giving in to an EU conditionality to ban discrimination in the workplace based on sexual orientation. The parliamentary speaker at that time and now prime minister, Volodymyr Groysman, said after the vote, “I stand with you in favor of family values.”

Equal opportunity

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Social exclusion is registered for some ethnic minorities like Roma. Social exclusion of the Roma population involves exclusion from education, labor market and social services.

Disabled people and people living with HIV/AIDS have unequal access to participation in society, including access to education and employment. People with disabilities remain frequently excluded due to the deficiency of both urban and rural infrastructure, namely the lack of adaptation of buildings, roads and transport. The exclusion of people living with HIV/AIDS is largely due to the stigma associated with HIV and popular prejudices.

The annexation of Crimea by Russia has significantly worsened the protection of Tatars, with the situation continuing to deteriorate.

11 | Economic Performance

The macroeconomic situation in the country stabilized in 2017 to 2018, although significant vulnerabilities remain.

Real GDP growth amounted to 3.3% in 2018 (IMF estimate as of December 2018), a slight increase compared to 2.4% in 2016 and 2.5% in 2017. Domestic household consumption and fixed capital accumulation were the main growth drivers, while the contribution of exports remained negative.

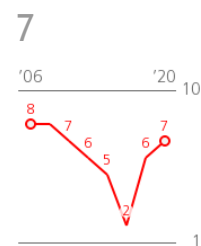
By the end of 2017, GDP per capita in PPP terms reached \$8,667, a return to the level observed in 2014. Still, GDP per capita in PPP increased by a mere 3% over the last decade, one of the slowest growth rates in the world.

The inflation rate has continuously fallen. In December 2018, annualized CPI was 9.8%, falling below the 10% threshold for the first time since 2013. The consistent monetary policy of the National Bank of Ukraine (NBU) contributed to lower inflation.

The labor market situation has slowly but persistently improved. The unemployment rate fell to 8.6% of the economically active population aged 15 to 70 (ILO methodology) in Q3 2018, compared to 9.3% in 2016. This has to be judged against the backdrop of intensified cyclical emigration to Poland and other European countries (i.e., countries that face labor deficits and have simplified the issuance of labor permits to foreign workers). The average wage reached UAH 10,573 per month (approximately € 350) in December 2018, compared to UAH 6,475 (€ 229) in December 2016.

The current account deficit somewhat widened in 2018 to 3.6% of GDP compared to 2.2% in 2017. This expansion was driven by increased growth in goods imports, in particular of capital and intermediate goods. The deficit in goods trade was

Output strength



compensated, but not fully overturned by the strong inflow of remittances. Also, the moderate FDI inflow (\$2.4 billion in 2018) and the continued support of international donors helped to cover the deficit and increase international reserves to \$20.8 billion, a five-year high.

The state debt was reduced from 81% of GDP in 2016 to 64% in 2018. However, the large external debt repayments scheduled for 2019 to 2020 create challenges for the future. The new stand-by program with the IMF launched in late 2018. The program is designed to strengthen macroeconomic stability in Ukraine over a 14-month period given that 2019 will be a turbulent year in which both presidential and parliamentary elections are scheduled.

12 | Sustainability

As expected, Ukraine's Association Agreement with the European Union resulted in a new impetus for environmental policy reforms and environmental concerns in the society.

In 2017, the Law on Environmental Impact Assessment (EIA) was finally passed and enacted in December. The law implements Directive 2011/92/EU. Secondary legislation was also developed and adopted, although the impact of its implementation remains to be seen.

The country also intensified its efforts to improve waste management. A system of mandatory waste sorting was formally introduced, although its implementation has again lagged behind, largely due to the lack of technical and organizational capacity. Still, the management of dangerous waste, including the establishment of collection points for such types of waste, is improving with the help of public activists.

Energy efficiency is another important avenue for improving environmental protection in the country. The high energy prices and programs stimulating energy saving (e.g., funds for energy saving measures in residential buildings) led to a gradual improvement in the situation.

In 2018, Ukraine ranked 109 out of 180 countries in the Environmental Performance Index. Ukraine scored 52.87 out of 100, which marked a significant drop compared to 2016 and a return to its 2014 position. There is no obvious explanation for this boom-bust cycle.

Environmental
policy

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There is an established system of state and private education and training in Ukraine. Primary and secondary education is provided for everybody including citizens, foreigners and stateless persons.

The economic growth helped to restore educational spending in the budget. In 2018, public spending on education was set at 6.8% of GDP, mostly funded by local authorities.

