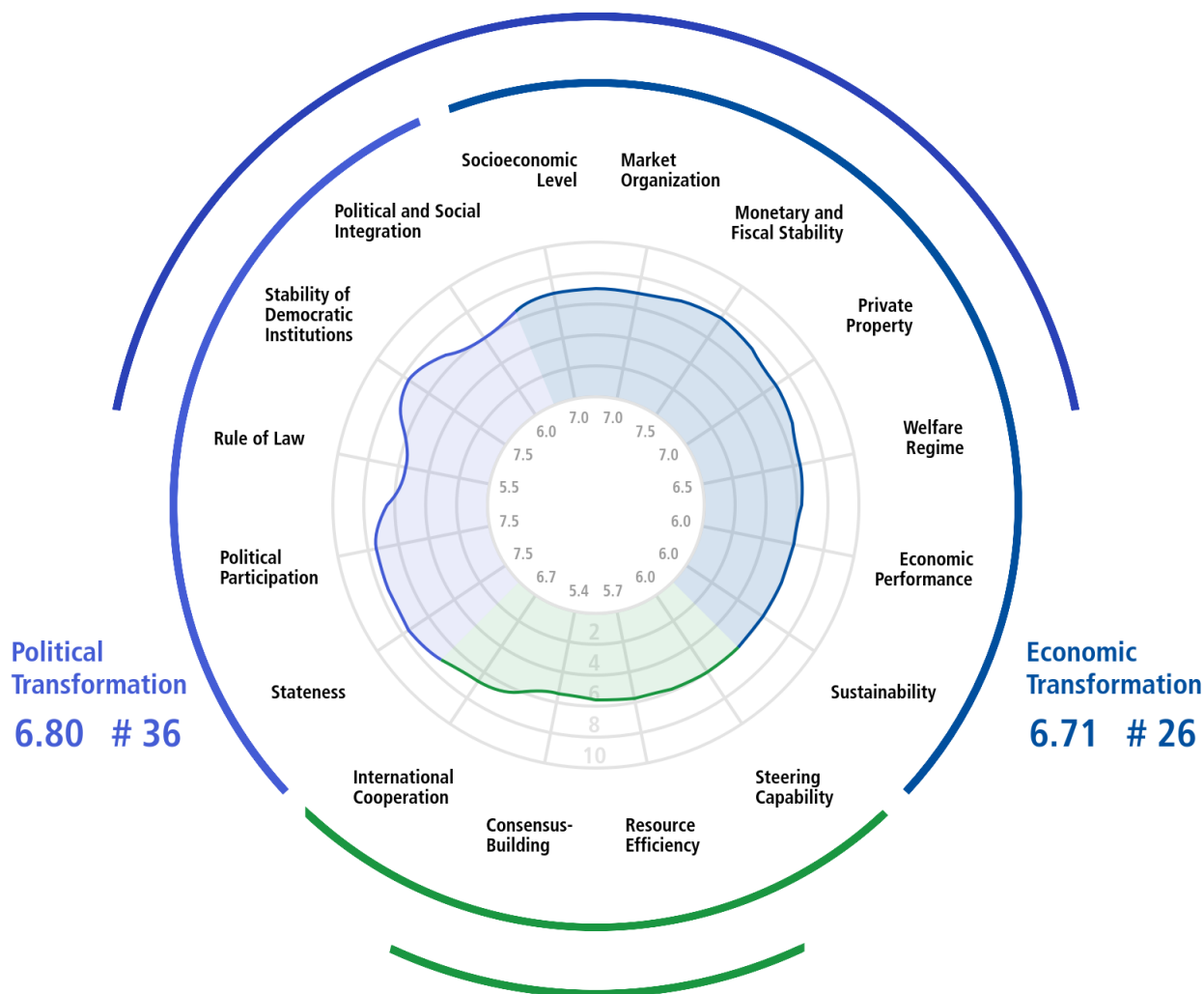


# Ukraine

## Status Index

**6.76 # 26**

on 1-10 scale out of 137



## Governance Index

**5.31 # 46**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. 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	<b>44.1</b>	HDI	<b>0.779</b>	GDP p.c., PPP \$	<b>13057</b>
Pop. growth <sup>1</sup>	% p.a.	<b>-0.6</b>	HDI rank of 189	<b>74</b>	Gini Index	<b>26.6</b>
Life expectancy	years	<b>71.8</b>	UN Education Index	<b>0.799</b>	Poverty <sup>3</sup>	<b>0.2</b>
Urban population	%	<b>69.6</b>	Gender inequality <sup>2</sup>	<b>0.234</b>	Aid per capita \$	<b>25.9</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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

The period under review was marked by significant developments that have created new challenges for Ukraine. In April 2019, Volodymyr Zelensky – a former comedian with no political experience – was elected as president in a landslide election in which he received 73% of the votes. Satisfying the popular demand for new faces in politics, Zelensky promised to put corrupt politicians in jail and introduce instruments of direct democracy. On the day of his inauguration in May 2019, he announced early parliamentary elections. His newly established party, Servant of the People, which was comprised of various political interest groups and new faces without a political background from across the country, won 254 seats in the snap elections held in July 2019, thus enabling the respective parliamentary faction to create a single-party majority – an unprecedented development in Ukrainian politics to date.

With a broad popular mandate and sufficient votes in parliament to pass legislation, Zelensky and his party went into “turbo mode,” passing a large number of laws within a short period of time and without proper parliamentary deliberation. Headed by a young prime minister, Oleksiy Honcharuk, the early days of the new government inspired cautious hope as the new prosecutor general, Ruslan Ryaboshapka, launched an ambitious reform of the prosecution.

However, in March 2020, Zelensky initiated a reshuffling of the government replacing Oleksiy Honcharuk with Denys Shmyhal as prime minister. The reform-minded Prosecutor General Ryaboshapka was replaced by the politically compromised Iryna Venediktova. Zelensky’s falling approval rates – from more than 70% in September 2019 to below 50% in February 2020 to 35% by December 2020 – account for this reshuffling. In addition, his party grew increasingly fragmented and heavily influenced by entrenched political and economic interest groups. In 70% of the parliamentary votes held in March 2020, the president’s party did not get enough votes to pass legislation, which only further undermined Zelensky’s capacity to advance his reform agenda.

Local elections held in October 2020 took place against the background of the final stage of decentralization – one of the most successful reforms initiated in the wake of the 2014 Maidan revolution (also known as the Revolution of Dignity). Confirming the president's fading popularity, his party won only 17.6% of local council seats nationally and suffered setbacks in major cities across the country.

Failed efforts to introduce judicial reform and increased attacks on anti-corruption institutions throughout 2019 and 2020 culminated in a constitutional crisis in late 2020 in which the Constitutional Court ruled as unconstitutional obligatory public asset declarations, thereby undermining previous efforts to establish effective corruption control mechanisms. During this period, there were also several incidents of selective justice being carried out that included the numerous criminal charges brought against former President Poroshenko, violent attacks against civil society activists and the country's police force being captured by private interests. At the same time, oligarchic powers and openly pro-Russian political forces, represented by the Opposition Platform – For Life party funded by Viktor Medvedchuk (himself a close ally of Russian President Vladimir Putin) gained significant influence in southeastern Ukraine, making their anti-democratic agenda felt in parliament.

Referred to as a “hijacked (electoral) revolution” by the Ukrainian historian Yaroslav Hrytsak, Zelensky's term in office amounted to nothing less than a waste of the popular mandate to carry out important reforms. The COVID-19 pandemic only emphasized the chronic weakness of the country's institutions, in particular its health care system.

The far-reaching reforms introduced prior to the coronavirus crisis brought some benefits to the country's economy that allowed it to sail through the crisis with quite decent macroeconomic results. Following a 3.2% growth in real GDP for 2019, in 2020 this fell by 4.6%. Inflation, at 5% in December 2020, remained under control and was considerably less than that recorded in 2019. The banking system remained sound. International reserves increased and, though the hryvnia appreciated in 2019, it then depreciated in 2020, more or less back to its 2019 level. Real wages grew in 2020 despite the crisis, while unemployment increased only moderately. In this context, the increase in the fiscal deficit and debt was moderate. However, the new stand-by program with the IMF signed in June 2020 was derailed almost immediately, destabilizing fiscal performance by the second half of 2020.

While Zelensky promised to bring an end to the war with Russia, he eventually realized that Russia, not Ukraine, holds the keys to terminating the conflict. His few achievements included three waves of prisoner exchanges (September and December of 2019 and again in April 2020) and the comprehensive cease-fire reached in July 2020, which resulted in a significant reduction in the number of casualties.

A strong civil society in Ukraine, coupled with the conditionality of Western financial institutions and strong engagement of the EU and other international partners, continued to push for reforms.

## History and Characteristics of Transformation

From 1991, when Ukraine gained independence, and until 2014, the country's process of transformation was determined mainly by the narrow circles of the elite. This class left their mark on the new institutional framework, shaping it to suit their particularistic interests. The sluggish pace of reforms allowed for the rise of influential industrial-economic groups and oligarchs who developed a patron-client relationship with the president. This development was reinforced by nontransparent large-scale privatizations. Due to flawed procedures and favoritism, many large enterprises were sold far below their market value and ended up in the hands of these groups, resulting in what can be called a “captured state.”

From 1996 until 2005, Ukraine was formally a presidential-parliamentary 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 that became relevant during the 2004 Orange Revolution, which was triggered by fraudulent presidential elections. The protesters' key demand – free and fair elections – was realized: the opposition leader Viktor Yushchenko became Ukraine's third president and his ally Yulia Tymoshenko, the prime minister. However, they proved unable to deliver more democracy and transparency while advancing socioeconomic change, which resulted in considerable public disillusionment.