According to the Human Development Report, the gross enrollment rate for primary education was 100%, for secondary education 97% and for tertiary education 83%. The adult literacy rate remains high at 100% of people aged 15 and over. The expected years of schooling remained stable at 15 years.

According to the U.N. Education Index, Ukraine ranked 18 out of 133 countries with a score of 0.794 in 2017. This score has remained unchanged since 2014.

According to the Global Competitiveness Report (GCR) 2018, Ukraine ranked 46 out of 140 countries for skills, improving its position due to better staff training and a lower pupil-to-teacher ratio. However, the country has fallen down the ranking for quality of vocational training, the skillsets of graduates and ease of finding skilled employees. These indicators signal the need for educational reform.

A law on tertiary education was passed in 2014, providing universities with more independence. A new framework on education was passed in 2017 and Ukraine launched a reform of primary education in 2018. A new law on secondary education is being prepared. Still, the results of these efforts will only be seen in the long run.

Corruption in the education sector remains pervasive, although the independent external evaluation of school graduation has reduced corruption in access to higher education.

Ukraine ranked moderately high in its innovation capacity. The GCR 2018 ranked Ukraine 58 out of 140 countries with an improved score. Still, public spending on R&D has remained low at less than 1% of GDP.

Research quality is very uneven among sectors and among institutions within the sectors. Ukrainian research organizations have been very active in European programs such as FP7 and Horizon 2020. Recent reforms have established stronger links between publication in international refereed journals, citation indexes and labor reimbursements. However, the National Academy of Sciences has remained largely unreformed, headed by the recently re-elected 100-year-old Borys Paton.

Education policy /
R&D

6



1

Governance

I. Level of Difficulty

Ukraine faces several long-term structural constraints. It is undergoing a severe demographic crisis, characterized by an aging and shrinking population. According to the Ukrainian Statistical Service, the average life expectancy in 2017 was 67 years for men and 76.8 years for women. At 1.5 children born on average to each woman, the country's fertility rate is insufficient to ensure the natural recovery of the population. This will create economic and social problems in the future. At the same time, Ukraine is a country of labor emigration. Several million Ukrainians work (temporarily) abroad, mainly in the European Union and in Russia.

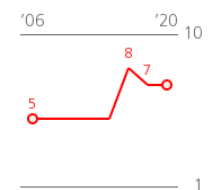
So far, policies and institutions have been ill-equipped to deal with the consequences of these developments which include higher expenditures for health care, care for the elderly, pensions and a shrinking labor force.

The country's energy-dependent and energy-inefficient economy poses an additional structural constraint, although the situation improved in recent years. Since 2016, Ukraine's entire gas supply came from the territory of the European Union (and not from Russia, which previously held a monopoly) and energy efficiency has been growing.

A new structural constraint that arose in 2014 has remained acute. The annexation of Crimea and the armed insurgency, coupled with military intervention in Donbas, resulted in a number of important problems for Ukraine: loss of control of parts of its territory, losing access to mineral resources and mines (the latter responsible for electricity shortages); with up to 30,000 people wounded and 13,000 killed; over 1.7 million internally displaced persons. All this puts additional pressure on social safety nets; and it has broken production links. Moreover, Ukraine does not control part of its border with Russia, through which support to pro-Russian fighters is supplied regularly. This means that military operations in Donbas will continue, creating an unprecedented level of expenses for the army, which in turn places constraints on a budget already exhausted by the economic crisis.

Structural
constraints

7



Civil society traditions date back to pre-Soviet times. During the Soviet era, civil society was suppressed and controlled by the one-party state. Some major human rights organizations, such as the Ukrainian Helsinki Human Rights Union or the Kharkiv Human Rights Protection Group, have their roots in the Soviet human rights movement. The same applies to some charitable foundations.

In recent years, popular acceptance of and involvement in civil society has improved and since 2014 the level of trust in civil society has exceeded the level of mistrust, unlike all the years since independence. Due to Euromaidan and its aftermath, more people have shown a willingness to protest and to become volunteers. Although only about 10% of officially registered Ukrainian NGOs work on a steady basis and they mostly depend on support from foreign donors or partners, their societal and policy influence has increased. Civil society has become aware of its role in the reform process and has improved its advocacy activities through joining forces in networks and NGO coalitions, working closely with international institutions that foster reforms in Ukraine and exercising increased pressure on public authorities.

Even though Ukraine is an ethnically, linguistically and religiously diverse country, conflicts of ethnic, linguistic or religious origin remain insignificant. None of Ukraine's churches constitutes a state church. Ukraine has liberal laws regarding religion, which also guarantee freedom of religious practice. Ukrainian, Russian and other languages are freely spoken in Ukraine and there are many examples of people from different ethnic backgrounds taking governmental posts or become members of the parliament and local councils.

The conflict in Donbas might appear to contradict this statement at first glance. However, it was only to a very limited degree provoked by social, ethnic or religious cleavages. Rather, it was initiated and sustained to the present day by Russian military involvement with support from local fringe politicians and criminal elements, often closely associated with former President Yanukovich and his Party of Regions.

The nature of politics in Ukraine is partially marked by confrontation, which increased in 2018 on the eve of the presidential and parliamentary elections.

In principle, there is no potential for a serious conflict beyond the one in Donbas. Risks emanate from the fact that, since the war in Donbas illegal circulation of weapons has increased, while the large number of internally displaced people and war veterans in different regions of Ukraine are in need of social adaptation and support.

Civil society traditions

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Conflict intensity

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II. Governance Performance

14 | Steering Capability

The key horizontal planning documents are:

- the Sustainable Development Strategy: Ukraine 2020 (SDS) approved by the president of Ukraine in 2015,
- the Government Action Program (GAP) approved by the parliament in April 2016,
- the Medium-Term Government Priority Action Plan to 2020 (MTGPAP) adopted by the Cabinet of Ministers in April 2017, and
- the Action Plan for Implementation of the Association Agreement between Ukraine and the European Union (APIAA) covering the period 2017 to 2022 adopted by the Cabinet of Ministers in October 2017.

One can also add Ukraine's Memorandum with the IMF within the new program for 2018 to 2020 approved in December 2018. On top of that, individual ministries are responsible for their sectoral strategies. The hierarchy of the documents and their relationship to one another is not always clear and is not prescribed in full in the legal framework.

Overall, the IMF and European Union have extensive influence over strategic planning in Ukraine through binding agreements and funding conditionalities.

Three important problems can be mentioned. First, annual priority setting documents or action plans are too ambitious, and a high proportion of planned commitments are carried forward from one year to the next. For example, according to SIGMA experts, the overall progress in implementing the Association Agreement in 2017 was 41%, and 38% of commitments from the previous APIAA were carried forward to the 2017 plan. Similarly, of the draft laws from the 2017 Government Priority Action Plan, 33% also appear in the 2018 plan. Second, many strategy documents do not contain cost estimates for implementation, undermining continuity between policies and fiscal plans. Third, medium-term budget planning is still missing. However, in December 2018, the parliament passed amendments to the Budget Code, which paved the way for three-year budget planning, expected to be fully implemented by 2020.

Due to public administration and civil service reform launched in 2016, some improvements occurred. In 2017, within the Secretariat of the Cabinet of Ministers of Ukraine (SCMU), a new Directorate for Policy Coordination and Strategic Planning was established. The directorate is responsible for policy planning. In April

Question
Score

Prioritization

6

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2018, the SCMU received the legal mandate to submit proposals to the Cabinet of Ministers for approval. Additionally, two new directorates, the Directorate for Strategic Planning and the Directorate for European Integration, were established in 10 of the 18 ministries and two central agencies. The idea behind these changes is that the ministries should be responsible for the full cycle of developing and implementing public policy, while the powers of each ministry should be clearly defined and cover all policy areas that fall within their remit. It is too early to assess the outcome, since the new structures were fully staffed only in mid-2018.

The results of the reform process in 2017 to 2018, similar to the previous period, were rather mixed. The government reported achievements in all priority reform areas for 2017 and 2018, namely pensions, education, health care, public administration, privatization and state-owned enterprises, agriculture, energy, anti-corruption and rule of law, innovation development, logistic and infrastructure development, and the business climate.

Civil society assessments are more critical. According to experts of the independent civil society initiative Reanimation Package of Reforms, decentralization, health care, pension and educational reforms, as well as reform of the army succeeded in 2018. The adoption of the Law on the High Anti-Corruption Court was also an important achievement. Public administration reform also merits recognition, since reform enclaves were established in the executive. Reform of the judiciary and the agriculture sector, and anti-corruption and electoral reforms were among the reform agendas that failed.

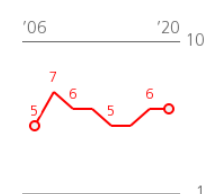
A large share of activities for one year are often carried over to the next year, as they remain not fulfilled. This has to do with excessively ambitious planning and mixed implementation.