During the Orange period between the 2004 and the 2010 presidential elections, most Ukrainian governments suffered from internal disunity and constant internal battles for power. This was facilitated by pervasive corruption and a lack of both expertise and checks and balances in the constitution that was amended in December 2004 (taking effect on January 1, 2006). These amendments essentially established a premier-presidential system that reallocated power and competencies between the president, the cabinet and parliament.

In February 2010, Viktor Yanukovich won the presidential election with a narrow margin against Yulia Tymoshenko, who went on to lead the opposition. The years of the Yanukovich presidency saw the restoration of the authoritarian state. Yanukovich repealed the 2004 amendments to the constitution, which effectively re-introduced a presidential-parliamentary system. Human rights, as well as freedoms of expression and assembly, deteriorated. The opposition, harassed by a subservient judiciary, proved weak and unable to resist. When Yanukovich declined to sign the Association Agreement with the EU in November 2013, spontaneous mass protests broke out that lasted through the winter, despite the state's violent efforts to quash them. Ultimately, Yanukovich fled the country in February 2014.

These events paved the way for an overhaul of core public institutions and an unprecedented wave of civic engagement, which, coupled with pressure from the West, produced important reforms. Also, the premier-presidential system was restored. Nonetheless, resistance to reforms remained strong and old legacies proved resistant to change, which resulted in a daily struggle to produce positive change.

Until 2000, Ukraine's economy was in transformation recession. The first ten years of independence were marked by hyperinflation, high unemployment levels and falling standards of living. Between 2000 and 2008, Ukraine enjoyed a period of economic growth that was fueled by favorable external market conditions. Real GDP grew at about 7% on average during this period. By 2005, the private sector's share of GDP reached nearly 60%. Poverty declined and disposable incomes increased. Yet the financial sector crisis that hit Ukraine in 2008 exposed 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 clientelistic politics and structural imbalances. Yanukovich's economic policy and corruption exacerbated the situation even more, almost bringing the country to default. In 2014-2015, Ukraine entered into another economic recession that was triggered by the Russian aggression against Ukraine and the disastrous state of public finance, SOEs and the banking sector left behind by Yanukovich's rule. Since 2016, Ukraine's economy has returned to a growth path amid significant reform efforts.

Until 2014, when the Association Agreement with the EU was finally signed and enacted, Ukraine maintained a balanced foreign policy between Russia and the West. After the Orange Revolution in 2004, the Ukrainian government cultivated closer relations to NATO and the European Union, while relations with Russia deteriorated. However, Ukraine's hopes of becoming a candidate for EU membership and being admitted to the NATO Membership Action Plan have to date not materialized. 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, transit and payments.

Moreover, Russia attempted to block the Association Agreement's signature between Ukraine and the EU and make Ukraine join its Eurasian Economic Union. Russia's military aggression and the occupation of the Crimea in spring 2014 ended the balancing act. The post-Euromaidan authorities embarked on a clear pro-European course, backed by strong support for the EU and (to varying degrees) for NATO in Ukraine's public opinion.

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. As of today, certain areas of Donetsk and Luhansk regions (16,799 km<sup>2</sup>) are illegally occupied by self-proclaimed authorities controlled from Russia. In addition, Russia continues to illegally occupy Ukraine's Autonomous Republic of Crimea (26,081 km<sup>2</sup>) and the city of Sevastopol (864 km<sup>2</sup>). This in total makes 43,744 km<sup>2</sup> or 7.2% of the territory of Ukraine. A 409.7 km section of the Ukrainian-Russian state border in the east remains out of control of the Ukrainian state.

Despite numerous attempts to establish a more permanent cease-fire, the war between the occupants of portions of Donetsk and Luhansk regions (with Russia being directly involved) and the Ukrainian state still continues, although with significantly reduced intensity after the last cease-fire agreed upon in July 2020. Thus, the Ukrainian state has a monopoly on the use of force throughout the entire territory with the exception of illegally occupied territories. However, since the start of the war in 2014, the circulation of illegal weapons has become a problem. In 2019 alone, a total of 6,204 breaches of weapons-use laws were registered in Ukraine. There are more than 450,000 Ukrainian veterans of the military operations in Donbas, who represent a socially vulnerable group. Increasing activities by extremist groups have been noted. All these factors undermine security in the country.

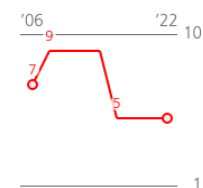
The Ukrainian nation-state is accepted by all relevant actors and groups in Ukraine, apart from Crimea and the occupied territories in Donbas. Before the Russian intervention, which started in 2014, there was no real challenge to the integrity of the Ukrainian state.

On the territory controlled by the Ukrainian state, identification with the Ukrainian state has been growing in recent years. Opinion polls show that identification with the Ukrainian state is stronger than other identifications (for instance, with local or regional bodies). However, an active and manipulative media campaign by the openly

Question  
Score

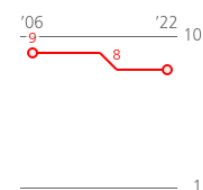
Monopoly on the  
use of force

5



State identity

8



pro-Russian party Opposition Platform – For Life, which since the 2019 elections has been the second-largest faction in the national parliament (which in opinion polls translates into the support of about 10% to 15% of the population), has the potential to undermine this trend. The overwhelming majority of this party’s voters live in eastern or southern Ukraine. Thus, according to a public opinion poll conducted by the Democratic Initiatives Foundation in August 2020, only 45% of citizens in eastern Ukraine and 54% in southern Ukraine would vote again in favor of Ukraine’s independence (if a referendum took place), whereas over 70% of citizens in the central region and over 90% in the west would do so. In addition, 59% of the voters of the Russia-aligned party support the so-called special status of the occupied territories in Donbas, whereas backers of all other parties are clearly against such an option. However, this does not amount to questioning the legitimacy of the nation-state in principle.

Ukraine is a multiethnic country, in which (apart from Ukrainians, who constitute the significant majority) Russians make up 17.3% of the population and other ethnic groups make up less than 1% each (on the basis of self-reported ethnicity according to the 2001 census). In some districts of regions such as Transcarpathia, Chernivtsi and Odesa, as well as Crimea, other national groups than Ukrainians constitute the majority of the population. There have been tensions in the Transcarpathian region, where Hungarian passports were issued to local Hungarians; however, the situation there remains stable.

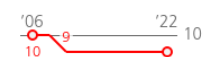
All citizens enjoy the same civil rights.

There are four major churches in Ukraine. The largest, with the most parishes and adherents, is the Ukrainian Orthodox Church, which emerged in late 2018 and early 2019 out of the Orthodox Church of Kyiv Patriarchate and the Autocephalous Ukrainian Church. Somewhat smaller are the Russian Orthodox Church, the Ukrainian Greek Catholic Church (the third-largest, dominating in the west of Ukraine) and the Roman Catholic Church. Other churches have respective shares of less than 3% of the population. None of the churches function as a state church. In addition, there are Jewish and Muslim communities, and a growing number of Protestant and Evangelical groups. The current president, Volodymyr Zelensky, is Jewish. In 2020 he declared the Jewish New Year to be a national holiday.

The process of establishing the Ukrainian Orthodox Church had a strong political dimension, and public authorities, especially President Petro Poroshenko, were very prominently involved. Poroshenko also exploited this achievement in his presidential election campaign. After the presidential election in 2019, there were no prominent instances of state interference with religion. Overall, the state’s legal framework and institutional arrangements are based on secular norms.

No interference of religious dogmas

9



1



The public administration functions on all administrative levels (with the exception of the illegally annexed Crimea and the occupied areas of Donbas), albeit with varying degrees of effectiveness and state capture by economic actors. In the past eight years, authorities have laid important institutional foundations for the improvement of the public administration. This has already affected the provision of services. Decentralization programs have increased local budgets and the powers of local elected authorities, expanded e-governance facilities, and increased access to and the transparency of public information. This has given citizens opportunities to make better use of public resources.

With regard to public infrastructure, 98% of the population has access to running water and 95% has adequate access to improved sanitation facilities. The COVID-19 pandemic caused temporary bans on the functioning of passenger transportation across the country. For a still longer period, schools were closed and education was continued using distance learning mechanisms (via TV and internet-based formats). As in most countries worldwide, the health sector has been under severe stress.

## 2 | Political Participation

The distribution of political offices occurs through general elections, which are conducted regularly, where universal suffrage with the secret ballot is ensured. A number of parties and candidates with different platforms can run. Important elections took place during the reporting period, including the presidential election in March-April 2019, early parliamentary elections in July 2019 and local elections in October 2020 (with runoffs in mayoral elections in cities with more than 75,000 voters, in which no candidate gained more than 50% of the votes, in November and December 2020).

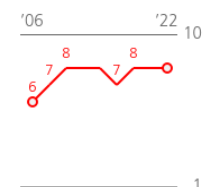
Moreover, in December 2019, a sweeping reform to the country's electoral legislation was finalized. The new Electoral Code introduced a proportional system with open party lists, increased the representation quota for women by 40% and removed the rule that obliged people to vote at their place of registration, among other changes. Importantly, this was meant to be a long-term document, thus ensuring stable electoral rules.

Although the overall electoral process and the voting itself were recognized as free, fair and highly competitive in all three elections, there were still important deficiencies. For instance, private business interests own most of the national and local media organizations, and this, by default, creates unequal access to media for the candidates.

In the case of the snap parliamentary elections, newly elected President Volodymyr Zelensky terminated the mandate of the Verkhovna Rada, Ukraine's unicameral parliament, on legally disputable grounds. His goal was to build on his success in the

Basic  
administration

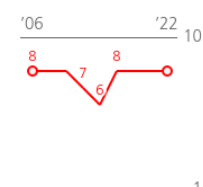
8



1

Free and fair  
elections

8



1

presidential vote, with the idea of ensuring that the newly elected parliament would support him. Politically he succeeded; however, the snap elections were agreed upon only two months before the actual vote, leaving too little time for the campaign itself, which was conducted under the terms of the not-yet-finalized electoral law, with many outdated provisions. The party of the president, called Servant of the People, won a majority; however, it was not an established party, and consisted mostly of inexperienced and hastily selected candidates throughout Ukraine.