Policy learning processes and practices have improved in the past years. This has to do with the influx of people from the private sector, academia and civil society to top positions in some ministries and other state institutions. Many ministers and specialists in the post-revolution governments speak fluent English, which was never the case previously. New directorates within the government are staffed with professionals who were selected through transparent competition and receive competitive salaries due to EU financial support. This gives hope that the expertise and values of new professionals from outside the old system will have a lasting impact on the work of the government.

The launch of administrative and civil service reform in May to June 2016 lays the foundation for improving policy learning at different levels of the bureaucracy. The Law on Civil Service, which came into force in June 2016, details professional training as a right and duty of civil servants, stipulates the right to training paid for by the state and outlines a training system, developed in the secondary legislation. The National Agency of Ukraine for the Civil Service will propose a training policy

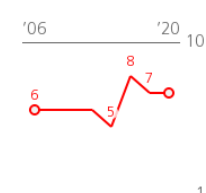
Implementation

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Policy learning

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and regulatory framework to the Cabinet of Ministers. The National Academy of Public Administration, as a higher education institution attached to the president of Ukraine, provides academic and methodological support. During 2016 and 2017, the government modified by-laws on the professional training of civil servants to adapt them to the training system stipulated in the law.

Moreover, Western donors in many ways guide and support the reform process with expertise, personnel and funding. This has partially helped to solve the problem of low salaries in state institutions, since donors fund some expert positions in ministries. The donors also invest a lot of resources in capacity-building and the development of procedures (such as internal electronic systems for the circulation of documents) that ensure more efficient exchanges of information and decision-making.

Whether training activities translate into a more efficient policy process is a big question. In 2018, a system for individual performance appraisals was launched, which might contribute to better outcomes. Reforming procedures that would improve the quality of the policy process is still underway.

It should also be noted that in many parts of the state administration there is a strong resistance to these changes. The most commonly mentioned reason is fear of losing additional income from corrupt practices. However, there is also a fear of job losses as a result of new demands and tests. Finally, not all state employees are convinced by the direction and strong rhetoric of the reforms.

15 | Resource Efficiency

In 2017 to 2018, the efficiency of the use of government resources in Ukraine continued to strengthen.

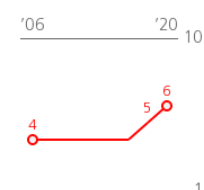
The fiscal deficit remained under control. In 2017, the consolidated fiscal deficit reached its lowest level since 2008 at 1.4% of GDP. In 2018, the deficit grew slightly, but remained within 2% of GDP. The level of state debt has also gradually declined alongside with economic growth and a more careful public debt management policy. While the state debt was about 81% of GDP in 2016, it was reduced to 72% in 2017 and to 64% in 2018.

Due to changes in gas market policies and in conjunction with improved corporate governance, Naftogaz (previously a burden on the state budget) became the country's largest taxpayer.

A crucial step has been the introduction of the public procurement reform, operational since April 2016 (ProZorro), which made online procurement mandatory for all public purchases above a given threshold. It aims to save public funds, stimulate competition and tackle corruption through greater transparency. Annually, about UAH 600 billion (approximately €20 billion) worth of goods and services are

Efficient use of assets

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transacted with the help of tenders. It is estimated that ProZorro may be responsible for up to 10% of the overall public spending savings. However, experience in other countries demonstrates that there are ways and means for well-connected people to circumvent the requirements. Hence, public procurement of medicines and medical instruments was delegated to international organizations to end corruption and increase efficiency in spending.

Fiscal decentralization allowed local communities to target their needs better, also contributing to efficiency in public expenditures.

Fiscal transparency also increased with the launch of the government's open budget website, which provides detailed fiscal information at both national and local levels.

Public service reform showed some positive changes, including the establishment of reform enclaves in the ministries with new staff selected through open competition.

Steps toward medium-term budget planning were taken in December 2018 when the parliament passed amendments to the Budget Code, paving the way for three-year budget planning.

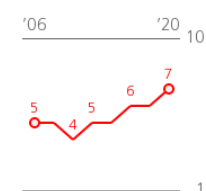
Policy coordination has improved over recent years due to public administration and civil service reform. Importantly, the reforms enhanced the policy-making role of the Secretariat of the Cabinet of Ministers of Ukraine (SCMU). This became possible as the Directorate for Policy Coordination and Strategic Planning was established in 2017. In April 2018, the SCMU acquired the right to submit draft proposals to the CMU for decision. It became the lead institution in preparing the government's annual work plan.

Additionally, in October 2016, the Reforms Delivery Office of the Cabinet of Ministers of Ukraine was established as an advisory body to the cabinet, coordinated by the prime minister and headed by the minister of the Cabinet of Ministers. It plays an essential role in the development, coordination and monitoring of the implementation of reforms plans (in particular the annual Government Priority Action Plan) across the administration and other reform priorities which involve a number of government/administration stakeholders. It provides coordination, analytical, communication and strategic planning support, ensuring timely implementation. Importantly, the office is staffed with young reform-minded professionals, many of them with Western education.

Regarding European integration policy, the major institution is the Government Office for European and Euro-Atlantic Integration (GOEEAI). It is responsible for the overall coordination of European integration (EI), planning of EI-related actions, monitoring country preparations for the EI process, coordinating alignment of national legislation with the EU acquis, and coordinating the planning and overall monitoring of EU assistance.

Policy
coordination

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As a matter of concern, there is no coordination between the GOEEAI and the Secretariat of the Cabinet of Ministers in preparing strategies and annual action plans. Thus, in 2018, only 60% of legislative commitments from the Action Plan for Implementation of the Association Agreement were included in the Government Priority Action Plan for 2018.

Fighting corruption is perceived as a priority reform objective by experts, the international community and society at large (according to public opinion surveys). Therefore, there has been a lot of pressure on politicians to implement reforms in this area.

Although slow and facing a lot of resistance, reform in this area built on the achievements of 2015 to 2016. The National Anti-Corruption Bureau (NABU), a major body to combat high-level corruption, continued to grow with almost all 700 positions occupied by the end of 2018. By mid-2018, NABU gave notices of suspicion of having committed criminal corruption offenses to 161 people, 155 cases were sent to court and 244 people were accused of crimes. A Ukrainian think-tank, the Institute for Economic Research and Policy Consulting, calculated in 2018 that the fight against corruption saves \$6 billion a year for Ukraine.

The adoption of the Law on the High Anti-Corruption Court in June 2018 was a major success. The law was passed in an effort to secure more funding under a \$17.5 billion aid-for-reforms program with the IMF. Establishing an anti-corruption court is one of three conditions that the IMF laid down for Ukraine to get further loans. By the end of 2018, a list of 113 eligible judicial candidates was published. On January 28, 2019, due to the initiative of the Civil Society Council of International Experts (foreseen by the law, which was another major success in itself), 42 candidates were removed from the competition due to a lack of integrity, leaving 71 candidates will compete for 39 positions.

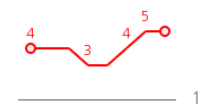
The e-declarations of assets for all public servants launched in September 2016 was also a major success – the system is managed by the newly established National Agency on Corruption Prevention (NACP). In March 2017 and again in March 2018, about one million civil servants submitted their declarations, disclosing their assets, which included millions of dollars in cash, luxury houses and diamond jewelry. This enabled anti-corruption agencies, law enforcement bodies, journalists, civil society groups and ordinary citizens to hold public officials accountable for their actions.

Despite these successes, the fight against corruption cannot be considered a success until high-level corruption cases are successfully prosecuted in court and there have been few such cases to date. Moreover, two important anti-corruption institutions, the Special Anti-Corruption Prosecution Office and NACP, proved to be ineffective or even biased, partially working against the NABU.

Anti-corruption
policy

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16 | Consensus-Building

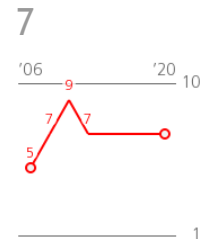
Rhetorically, all actors are committed to the principles of democracy and a market economy. Moreover, the president, the parliamentary coalition and the government supposedly represent Euromaidan and its values, and are reform-minded. Yet, in reality, what can be called the “democratic camp” is rather diverse, with many members representing the old system and its values and engaged in various networks with vested interests. In addition, there are other groups of actors who resist the reform process. First, oligarchs who prefer the old rules of the game, including a poor business climate aimed at preventing competition from smaller domestic businesses and foreign investors, poor rule of law, and a politically controlled judiciary. Second, political parties with a populist agenda that became particularly prominent in the run-up to the elections in 2019. Third, resistance comes from many potential losers in the reform process, such as civil servants or judges from the old system who will have no chance of keeping their job once transparent and merit-based selection procedures are introduced.