The local elections took place against the background of the new administrative-territorial division of Ukraine, which was introduced only in June 2020. Moreover, the new electoral legislation was adopted too close to the voting day (3.5 months before election day) and introduced important innovations. One of them was the exclusively party-list voting mechanism for local council members in cities/towns with more than 10,000 voters (45% of all territorial communities). This subordinated individual, otherwise independent candidates to the parties, often in an artificial way.

The context of the COVID-19 pandemic and the war in Donbas brought additional constraints. The latter prevented voters in some districts close to the war zone from exercising their voting rights. As to the pandemic, precautionary measures were adopted, but were not implemented everywhere due to the lack of resources. While the elections overall were highly competitive, there were some violations of norms or rules in some communities.

After a landslide victory in the mid-2019 presidential and parliamentary elections, Volodymyr Zelensky and his Servant of the People (SP) party established control over the legislative and executive branches of power with an unprecedented single-party majority in the Verkhovna Rada.

However, the SP is not a homogenous ideology-driven party but is rather a hastily composed group of individuals with different or even opposite visions of Ukraine's future. This renders the party vulnerable to various influences, especially those of oligarchs. Several lawmakers are representatives of oligarchic interests, which means that they vote against their own faction if there is a conflict with such interests.

The cracks in the party started to appear in late 2019, and by mid-2020 the parliamentary faction had largely ceased to function in unison. In order to pass legislation, Zelensky has needed support from other parties, including those from the Opposition Platform – For Life faction, which is openly anti-democratic and affiliated with Russia. This indirectly provides the pro-Russian party with de facto veto power in the Ukrainian policymaking process.

The IMF and the European Union have also acquired some veto power in Ukrainian politics, as the country depends on their financial support. IMF and EU conditions, coupled with pressure from Ukrainian civil society, have led to several important reforms, for instance in the area of anti-corruption.

The military, clergy and landowners are not politically relevant actors in Ukraine.

Effective power to govern

6

'06 \_\_\_\_\_ '22 10



1

The 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, except for the periods of strict lockdowns intended to prevent the spread of COVID-19.

In the 2019 – 2020 period, numerous peaceful gatherings took place throughout Ukraine, including some organized by civil society activists and by the political opposition near public buildings to advocate for, or protest against, certain laws and decisions. They faced no restrictions, but there were several episodes of clashes with the police. Threats by and violence perpetrated by non-state actors sometimes prevent groups from holding gatherings, particularly those advocating for equal rights for the LGBTQ+ community, despite police protection.

The nationwide lockdown imposed in spring 2020 temporarily restricted assembly rights. This included a prohibition on gatherings of more than two persons in public, and a requirement that residents carry their identification documents. These measures were generally considered to be excessive. They were significantly eased with the introduction of the adaptive quarantine rules in early summer 2020. Although limitations on organizing public events persisted, peaceful gatherings held outdoors were not restricted, as confirmed by numerous protests carried out in 2020 and early 2021.

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

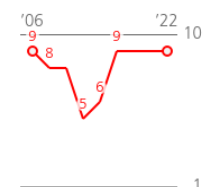
The Institute of Mass Information (IMI), an independent NGO, registered 229 cases of violations of media freedom in 2020, and another 243 in 2019 (194 cases in 2018, 281 in 2017, 264 in 2016, 310 in 2015 and 995 in 2014). Most of these violations have involved physical attacks against media workers (171 in 2020 and 172 in 2019) with the purpose of impeding journalists' activities. This includes both intimidation and assault. The level of censorship remains low, but fake news and the manipulation of facts (in private media and social media) has become an important problem.

The IMI also registered cases of restrictions related to the pandemic. Since the end of March 2020, more than 30 such cases, in which journalists have been denied access to public buildings, denied access to information or attacked by police, were filed.

The situation in the Crimea and the areas of Donbas occupied by Russia is a totally different story.

#### Association / assembly rights

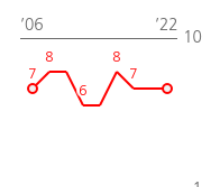
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#### Freedom of expression

7



1

### 3 | Rule of Law

The Ukrainian constitution provides for the separation of powers. However, developments in Ukraine since Zelensky became president in April 2019 and his party won the majority in parliament in July 2019 indicate that the formal separation of powers may in fact be weakening. The Office of the President has become the almost single decision-making authority, with parliament supporting presidential initiatives and the government being practically wholly subordinated to the Office of the President. That became especially clear after Zelensky's second government was appointed in March 2020. While the president's influence had noticeably declined by mid-2020, neither the parliament nor the cabinet took the leading role instead. While close collaboration of the president with the parliamentary majority follows the logic of Ukraine's semi-presidential system, its actual implementation has prompted serious doubts regarding the independence of several members of parliament (up to and including accusations of corruption).

Reform of the judiciary has not yet been successful. The judiciary's independence has not been achieved, primarily due to the country's highly volatile political situation and the lack of a tradition of the rule of law. However, the judiciary has used its enhanced independence to intensify its resistance to reform and has even undermined the anti-corruption system.

No state of emergency was declared during the COVID-19 pandemic, and although the work of parliament was interrupted briefly, it continued working remotely.

The judiciary in Ukraine has been one of the country's most corrupt state institutions, governed by vested interests. It is accorded very low levels of trust by the population. Despite considerable pressure from civil society, foreign investors and the international donor community since the Revolution of Dignity, efforts to reform the judiciary have experienced considerable setbacks. The sector is largely captured by the old-guard judges, who in tandem with oligarchs and pro-Russian political forces, have proactively sought to undermine reforms.

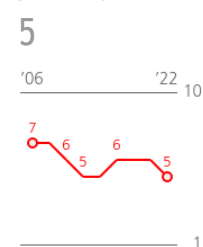
President Zelensky initially attempted to reinvigorate the reform of the judiciary by initiating a law meant to cleanse and ensure a high level of institutional integrity at the High Qualification Commission of Judges (HQCJ) and the High Council of Justice (HCJ), the two self-governing bodies of the judiciary (jointly responsible for the selection, transfer and appointment of judges). However, the law gave too much power over the process to the HCJ, which itself was in dire need of renewal, and eventually managed to block the entire reform process. The law also presupposed reducing the number of Supreme Court judges from 200 to 100.

The Constitutional Court of Ukraine (CC) also proved to be a strong veto player in the reform process. In February 2020, the CC annulled parts of the judicial reform of

Separation of powers



Independent judiciary



2016, when it declared the dissolution of the former Supreme Court, which took place during Poroshenko's presidency, to be unconstitutional, and restored the rights of the old-guard judges. In March 2020, in response to a submission by the Supreme Court, the CC ruled that most provisions of Zelensky's judiciary law were unconstitutional. Eventually, in October 2020, the CC concluded that obliging officials to file public asset declarations was unconstitutional, thus further undermining the system of fighting corruption. President Zelensky ordered the suspension of the CC (an unconstitutional move itself). However, parliament did not support this move, and looked for ways to solve the crisis using alternative bills.

On a positive note, in September 2019, the newly established High Anti-Corruption Court of Ukraine started work. Its judges were selected via rigorous and transparent procedures. Independent experts have provided positive assessments of the work of the court.

Although institutions that aim to limit corrupt practices have been established in Ukraine, punitive actions against corrupt officials have remained weak.

By mid-2020, the National Anti-Corruption Bureau of Ukraine (NABU) had launched around 1,000 investigations and filed 265 cases in courts but had secured only 41 convictions. The High Anti-Corruption Court reported 24 verdicts in 2020. No top-level officials were convicted.

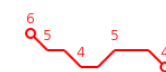
Moreover, efforts to undermine the activities of anti-corruption institutions intensified in 2020. In the summer, proceedings against several high-level judges were blocked by judicial self-governance bodies. In December, the NABU issued several statements claiming unprecedented interference by the Office of the Prosecutor General in NABU investigations of top officials in the presidential administration.

In October 2020, the Constitutional Court declared that provisions imposing criminal liability for giving false information in asset declarations were unconstitutional and prohibited the National Agency for the Prevention of Corruption (NAPC) from gathering, storing or publishing officials' e-declarations or from monitoring their lifestyles. Although a new law adopted in December 2020 restored the NAPC's authority, it softened the punishment for making false declarations. Ongoing investigations on false declarations, including against Constitutional Court judges, were withdrawn.

Prosecution of  
office abuse

4

'06 \_\_\_\_\_ '22 10



1

The degree of respect accorded to civil rights has remained relatively high. The freedom of movement and freedom of religion are, by and large, ensured. Discrimination on the basis of race, skin color, political, religious and other beliefs, gender, age, disability, ethnic and social origin, family and property status, place of residence, and language is prohibited in a number of legislatively determined spheres. The Criminal Code of Ukraine imposes liability for importing, producing or disseminating products that propagate violence and cruelty; racial, national or religious intolerance; or discrimination. Racial, ethnic, and religious hatred and discord are viewed as aggravating circumstances and a qualifying element of other crimes. However, discrimination takes place, especially with respect to the Roma and the LGBTQ+ community. Moreover, equality before the law is not ensured since there is considerable corruption among law enforcement authorities.

During the COVID-19 pandemic, observers have recorded an abuse of attempts to hold activists administratively liable for peaceful assemblies, though most of these cases were dismissed by the courts.

A worrisome trend of assaults against civil society activists persisted in 2019 and 2020. The Human Rights Center ZMINA recorded 83 cases of attacks against and incidents of persecution of civil society activists in Ukraine in 2019, and 101 such cases in 2020. Most of these cases were violent attacks on people and property. In this regard, the most dangerous types of activism focused on fighting corruption, protecting the rights of LGBTQ+ people, and protecting the environment.