Formally, there is a consensus among the key political actors that Ukraine should have a market-based economy as strategic long-term goal for the country. However, there are acute debates about the ways to achieve that goal. It is expected that the Association Agreement with the European Union, which entered into force in 2017, will provide an important anchor for market-based reforms in the country and limit the space for maneuver for the actors who veto reforms.

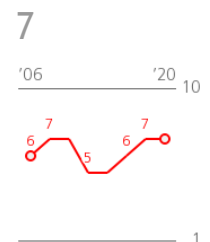
One can best describe the situation in Ukraine as a struggle between actors who push for and pursue reforms and those who are interested in preserving the status quo and continuing to benefit from the old system. The line dividing both camps is not clear-cut. Authorities and actors who claim to be democratic often act as veto players for various reasons: preservation of power or privileged access to resources, links to particularistic informal interests and fear of transparency and competition. Therefore, the result of reform efforts since Euromaidan has been patchy and has faced a lot of resistance.

Nevertheless, reforms since Euromaidan are unique in the history of independent Ukraine. Democratic actors among public authorities are in a minority; but due to combined pressure from these actors, civil society and international actors, reforms succeeded in some areas. In particular, reforms succeeded where new institutions were created, as opposed to old institutions being reformed. Some examples include anti-corruption institutions, the electronic public procurement system ProZorro and the electronic declaration of assets, as well as new directorates in central executive authorities. Many succeeded not least because they were a part of conditions set forth by international institutions.

Consensus on goals



Anti-democratic actors



Two large cleavages can be observed in Ukraine today. One of them has to do with the military conflict with Russia, which is perceived somewhat differently by different segments of society. Another has to do with the implications of the reform process, and the social and economic situation in Ukraine.

Concerning the first cleavage, while in Western and Central Ukraine the majority of the population consider Russia to be in charge of the conflict, in Eastern Ukraine a significant proportion of people have no opinion on the Russian-Ukrainian conflict and prefer to avoid expressing their opinion. Several political parties, including parts of the Oppositional Bloc and two new parties, Ours and For Life, have an openly pro-Russian agenda. At the same time, far right groups, although relatively marginal, increased their presence in the informational space over the past few years.

As to the second cleavage, public dissatisfaction with processes in Ukraine has grown. Opinion polls consistently show that the majority of the population think that developments in Ukraine are moving in the wrong direction and public authorities are responsible for this. This creates favorable conditions for populist parties and anti-democratic opposition.

Both cleavages were heavily exploited in 2018, including by the political leadership, as Ukraine was nearing the 2019 presidential and parliamentary elections.

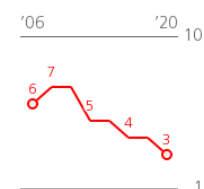
In the period under review, civil society continued to play an important role in driving the reform process and exercising pressure on authorities. Not least due to the conditionalities demanded by international actors, civil society experts were included not only in various consultation groups and advisory bodies with the authorities, but also in the selection of state secretaries, personnel to the new ministerial reform departments and judges in the course of civil service and judiciary reforms. Although old structures and actors often found ways to circumvent civil society opinions, increased transparency in decision-making, public finance, the lifestyles of politicians and ownership structures of media outlets strengthens civil society influence.

One of the most recent conflicts took place during Euromaidan and resulted in numerous injuries and the death of over 100 people – mostly protesters, but also several police personnel. By the end of 2018, some progress had been achieved and the majority of 4,700 crimes had been solved. Overall, 422 individuals were charged and 52 were convicted, of whom nine were imprisoned. This is some progress; however, society demands that those who gave the orders to kill, not only those who followed these orders, be brought to justice.

Ongoing conflicts concern the situation in Crimea and Donbas. While Crimea is now de facto under the control of the Russian authorities, the fighting in Eastern Ukraine has produced human rights violations and numerous casualties among civilians. Not least due to exposure to Russian media, people in the territories that were freed from

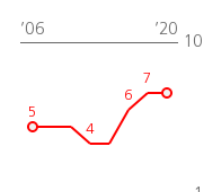
Cleavage /
conflict
management

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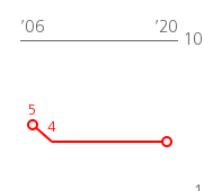
Civil society
participation

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Reconciliation

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the insurgency still have mixed loyalty toward the Ukrainian state. These fresh wounds have to be better understood and dealt with.