The situation in the conflict zone in eastern Ukraine and the Crimea is different. Human rights organizations have repeatedly documented human rights abuses there involving kidnapping, torture and other forms of cruel treatment.

#### 4 | Stability of Democratic Institutions

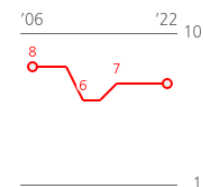
The democratic institutions reestablished after the Revolution of Dignity in 2014 have performed their functions, although frictions remain.

Despite significant efforts to construct proper checks and balances, vested interests have increasingly been interfering with various institutions' activities. For example, there have been numerous attempts to undermine the work of the National Anti-Corruption Bureau, including by the prosecutor general, who was appointed in March 2020 as a person completely loyal to the Office of the President.

As of the time of writing, the position of the head of the State Bureau of Investigations had been vacant since December 2019, with the selection blocked by a controversy over the commission by which competitive proposals for appointments are submitted to the prime minister and ultimately the president. A similar situation occurred with the selection of the head of the Specialized Anti-Corruption Prosecution service, who

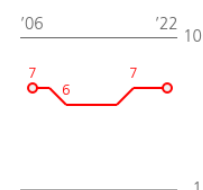
#### Civil rights

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#### Performance of democratic institutions

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resigned in August 2020. In both cases, vested interests have opposed the appointment of international experts and strong civil society oversight over the selection. Similar problems have interfered with efforts to reform the judicial system.

Moreover, efforts to reform the civil service were significantly undermined in late 2019 – 2020. First, the procedure for the dismissal of top public servants was simplified, causing a major reshuffle. Second, open competitions for jobs in the public administration were suspended in April 2020 as a COVID-19 related measure, resulting in numerous non-competitive appointments, including for senior positions.

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 fully mature, 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 divergent 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 they are prone to corruption and politically biased. This includes portions of the judiciary (including the Constitutional Court), 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 advance their interests.

COVID-19 related restrictions had only limited impact on the usual behavior of the relevant actors.

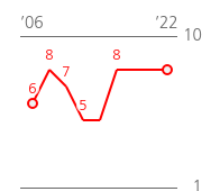
## 5 | Political and Social Integration

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 obvious programmatic differences and continue to be primarily political vehicles for the particularistic interests of leading politicians or businesses, rather than aggregating and representing societal interests. Overall, the battle lines between parties are blurred and change frequently, driven by power interests rather than ideology or party programs.

The processes leading to 2019's presidential (April) and snap parliamentary elections (July) confirmed this trend. Three of the five parties that made it into parliament were utterly new. The two largest factions, Volodymyr Zelensky's Servant of the People party with 254 seats, and the Opposition Platform – For Life aligned with Viktor Medvedchuk, with 43 seats, were both established in 2018. The Holos (Voice) party

Commitment to democratic institutions

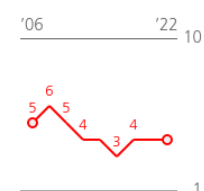
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Party system

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led by prominent Ukrainian musician Svyatoslav Vakarchuk, which had the smallest faction at 20 MPs, was established just two months before the vote. The European Solidarity party led by the fifth Ukrainian president Petro Poroshenko, which had the fourth-largest faction (25 MPs), had previously been present in parliament under the name Bloc of Petro Poroshenko. Yulia Tymoshenko's Fatherland party, represented by 26 MPs, has the most established record, dating back to 1999.

The run-up to the local elections in October 2020 saw the formation of several new political parties of local significance. However, most local council seats were won by the parties already represented in parliament.

Thus, it can be stated that the Ukrainian party system is in constant flux, and that no party has deep roots in society. Every time elections take place, the party system presents itself anew.

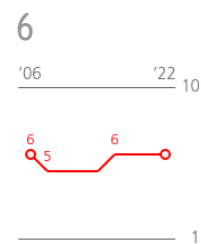
There are formal channels for communicating societal or group interests, including participation in public councils and working groups, the mandatory publication of forthcoming regulatory acts in order to allow public discussion, meetings with civil society representatives, petitions, and so on. However, these mechanisms have had quite limited impact on the actual decision-making process.

The network of interest groups is relatively close-knit, but their influence is unequal. Financial and industrial groups and 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 (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.

Civil society's presence in public discourse and policymaking has remained strong thanks to the formation of various platforms and coalitions. Prominent examples include the Reanimation Package of Reforms, a platform of NGOs and experts that advocates for reforms, and the Map of Legal Reforms for Civil Society, which was drafted by some 140 NGOs and presented in September 2020.

Despite relatively high levels of (formal) membership in trade unions, these have played only a marginal role in promoting employees' interests. Although potentially the largest interest group, consumers in Ukraine have not been sufficiently organized to influence policy, although they do play a watchdog role in terms of market oversight. Business associations have become more active in representing their interests to the government. Other societal interests are less well represented. Interest groups representing ethnic, nationalist and religious interests have not played a policy role in Ukraine.

Interest groups





The people of Ukraine generally endorse democratic norms, and slightly over half of the population agrees that democracy is the best governance system for Ukraine.

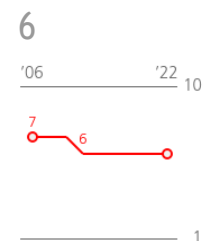
Nevertheless, people are dissatisfied with the functioning of democracy and democratic processes in Ukraine. Apart from a short period of euphoria after the 2019 elections, levels of dissatisfaction have been stable, and higher than levels of satisfaction. However, most people supported the decentralization reform, and have noticed positive developments in their own communities (according to a poll of the Kyiv International Institute of Sociology, February 2020).

Popular trust in public institutions remains at low levels. In a December 2020 poll, society at large was accorded a higher level of trust than the parliament, the government, the president, law enforcement authorities, the judiciary, political parties or the media. This trend has persisted over the years (outside of 2019, when President Zelensky enjoyed high levels of popularity, but this had subsided by mid-2020).

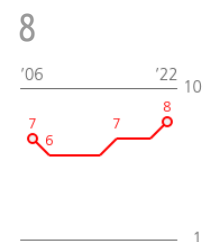
The recent growth of social capital in Ukraine has been remarkable. The trend has its roots in the Euromaidan protests, in which civil society organizations, voluntary initiatives and ordinary people played a decisive role (in contrast to political parties). Right after the Euromaidan events, in the face of Russian aggression, people were eager to donate to the army and to initiatives supporting the army, battalions of volunteers and the civilian population displaced by the war. The COVID-19 pandemic also served as a mobilizing factor for civil society, which substituted for the state in providing hospitals and medical institutions with equipment and protective equipment. In an April 2020 survey of civil society organization (CSO) representatives conducted by the Democratic Initiatives Foundation, half of all respondents agreed that the pandemic had multiplied social capital, including people-to-people connections, solidarity and mutual trust.

Civil society in Ukraine also enjoys considerable trust among the population – a trend that has been stable since 2014 and has even been growing. Thus, according to a poll conducted by the Kyiv International Institute of Sociology in December 2020, 74% of respondents trusted voluntary organizations that help the army (compared to 63% in 2018). The voluntary organizations that helped internally displaced persons were trusted by 66% of the population (compared to 61% in 2018).

Approval of democracy



Social capital



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Before the COVID-19 pandemic, poverty in Ukraine had been gradually declining as economic growth resumed. In 2019, the real disposable income of households grew by 6.5%. In 2020, households' welfare inevitably worsened due to the pandemic-triggered economic downturn in Ukraine and in global markets more generally. However, preliminary data suggest that Ukraine's households were reasonably resilient to the shock. Real household incomes increased by 3.2% in Q3 2020, after a lockdown-driven drop of 7.3% in Q2 2020 (both figures vis-à-vis Q3 2019). In Q4, the income recovery continued. Real wages continued growing in 2020 amid low inflation, while unemployment stayed close to historical averages for the last several years.

In 2019, Ukraine continued improving its position in the Human Development Index, ranked at 74th place out of 189 countries, with a score of 0.779. The country's overall loss in HDI due to inequality is 6.5%, one of the world's lowest such figures.

According to the latest World Bank estimate, the Gini coefficient for Ukraine is 26.1, signaling a fairly equal distribution of incomes within the country. The World Bank reported that in 2018, 0.4% of the population in Ukraine lived on less than \$3.20 a day at 2011 international prices adjusted for purchasing power parity. According to Ukrstat, the Gini coefficient did not change significantly in 2020, being 26.2 in the first half of 2020 as compared to 25.5 in the same period of 2019.

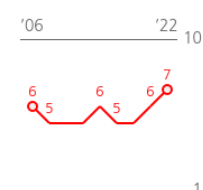
The country also moved closer to a state of gender equality, with its score on the Gender Inequality Index improving from 0.270 in 2018 to 0.234 in 2019. Women have equal access to education, social protection and the labor market, and recently have seen their representation in parliaments at both local and national level improve substantially. However, women still tend to receive lower wages, and the risk of poverty is considerably above average for single mothers.

There are no specific social barriers associated with religion, but some ethnic minorities, especially the Roma, experience social exclusion. Disabled people and people living with HIV/AIDS also continue to experience social exclusion.

Question  
Score

Socioeconomic  
barriers

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<b>Economic indicators</b>		2017	2018	2019	<b>2020</b>
<b>GDP</b>	\$ M	112190.4	130901.9	153929.5	<b>155582.0</b>
<b>GDP growth</b>	%	2.5	3.4	3.2	<b>-4.0</b>
<b>Inflation (CPI)</b>	%	14.4	11.0	7.9	<b>2.7</b>
<b>Unemployment</b>	%	9.5	8.8	8.2	<b>9.5</b>
<b>Foreign direct investment</b>	% of GDP	3.5	3.5	3.8	-
<b>Export growth</b>	%	3.8	-1.3	7.3	<b>-5.6</b>
<b>Import growth</b>	%	12.6	3.0	5.7	<b>-9.6</b>
<b>Current account balance</b>	\$ M	-3473.0	-6432.0	-4124.0	<b>6224.0</b>
<b>Public debt</b>	% of GDP	71.6	60.4	50.5	<b>60.8</b>
<b>External debt</b>	\$ M	122699.6	121090.7	123921.3	<b>129899.1</b>
<b>Total debt service</b>	\$ M	13136.0	14675.9	13862.3	<b>17871.1</b>
<b>Net lending/borrowing</b>	% of GDP	-1.4	-1.7	-1.7	-
<b>Tax revenue</b>	% of GDP	20.0	20.1	19.2	-
<b>Government consumption</b>	% of GDP	20.7	20.8	18.8	<b>19.3</b>
<b>Public education spending</b>	% of GDP	5.4	5.3	5.4	-
<b>Public health spending</b>	% of GDP	3.5	3.7	-	-
<b>R&amp;D expenditure</b>	% of GDP	0.4	0.5	-	-
<b>Military expenditure</b>	% of GDP	2.9	3.2	3.5	<b>4.1</b>

Sources (as of December 2021): 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

The essential elements of a market economy are in place in Ukraine.

According to the World Bank Doing Business Report 2020, Ukraine ranked 61st in the category of “starting a business,” with a score of 91.1 out of 100. This task requires six procedures, 6.5 days and 0.5% of the country’s income per capita to start a business. There are no paid-in minimum capital requirements, and no gender differences in starting a business. After 2015, Ukraine’s government took key steps toward deregulation, sharply reducing the number of licenses and permits needed. Many administrative services for business are available online.

The resolution of insolvency has remained a severe problem. Ukraine was ranked 146th in the Doing Business Report 2020 in this area. However, a new Bankruptcy Code entered into force in April 2019, aiming to simplify market exit and thereby make the Ukrainian market more attractive for investors.

Most prices are liberalized. According to the European Bank for Reconstruction and Development (EBRD), Ukraine’s price liberalization has scored a 4 (scale: 1 to 4+, with 4 being the highest) since 1997. Designated regulatory bodies regulate utility, energy and telecommunication tariffs. The energy market regulator has been made more independent. Nevertheless, the establishment of market gas prices for households has remained politically sensitive. Here, price adjustments driven by purely economic rationales produce negative social impacts, although consumer subsidies largely mitigate these.

Ukraine adopted current account convertibility under the IMF’s articles in 1997. Ukraine’s national currency, the hryvnia, is not fully convertible. However, a wide-ranging liberalization of foreign currency regulation was launched in February 2019. That significantly simplified operations with foreign currencies for both business and people.

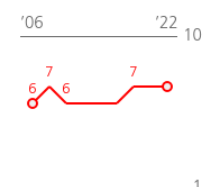
Foreign companies registered with local authorities receive several important guarantees. First, foreign investment cannot be nationalized or subjected to requisition, except for cases of force majeure, and in this case, investors have the right to restitution of losses. Second, investors have the right to unimpeded repatriation of profits, dividends and investments after all taxes are paid.

The size of the shadow economy has continued to decline from its 2014 peak. According to official estimates, the shadow economy accounted for 31% of GDP in 2020.

Compared to the situation before the Euromaidan, the economic power of oligarchs has been curtailed. However, competition rules are not consistently enforced.

Market  
organization

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A number of critical components of a competition policy framework are in place. The Anti-Monopoly Committee of Ukraine (AMCU) is responsible for preventing unfair competition and abuses of market power, while also overseeing issues including market concentration, collusion, price-setting in natural monopolies and competition in public procurement settings. The AMCU is a member of the International Competition Network (ICN).

The AMCU is overseen by the president and reports to the parliament. Since 2005, a public (advisory) council has served as a public watchdog that reviews AMCU activities. The council is composed of 38 members representing Ukraine's leading industry associations and NGOs.

Price-setting in the energy, telecommunication and other utilities fields is regulated by independent national commissions that serve as special regulatory bodies. However, especially in the oil, gas and electricity markets, vested interests still maintain strong informal power.

Ukraine has moved forward in implementing its Deep and Comprehensive Free Trade Area (DCFTA) commitments to the European Union in the sphere of competition policy, including by enhancing its transparency and accountability. AMCU decisions are published, while the methodology for the imposition of sanctions has been improved. Authorities have enacted new legislation expanding oversight of economic concentration in line with EU norms. The AMCU monitors and authorizes state aid, although its capacity in this sphere requires further improvement.

As a result, international assessments of Ukraine's competition policy have improved. In the Global Competitiveness Report 2019, Ukraine was ranked 89th out of 141 countries in the category "extent of market dominance," compared to 106th in the 2017 – 2018 report.

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

The country has been a WTO member since 2008. Ukraine has multiple free trade agreements (FTAs), including the multilateral CIS FTA and bilateral FTAs with all CIS members (excluding Russia). It additionally has FTAs with the European Free Trade Association (EFTA), Canada, North Macedonia, Montenegro. It is a signatory to the DCFTA with the EU. In January 2021, FTAs with Israel and the UK entered into force. More FTAs are being negotiated.

The average MFN applied tariff rate is 9.2% for imports of agricultural products, and 3.7% for non-agricultural goods. Trade-weighted averages are lower given the country's extensive FTAs. The majority of import tariffs are ad valorem. Ukraine uses only one global tariff quota, on raw cane sugar.

Export duties are applied to only a few products including some oilseeds, live animals, hides, natural gas and metal scrap. The rates are moderate in line with the

## Competition policy

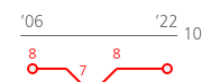
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## Liberalization of foreign trade

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WTO commitments. However, in mid-2016, Ukraine increased metal scrap export duties. The decision raised concerns over its compatibility with WTO commitments but has not as yet been challenged in the WTO. In trade with the EU, export duties are applied in line with the DCFTA commitments.

Import and export licenses are required for a limited and declining number of goods. 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 remains very low. In 2015, Ukraine imposed a 10-year ban on exports of wood logs, including to the EU. In late 2020, the EU prevailed in an arbitration process focused on this measure.

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

Ukraine has a two-tier banking system with the National Bank of Ukraine (NBU) serving as a supervisory and regulatory body, and commercial banks providing services to economic actors and private households.

While the NBU's autonomy was strongly reinforced in 2015 in line with IMF requirements, this independence was tested in mid-2020. However, the central bank's financial supervision function has remained mostly intact. In early 2019, the NBU won the Central Banking Award for Transparency, but the resignation of bank's chief in reaction to "systematic political pressure" in July 2020 indicates that this progress cannot yet be taken for granted.

At the end of 2020, there were 74 licensed banks in Ukraine, including 33 banks funded through foreign capital. Financial reforms in the banking system conducted in 2015 to 2016 resulted in a significant improvement in the system's stability, transparency and accountability, thus allowing it to go through the COVID-19 pandemic shock without major perturbation.

Important reforms included new rules regarding disclosure of ultimate beneficiaries, regular stress-testing with the publication of results, and improved oversight. New legislation enhanced creditors' rights and strengthened consumer protection in the financial sphere. The banking system now uses international accounting and management standards.

In July 2020, the NBU took over the regulation of non-bank financial institutions from the dissolved Financial Securities Commission. This change should improve oversight over insurance and non-bank credit institutions, and speed up harmonization with EU norms in these sectors.

Banking system

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Ukraine has implemented portions of the MIFID/MIFID II regulations embedded in its law on securities, a new version of which was adopted in 2019 – 2020.

Key banking-system indicators have improved. The capital adequacy ratio in late 2020 was around 22%, up from 16% in early 2019 (minimum under Basel III rules is 10.5%). The banking systems capital-to-assets ratio, according to the World Bank, was 13.5% in 2019.

Non-performing loans (NPL) remain an issue, although their share decreased to 48% in 2019 – 2020 compared to 54% two years before. The NPL reduction strategy has been an element of the current IMF stand-by arrangements for Ukraine. In 2020, the coronavirus crisis did not cause a strong upsurge of non-performing loans, but the risk of such an eventuality remains in 2021.

While the banking system has improved, the stock market was largely stagnant in the 2019 – 2020 period. However, a new foreign currency law (2019) simplified capital flows, including investments in shares of foreign companies.

## 8 | Monetary and fiscal stability

The independence of the National Bank of Ukraine (NBU) was institutionalized in 2015 through legislative changes addressing Supervisory Council functions, budget transfers, NBU audits and other issues. Internal committees were given a greater decision-making role.

In mid-2020, the abrupt resignation of the head of the NBU, who claimed that the body had been subject to political pressure, showed these key achievements to be in jeopardy. However, the newly appointed NBU head pledged that the authority would retain its independence, and so far, despite some frictions, NBU policy has remained mostly intact.

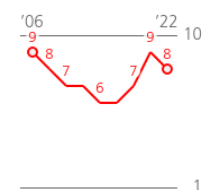
An inflation targeting program was launched in 2016 with the medium-term target set at +5%. In 2020, the annual target was met for the first time. According to Ukrstat, consumer price inflation (CPI) grew precisely by 5% year-over-year in December 2020, despite the coronavirus crisis.

With the inflation rate on a downward trajectory, the NBU started reducing its policy rate, which had fallen to 6% by mid-2020 from a peak of 18% in September 2018. The policy rate remained unchanged from June 2020 through the end of the review period.

The exchange rate was flexible in 2019 – 2020. During 2019, the hryvnia noticeably appreciated amid accelerated inflows of remittances and purchases of Ukrainian state bonds by foreigners. However, this trend reversed in 2020 amid the coronavirus crisis. By the end of 2020, the hryvnia's nominal value vis-a-vis the U.S. dollar was only 1.5% less than in early 2019. The real effective exchange rate (REER) of the currency has strengthened over time. In 2019, for example, the REER was 91.6, compared to a level of 74.7 in 2017

### Monetary stability

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In 2019, a major law regulating foreign currency was enacted. It replaced an outdated decree dating back to the early 1990s, and introduced a completely new regulatory architecture entailing significant liberalization.