With respect to historical injustices in Ukraine – mostly related to Stalinist or Nazi crimes – most of these have not yet been discussed comprehensively or systematically. In the course of the process of “decommunization” launched in 2015, some 52,000 streets and squares, and some 2,000 cities and villages had been renamed as of 2018. Other historical events that are not perceived equally across Ukrainian territory are those of Holodomor and the status of World War II veterans who did not fight on the side of the Soviet army, but rather with the Ukrainian Insurgent Army (Ukrayins’ka Povstans’ka Armiya, UPA).

17 | International Cooperation

In the past few years, the authorities of Ukraine have been very sensitive to support from outside. The economic crisis and Russian aggression, against the background of a weak state, put Ukrainian authorities in a situation in which international assistance was needed to survive and stay afloat. Given this and the lack of a tradition or institutions for long-term strategic planning, as well as the system of coordination of international assistance, international actors have played the driving role in defining reform objectives.

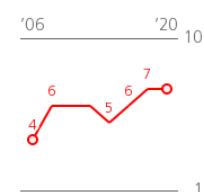
The authorities continued to work on donor coordination to get the most efficient use of the available support. The achievements of 2015 to 2016 in streamlining the international assistance were partly lost when in March 2017, the International Assistance Coordination Department in the Ministry of Economic Development and Trade (MEDT) was disbanded. However, the functions of this department were passed to the Department of Investment Projects and Development Assistance. The MEDT continues to regularly monitor technical assistance projects and the register of the projects is available online at the MEDT website. However, the piloted Open Aid Ukraine website, an online system to facilitate coordination, remained frozen.

The coordination of international assistance is currently shared by the MEDT and Ukraine’s international donors. Sectoral donor coordination groups composed of various stakeholders (public authorities, donors, CSOs) have been established and meet regularly, although their activity is not widely publicized. So, despite the MEDT restructuring, the coordination has remained an important part of the policy agenda of both the authorities and donors.

According to the MEDT, as of 2018, the European Union was the largest donor to Ukraine taking into account macro-financial assistance, budgetary support, technical assistance and funds provided by the European Investment Bank (EIB) and EBRD. Since 2014, the European Union has committed about €13 billion in grants and credits to Ukraine. As of mid-2018, there were 174 EU-funded projects in Ukraine, about

Effective use of support

7



one-third of the total. Other active donors are the United States, Canada and individual EU member states, such as Germany, Sweden and the Netherlands.

Ukraine has also continued its cooperation program with the IMF, although the implementation of the program has not been as smooth as expected. In late 2018, a new stand-by program was launched, replacing the incomplete EFFA.

The use of technical assistance remains in line with general policy objectives, with all strategically important areas of Ukraine's reforms supported by its international partners as revealed by a study of international assistance done by the IER (Ukraine). However, the absorption capacity of the state remains quite low, and corruption and intra-government coordination remain significant problems.

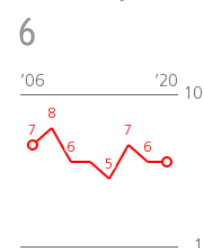
Ukraine's credibility with international actors, although having by and large increased since the transition of power after Euromaidan, has experienced ups and downs depending on reform progress in the country. If anything, Ukraine's international partners have become more aware of and attentive to the details of developments in the country, more decisive in pointing out shortcomings, and imposing conditions and pressure. Ukraine's credibility in 2016 to 2017 suffered mostly due to failures in tackling high-level corruption, a lack of commitment to judicial and public administration reform, and the inadequacy of investigations into assaults against journalists and civil society activists. Most prominently, the amendments to anti-corruption legislation, which were passed in March 2017 and demanded that anti-corruption activists also submit asset declarations as required of government officials, provoked a wave of complaints from Western partners.

Other developments, such as the banning of Russian social media networks and media outlets in Ukraine in May 2017, and the adoption of the law on education in September 2017 undermined Ukraine's credibility. For example, the law on education proposed that all secondary education should be taught in Ukrainian, while national minority languages were to be reduced to special language lessons provoked a serious diplomatic crisis with Hungary and to a lesser extent Romania.

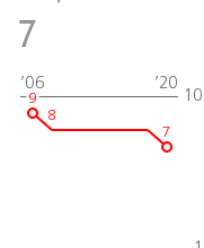
Ukraine originally aimed at having good relations with all neighboring countries and joined several regional organizations, such as the Commonwealth of Independent States (CIS), GUAM (Georgia, Ukraine, Azerbaijan and Moldova), the Organization of the Black Sea Economic Cooperation (BSEC) and the Central European Initiative (CEI). In the period under review, cooperation within these organizations played no role, since bilateral relations gained significance.