Ukraine has continued its cooperation with the IMF, although with frictions. In June 2020, Ukraine signed a new stand-by arrangement for 2020 – 2021. The first tranche was received in summer 2020. No further tranches were received in 2020 due to concerns regarding the NBU's independence and about the judiciary and anti-corruption reforms.

In 2019, fiscal stability remained a policy priority. The government's consolidated fiscal deficit amounted to 2.1% of GDP, while total state debt fell to 50% of GDP from a peak value of 81% of GDP.

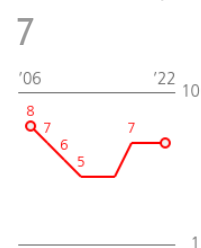
In 2020, the government engaged in fiscal stimulus with the aim of counteracting the effects of the coronavirus crisis. The consolidated fiscal deficit thus grew to 5.4% of GDP. Total state debt expanded to 61% of GDP, funded primarily by external borrowing, including through the EU macro-financial assistance (MFA) program and World Bank loans, as well as foreign investors' purchase of state bonds.

The fiscal deficit envisioned in April 2020, when the coronavirus-related amendments to the state budget were introduced, was initially higher, exceeding 7% of GDP. However, the rocky implementation of the IMF program halted the fiscal expansion. Ukraine and the IMF agreed a new \$5 billion stand-by arrangement in June 2020. The first \$2.1 billion tranche was disbursed immediately, but no further planned tranches were received due to increased concerns about the independence of the monetary authority and the judiciary, as well as the shaky anti-corruption reforms.

The efficiency and transparency of most public expenditures remained high. ProZorro, the country's online public procurement system, has been further developed to harmonize with EU norms and practices. Automatic export VAT refunds continued to be provided via a transparent online system.

However, there were also worrisome trends. The medium-term budgetary planning framework was slated to become fully operational in 2020, but its implementation was delayed. The efficiency and effectiveness of the COVID-19 Budgetary Fund expenditures were questionable. The still-sizable shadow economy, extensive social obligations and ad hoc populist decisions (such as the August 2020 decision to increase the minimum wage by 6% starting September 2020) also contributed to the country's perceived fiscal fragility.

Fiscal stability





## 9 | Private Property

The Ukrainian constitution as well as the country's civil and commercial codes guarantee the right to private property. However, property rights are weakly protected due to deficiencies in the judicial system and extensive corruption.

This situation is changing slowly due to ongoing reform efforts, including the creation of anti-corruption institutions, the ongoing judicial reform, multiple anti-raiding laws and laws strengthening intellectual property rights.

In the Global Competitiveness Report 2019, Ukraine was ranked 128th out of 141 countries with regard to the protection of property rights, and 118th for the protection of intellectual property rights. In both cases, this was a slight decline. In the World Bank's Doing Business Report 2020, Ukraine was ranked 45th in the category "protecting minority investors," a significant shift upward compared to its 72nd-place ranking a year before.

The reforms intended to strengthen protection of intellectual property rights (IPR) continued. Ukraine has aligned its legislation with the EU norms for patents, industrial samples and trademarks. A law on the state authority for IPR protection has been passed. In 2020, Ukrpaptent was assigned these responsibilities. However, the specialized Supreme Court on Intellectual Property did not become operational within the review period.

Private companies dominate the Ukrainian economy. The compound index measuring the share of state-owned enterprises (SOEs) in the economy based on income, profit, employment, number of enterprises and assets was 11.5% in the first half of 2020, down from 14% in 2018. The economic share of SOEs on a sales basis is about 10%. The state's role has remained important in several areas including energy (Naftogaz) and transport (railways). Although still incomplete, an SOE corporate governance reform project has improved the efficiency of several publicly-owned giants, including Naftogaz and Ukrposhta.

In 2020, the state did not nationalize assets or purchase equity stakes in troubled firms with the aim of preventing bankruptcies, including those driven by the pandemic's effects.

The privatization process has continued despite the economic slowdown. In 2020, privatization revenues totaled UAH 2.3 billion, the highest such level since 2017, thanks to the acceleration of "small-scale privatization" through the official electronic auction system ProZorro Sale. The "large privatization" of big companies was suspended in 2020 due to the coronavirus crisis but will restart in 2021.

### Property rights

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### Private enterprise

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The SME sector is large and expanding. According to Ukrstat, in 2019, SMEs and individual entrepreneurs accounted for over 99% of Ukraine's enterprises, 82.2% of hired employees (80.8% in 2017) and 65.5% of total sales (64.8% in 2017).

The constitution and multiple legislative acts ostensibly guarantee the inviolability of private property rights, including intellectual property rights. However, enforcement of these rights has remained insufficient, although it is slowly improving.

## 10 | Welfare Regime

Social safety nets are well developed in Ukraine, although they do not cover all risks.

The most critical element of the social safety net is the pension system. This has three pillars, but only two are functioning: the solidarity system (1st pillar) and a non-state pension based on voluntary participation (3rd pillar). The latter is hampered by the weak stock market, low incomes and lack of trust in financial institutions. The 2nd pillar – compulsory individually funded pension insurance – has not been introduced yet.

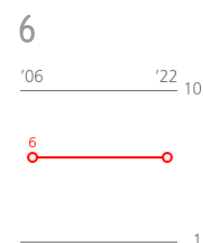
Reforms of the pension system have been underway since 2017 with the goal of improving its sustainability. The number of years that a person has to work in order to qualify for a pension has increased. Pension levels have been linked to the average wage and inflation trends so as to curb deteriorations in pensioners' incomes.

According to the Pension Fund, as of January 1, 2021, there were 11.1 million pensioners in Ukraine, or 27% of the total population. The average pension at the beginning of 2021 was UAH 3,507 per month (approximately €105). Though small, this represents a doubling compared to 2016.

Subsidies are another vital component of the social safety net in Ukraine. Social protection expenditures (excluding pensions) accounted for 3.3% to 3.4% of GDP from 2019 to 2020, primarily due to household-level subsidies for housing and utilities. In 2019, the monetization of subsidies was introduced, and in 2020, the verification of household incomes and additional eligibility criteria allowed the government to further target people in need.

In 2017, the state launched a comprehensive reform of the health care system. These changes are still ongoing, although with problems and delays. The first stage reformed the primary health care sector along the idea that money follows patients. A public program was introduced providing essential drugs for free, or with a considerable discount on prescriptions, along with telemedicine functions that have improved access to medical services. In 2020, reform of the secondary (specialized) health sector began.

Social safety nets



The government used several instruments to mitigate the pandemic's adverse economic effects, including one-time transfers to pension recipients and beneficiaries of child disability payments; increased unemployment benefits; simplified enrollment in utility-subsidy programs; and a moratorium on disconnections and penalties for late utility payments.

The ongoing Russian aggression in Donbas significantly worsened the social protection in the territories not controlled by the Ukrainian government. People living in the occupied territories do not have proper access to social payments, and social services have 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, implementation remains insufficient, resulting in inequality and the social exclusion of some groups.

Gender inequality is narrowing. In the Human Development Report 2020, Ukraine was ranked 45th in the Inequality-Adjusted Human Development Index, 29 ranks better than its position in the standard HDI.

In the Global Gender Gap Report 2020, Ukraine was ranked 59th out of 153 countries with a score of 0.721, marking a continued rise over time. The political empowerment of women has notably improved, with new electoral laws establishing explicit quotas for women.

There is no gender gap in the country's literacy rates, and no disparity with regard to enrollment in primary or secondary educational establishments. In the tertiary education sector, there are on average 10% more women than men enrolled. The gross enrollment ratio is high, at 99% at the primary level, 96% at the secondary level and 83% for tertiary education. Women constitute 47% of the total labor force. However, a gender wage gap persists.

The general population and policymakers have strongly opposed equal opportunity provisions for sexual minorities. In 2015, parliament showed strong resistance before giving in to an EU conditionality requiring workplace discrimination based on sexual orientation to be banned

Some ethnic minorities, such as the Roma, experience social exclusion. Social exclusion of the Roma population entails exclusion from education, the labor market and social services.

Disabled people and people living with HIV/AIDS do not have equal opportunity to participate in society, with restrictions on their access to education and employment. People with disabilities frequently remain excluded due to the deficiency of urban and rural infrastructure, especially the lack of disabled-access adaptation of buildings,

Equal opportunity

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roads and transport. The exclusion of people living with HIV/AIDS is mainly due to the stigma and popular prejudices associated with HIV.

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

## 11 | Economic Performance

Thanks to previous years of systemic reforms, Ukraine's economy performed much better in 2020 amid the global coronavirus crisis than in any prior crisis episodes.

After growing by 3.2% in 2019, real GDP was expected to decline by 4.3% in 2020, with a sharp drop in Q2 and a steep recovery in Q3. The rebound was backed by quite resilient household consumption supported by growing real wages, low inflation, increased social support and an inflow of remittances. Moreover, net exports made a positive contribution to real GDP growth, as the decline in exports was far less significant than in imports.

In 2020, the current account balance turned positive, reaching 4.4% of GDP, after a moderate deficit of 2.7% of GDP in 2019. Despite the outflow of funds in the financial account, the balance of payments remained positive in 2020, allowing for the continued accumulation of international reserves to a level of \$29.1 billion, covering 4.8 months of future imports.

By the end of 2019, GDP per capita (on a PPP basis) reached \$13,341, the highest level ever. Since 2009, GDP per capita on a PPP basis has grown by an average annual rate of 5%; this is above the world average, but still insufficient to catch up with the country's neighbors.