Ukraine's relations with Russia have undergone a dramatic transformation since March 2014, when Crimea was annexed and the conflict in Donbas started. Russia continued to fuel the conflict by providing constant political and military support to the leadership of the occupied Ukrainian territories, refusing to free Ukrainian political prisoners in Russia and escalating the conflict through the seizure of

Credibility



Regional cooperation



Ukrainian military vessels and sailors in the Azov Sea in late 2018. The conflict forced Ukraine to boost its military capabilities and consume a lot of resources, not to mention the human lives that are lost virtually every day.

Relations with Hungary and Poland deteriorated. The Polish right-wing government elected in 2015 insisted that Ukraine accept responsibility for the “genocide” of Poles killed by Ukrainian nationalists during World War II. Ukraine insists that large-scale killings took place on both sides. Hungary reacted furiously when the parliament of Ukraine adopted the law on education in September 2017, which promotes the teaching of Ukrainian in schools. Hungary retaliated by threatening to block Ukraine’s aspirations to forge closer ties with the European Union and NATO. Another source of tension arose with the issuing of Hungarian passports to ethnic Hungarians in the region of Transcarpathia, bordering Hungary. Despite these tensions, nearly one million Ukrainian workers have moved to Poland in recent years and the people of both countries generally maintain friendly relations. Both Hungary and Poland back Ukraine in the conflict with Russia.

On a pan-European scale, Ukraine is a member of the Council of Europe and the OSCE. Apart from the OSCE Special Monitoring Mission in Ukraine, Ukraine’s domestic reform process benefits from numerous projects of both organizations. Ukraine’s cooperation with countries of the Eastern Partnership (Moldova, Belarus, Georgia, Armenia and Azerbaijan) remains intensive. Although this cooperation was and is still driven by the European Union, it serves as a forum for socialization among officials, civil society and other actors from the six countries.

Strategic Outlook

In 2017 to 2018, Ukraine continued to implement important reforms, which had been launched in the first years after the Revolution of Dignity or had previously failed or been postponed. As in previous review periods, resistance from the old system and structures proved to be high. The struggle between “the old” and “the new” continued to be the leitmotiv developments during the current review period. Western conditionality and support played an important role in pushing reforms forward.

The outcome of the presidential and parliamentary elections in 2019 will have a substantial impact on the pace of reform and sustainability of reforms already implemented. Deep distrust in public institutions, widespread disappointment with developments in the country, the rise of populism and right-wing groups, the persistence of vested interests, and potential Russian involvement will define the struggle for power in 2019. The election of the political outsider Volodymyr Zelensky as president in April 2019 and his ability to push for early parliamentary elections in July 2019 (instead of October 2019 as initially scheduled) are highly indicative of these trends. The progress of reform in the middle of the political struggle will most probably stall.

In this situation, it is important for all reform-minded actors to consolidate their efforts, to better communicate their achievements to society and continue to push for crucial reforms. Fighting corruption and bringing high-level corruption cases to the newly established High Anti-Corruption Court of Ukraine should be a priority along with reform of the judiciary, public administration and civil service, and reforms that limit opportunities for vested interests, and enhance transparency and competition.

This means that the ruling elites need to lead by example and follow democratic rules, including the separation of business and politics, and the strict implementation of transparency rules to fight corruption. A further change in the composition of the political elites should be promoted to engage more new professionals. Civil society representatives, young professionals and external experts should play a greater role not just in specific reform projects, but also in policy-making and political debates in general. The consolidation of the political party system should be enhanced to promote sustainable program-oriented parties, instead of the political projects of prominent individuals.

Additionally, it is important to continue implementing reforms that directly increase the well-being of the population. Health care, pension and education reform, simplified access to public services, decentralization, and the improvement of the business climate for small- and medium-sized enterprises have already born fruit. These should continue and be complemented with creative measures to boost public income and spending.

International actors should continue using conditionality as leverage to push for reforms and further enhance the capacity of civil society, young reformist political parties, alternative trade unions, media and other social actors, especially at the local level, who challenge the old system

and offer a way forward. In the longer term, a new generation of politicians, civil society activists, experts and journalists need to be trained, supported and promoted to decision-making positions.

It is unlikely that the conflict with Russia will be resolved in the near future. Efforts to fulfill the Minsk Agreement of 2015 have stalled with no alternative approach in sight. Yet, the international community should maintain sanctions as long as Crimea remains annexed by Russia and show readiness to stand-by Ukraine to contain Russia's appetite to escalate the current conflict.