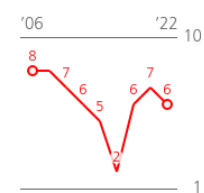
The inflation rate has continuously fallen. In December 2020, annualized CPI was 5%, thanks to the consistent monetary policy.

The labor market remained reasonably stable, taking into account the quarantine restrictions imposed in 2020. In 2019, the unemployment rate among the economically active population aged 15 to 70 (ILO methodology) was 8.2%. This increased to 9.5% in Q3 2020, returning to the levels observed several years ago. Despite the increased unemployment, average real wages continued to grow at an annual rate of 10%. The average wage reached UAH 14,179 per month (approximately €420) in December 2020, compared to UAH 10,573 (€350) in December 2018.

Total state debt declined from 81% of GDP in 2016 to 50% in 2019, but grew again to 61% in 2020 as the government implemented a fiscal stimulus program in order to counteract the coronavirus crisis. A new stand-by program with the IMF was launched in mid-2020, but was not fully implemented.

Output strength

6



## 12 | Sustainability

Ukraine's association agreement with the European Union and especially its interest in the EU Green Deal provided an impetus for environmental policy reforms and helped deepen environmental concerns in the society.

In 2019, the State Environmental Strategy 2030 was adopted. Key legal frameworks, including the laws on Environmental Impact Assessment (EIA) and the Strategic EIA, were adopted and enacted. Reforms designed to improve waste management practices as well as air and water quality were launched, although their progress has been uneven. A law on monitoring, reporting and verification of greenhouse gas emissions was adopted in December 2019 and entered into force in January 2021.

In the Green Deal framework, Ukraine expressed its interest in joining the European Raw Materials Alliance, the European Battery Alliance and the European Clean Hydrogen Alliance. The country is preparing a strategy for achieving climate neutrality by 2050.

Energy efficiency is another important avenue for improving environmental protection. High energy prices and programs stimulating energy saving (e.g., funds for energy-saving measures in residential buildings) have led to gradual improvements.

The supply of renewable energy has grown rapidly, stimulated by generous legally guaranteed "green" tariffs. However, this created unsustainably high fiscal pressures, causing payment delays. In 2020, after intense consultations with market players, parliament reduced the green tariffs.

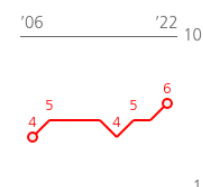
In 2020, Ukraine ranked 60th out of 180 countries on the Environmental Performance Index, a significant improvement compared to the previous assessment. The country received a score of 49.5 out of 100. According to the European Energy Community Report 2020, Ukraine is well advanced in implementing environmental sector reforms, but is at an early stage in the climate sector.

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.

In the 2019 – 2020 period, public spending on education was stable at about 6.0% of GDP. However, economy-wide education expenditures were higher, as they include private educational establishments and various institutions for professional training not funded by the state.

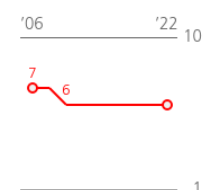
Environmental policy

6



Education policy / R&D

6



The coronavirus crisis resulted in an active use of online education tools and home schooling, likely harming the quality of obtained knowledge and skills.

According to the Human Development Report 2020, Ukraine ranked 20th in the UN Education Index (score: 0.799). The country has a 99% gross enrollment rate at the primary education level, 96% at the secondary level and 83% at the tertiary level. The adult literacy rate remains high, at 100% of people aged 15 and over. The expected years of schooling is at 15.3 years, a bit longer for females than males.

According to the Global Competitiveness Report (GCR) 2019, Ukraine ranked 44th out of 141 countries with regard to the availability of skills, slightly improving its position due to a better assessment of the current workforce's skills.

Ukraine has been reforming its educational system since 2014, aiming at integration into the European Higher Education Area in line with the Bologna Process. The National Agency for Higher Education Quality Assurance began functioning in late 2019. In 2020, the government revised the National Qualification Framework to align it with the European Qualifications Framework.

While independent external evaluations have reduced corruption with regard to accessing higher education, corruption during the educational process persists.

Ukraine receives only mediocre ratings with regard to its innovation capacity. The GCR 2019 ranked Ukraine at 60th place out of 141 countries in this area, though the country's score has improved over time.

Public spending on R&D remained low at less than 1% of GDP. Research quality is very uneven among sectors, and among institutions within each given sector. Reform of the National Academy of Sciences remains in the early stages, as its new head was elected in 2020. However, Ukrainian research organizations actively participate in the EU Horizon 2020 program. Recent reforms have established stronger links between remuneration levels and publication in international refereed journals and citation indexes.

## Governance

### I. Level of Difficulty

Ukraine faces several long-term structural constraints.

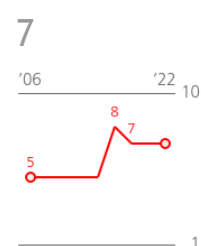
The country is undergoing a severe demographic crisis, characterized by an aging and shrinking population. According to the Ukrainian Statistical Service, average life expectancy at birth in 2019 was 67 years for men and 77 years for women, with very slow improvements evident over time. However, with 1.2 children born on average to each woman, the country's fertility rate is insufficient to ensure the population's natural recovery. At the same time, Ukraine is a country of labor emigration. Several million Ukrainians work (temporarily) abroad, mainly in the European Union or Russia. That is already creating economic and social pressures, and these are likely to grow worse in the future. Despite recent reforms of the health care and pension system, the country has remained insufficiently equipped to deal with the consequences of these developments, which will include higher expenditures for health care, care for the elderly and pensions, as well as a shrinking labor force.

The country's energy-inefficient economy poses an additional structural constraint, although the situation has improved due to multiple reforms in this sector. Since 2016, Ukraine's entire gas supply has come from 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 occupation of the Crimea and some territories of Donbas resulted in several important problems: a loss of control over portions of the country's territory and assets, including mineral resources; up to 44,500 casualties, including about 13,700 killed; and over 1.7 million internally displaced persons. All this puts additional pressure on social safety nets and has broken production links. Moreover, Ukraine does not control part of its border with Russia; support for pro-Russian fighters is supplied regularly via this channel. This means that military operations in Donbas will continue, creating an unprecedented level of expense for the army, which in turn places constraints on the state budget.

The COVID-19 pandemic has been severe in Ukraine, with over 1 million registered cases and over 18,000 COVID-19 related deaths as of January 1, 2021. In 2020, there were approximately 16,000 excess deaths compared to the five-year average, accounting for around 3% of total deaths. In the short run, the pandemic's economic

Structural  
constraints



and political impact was moderate, with the economy bouncing back in the second half of the year and local elections held in late 2020. However, the longer-term structural impact of the economic and social disruptions caused by the pandemic could be more severe. The pandemic affected access to and the quality of education and health care. Moreover, it disrupted the functioning of many businesses, especially SMEs. The full impact may not be realized for many years.

Civil society traditions date back to pre-Soviet times. During the Soviet era, civil society was suppressed and controlled by the party-state. Some prominent human rights organizations, such as the Ukrainian Helsinki Human Rights Union and 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 have improved, and the level of activism has been growing. Due to the Revolution of Dignity in 2014 and its aftermath, more people have shown a willingness to protest and become volunteers. The COVID-19 pandemic in 2020/21 again mobilized civil society and volunteer organizations when the state proved incapable of providing the hospitals with the necessary equipment.

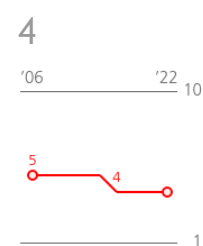
Although only about 10% of officially registered Ukrainian NGOs work on a steady basis, mostly depending on international donors, their societal and policy influence has increased. Civil society has become aware of its role in the reform process. It has improved its advocacy activities by joining forces in networks and NGO coalitions, working closely with international institutions that foster reforms, and exercising increased pressure on public authorities. Due to decentralization, civil society organizations on the local level have become a real actor in community development.

The number of CSO representatives in government structures at both the national and regional levels also increased in 2019-2020. For example, 50 civil society activists were elected as members of parliament in 2019, and many such activists have become members of local councils.

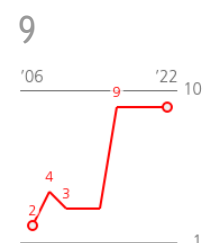
Even though Ukraine is an ethnically, linguistically and religiously diverse country, conflicts of ethnic, linguistic or religious origin remain insignificant. None of Ukraine's churches constitutes a state church. Ukraine has liberal laws regarding religion, which also guarantee the freedom of religious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

The conflict in Donbas is a separate issue, since it was not precisely provoked by social, ethnic or religious cleavages. Rather it was initiated and has been sustained to the present day by Russian military involvement, with support from local fringe politicians and criminal elements.

Civil society traditions



Conflict intensity





The nature of politics in Ukraine is partially marked by confrontation. This has increased as the pro-Russian political party Opposition Platform – For Life, funded by Viktor Medvedchuk, a close ally of Vladimir Putin, has established a network of TV channels that have become a constant source of pro-Russian propaganda and fake news. This helps to reinforce a political cleavage between a supposedly pro-Russian eastern and pro-EU western part of Ukraine and has led to polarized public debates. However, mass mobilization or violence are not aspects of this political conflict.

In principle, there is no potential for a serious conflict beyond the one in Donbas. The situation has not changed in the wake of the COVID-19 pandemic.

## II. Governance Performance

### 14 | Steering Capability

Formally, the government regularly sets strategic priorities. However, the poor coordination between the policy priorities identified in various planning documents makes de facto policy prioritization weak.

The key horizontal planning documents include:

- the Government Action Program (2020);
- the Action Plan for Implementation of the EU-Ukraine Association Agreement until 2022 (2017);
- the Sustainable Development Strategy: Ukraine 2020 (2015); and
- the State Strategy for Regional Development for 2021-2027 (2020).

In addition, there are a number of sectoral strategies, including the Energy Strategy of Ukraine until 2035 (2019) and the Transport Strategy of Ukraine until 2030 (2018), both featuring a much longer time horizon than the horizontal planning documents.

The memorandums signed with the IMF and the EU also have extensive influence over strategic planning in Ukraine due to binding agreements and funding conditionalities.

There are multiple problems with prioritization. The documents' hierarchy and their relationship to one another are not always clear, and is not prescribed in full in the legal framework. Annual priority-setting documents or action plans are often too ambitious, and a high proportion of planned commitments are carried forward from one year to the next. Many strategy documents do not contain cost estimates for

Question  
Score

Prioritization

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implementation, undermining continuity between policies and fiscal plans. There has been a lack of medium-term budget planning, and the implementation of adopted legal changes is often delayed. Although there are structural units within the government assigned to perform strategic planning tasks, the development of strategies is frequently outsourced to experts and donors, resulting in weak ownership of planning documents within the government.

The results of the reform process in 2019 and 2020 were somewhat mixed, similar to the previous periods. However, the land reform adopted in mid-2020 represents a positive breakthrough. The government has also progressed in the areas of decentralization, electoral legislation, customs processes, the protection of intellectual property rights, financial sector management and transportation. However, there have been significant drawbacks with regard to the judiciary sector, anti-corruption efforts, the monetary authority's independence and civil service reform, to name a few such areas.

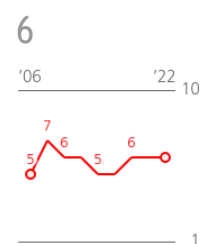
The Pulse of the Agreement, the monitoring system for implementation of the legal component of the EU Association Agreement (<https://pulse.eu-ua.org/ua/>), shows that in the 2014 – 2020 period, Ukraine implemented 53% of its commitments due in 2014 – 2024, compared to 43% as of the end of 2019. Although the government managed to fill some implementation gaps left during previous periods, only 20% of the commitments scheduled for 2020 were fulfilled.

Such delays are not unique for the Association Agreement (AA) implementation, for which the overall progress is in fact very good. Delays and partial implementation of adopted strategies have been a persistent problem for Ukraine. That has to do with excessively ambitious planning, changes in policy priorities with the change of executive teams, and vested interests' disruptions of the reform process.

The COVID-19 crisis slowed the pace of reform further, as both the government and the parliament had to respond to the pandemic's short-term challenges. Examples of postponed reforms include the introduction of the medium-term budgeting framework and large-scale privatization. Moreover, the pandemic was used to (temporarily) stop competitive hiring practices for civil servant positions, undermining this reform's critical element.

Overall, the strong reform dynamic initiated by President Zelensky after his inauguration largely came to a stop when Zelensky appointed a new government in March 2020. The Ukrainian Index for Monitoring of Reforms reflects this with a peak in late 2019 (with the highest value since 2016) and the lowest value on record (i.e., since 2015) in the last quarter of 2020.

Implementation



Technically, policy learning has been an essential part of Ukraine's policy process.

The government has been actively working with international consultants through technical assistance projects in various reform spheres. Western donors have supported the reform process with expertise, personnel and funding.

Consultations have been carried out with experts and practitioners. After the Euromaidan, civil society took on a greater role in these consultation processes, for instance through institutionalized platforms such as the Reanimation Package of Reforms. However, its impact on policymaking routines has been uneven.

The implementation of the Pulse of the Agreement, the publicly available online system that monitors implementation progress in the Action Plan for the EU Association Agreement (AA), is a positive example of policy learning through effective monitoring and evaluation. The Pulse provides detailed information about legal harmonization and bottlenecks; this facilitates learning from experience, and thereby contributes to steady progress in the AA's implementation.

At the same time, politically speaking, policy learning remains rigid. The IMF and the EU have often had to use pressure to enforce policies. Promoters of reforms have on several occasions resigned in frustration over blockades. Such incidents became increasingly common in 2020.

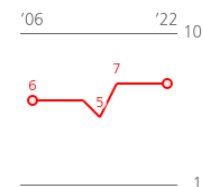
## 15 | Resource Efficiency

In the period from 2019 to 2020, the efficiency of government resource use deteriorated somewhat, especially in the civil service. In late 2019, parliament simplified the procedure for dismissing civil servants, claiming there was a justified goal of "flushing the system." However, the instrument was in reality used to remove non-loyal staff, resulting in major personnel changes in top central executive positions. Furthermore, starting in April 2020, competitive hiring practices for civil servants were (temporarily) suspended as part of the country's quarantine measures. That led to the appointment of over 7,000 civil servants, including for many top positions, without any competition.

In 2019, the fiscal deficit remained under control at 2.1% of GDP. However, in response to the pandemic shock, the fiscal deficit grew. The plan was to have a 7% deficit in 2020, but amid difficulties in accessing external funding, the actual consolidated fiscal deficit was 5.4% of GDP in 2020. The state debt expanded, reaching 61% of GDP, a manageable level in general, but necessitating high payments in the near future.

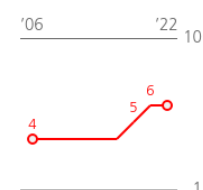
### Policy learning

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### Efficient use of assets

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Most public expenditures have remained transparent thanks to an open fiscal data policy and the efficient functioning of the ProZorro online public procurement system.

However, the government was heavily criticized for how it handled fiscal resources reallocated to the special budgetary fund created to fight the COVID-19 pandemic in April 2020. The COVID-19 Fund was supposed to accumulate UAH 81 billion or 5% of total annual government spending. The concerns include delayed spending (over 10% of funds were disbursed in the last two days of the year), underspending (only 82% of earmarked funds were actually used), and – most importantly – the allocation of fiscal resources. Only 27% of COVID-19 Fund resources were eventually earmarked for health-care-related purposes, while 32% were spent on road maintenance. Meanwhile, in autumn 2020, amid the growing number of COVID-19 cases, the hospitals faced an extreme deficit of beds equipped with ventilators. Moreover, the government failed to organize the timely supply of vaccines despite claiming to have started negotiations in mid-2020.

On the positive note, Ukraine completed another stage of decentralization reform. In 2020, the merger of territorial units was completed with the establishment of 1,469 merged communities instead of tens of thousands of villages and small towns. Local elections for these new units were held in October 2020, and the administrations were provided with expanded fiscal resources and given greater self-governance responsibilities.

The formal policy coordination framework has been improving in pace with the progress in public administration reform.

In December 2019, the Cabinet of Ministers (CMU) introduced directorates as the structural units responsible for public policy formulation, coordination and monitoring for all central executive bodies, thereby recognizing the positive results of a pilot launched in 2017.

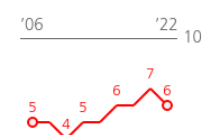
The Secretariat of the Cabinet of Ministers of Ukraine (SCMU) has strengthened its policy coordination role. It is responsible for preparing government annual work and for the routine coordination of CMU decision-making processes, including the agenda of CMU meetings.

The Government Office for Coordination of European and Euro-Atlantic Integration continues to coordinate European and Euro-Atlantic integration processes. It is responsible for the overall coordination of European integration, planning actions, monitoring tasks and overseeing the alignment of national legislation with the EU acquis. The Office works with the deputy ministers responsible for European integration, which can be found in most ministries.

Special efforts have been made to improve the coordination of European integration policy between the government and parliament. This includes the development of

Policy  
coordination

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roadmaps regarding priority legislation and the establishment of coordination bodies. In September 2020, the CMU created the Commission for the Coordination of the Association Agreement (AA); this includes representatives of the cabinet, the parliament and the EU.

Key political players have institutionalized advisory bodies for strategic policy development and coordination, including the Reforms Delivery Office within the cabinet, and the National Reform Council under the president.

However, actual policy coordination has remained weak, as evidenced by considerable incoherence among strategic objectives and work programs adopted by the government. Even in the sphere of European integration, which is defined as the country's prime strategic goal, there is limited coordination between the action plan for implementation of the AA and the government's own work programs. Moreover, the frequent restructuring of central executive bodies and personnel changes, particularly in top positions, hinder the establishment and coordination of long-term strategic public policy goals.

This incoherence was recently aggravated by the fact that the Office of the President became the de facto decision-maker on many topics, frequently even those not directly related to presidential responsibilities. The sudden increase in minimum wages, the abrupt introduction of the SME credit guarantee program and then its extension to mortgages, and the ad hoc cap on gas prices for households are all examples of spontaneous decisions taken by the president that disregarded the policy process and the state's previous fiscal plans.

As public opinion polls show, fighting corruption continues to be regarded as a high-priority reform objective by businesspeople, experts, the international community and society at large.

Ukraine's anti-corruption policy has two distinct dimensions: 1) the establishment of institutions aimed at investigating and penalizing corrupt behavior; and 2) the creation of a regulatory environment able to curtail opportunities for corruption.

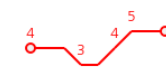
Although the country has progressed in both dimensions, policymakers have been far more successful in the second task. Specifically, Ukraine has established a highly transparent public procurement system, opened multiple public registers including a register of asset declarations for public officials and politicians, and increased the transparency of political party financing.

In 2019, Ukraine also completed the establishment of anti-corruption institutions with the launch of the High Anti-Corruption Court (HACC) and the relaunch of the National Agency on Corruption Prevention (NAPC). However, as the efficiency of anti-corruption institutions started growing, pressures aiming to derail their efforts have mounted as well.

Anti-corruption  
policy

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In August and September 2020, the Constitutional Court of Ukraine (CCU) ruled that selected provisions of the law on the establishment of the National Anti-Corruption Bureau (NABU) and the appointment of its head were unconstitutional. The uncertainty generated by the CCU decision had not been resolved by January 2021, putting the independence of the institution at risk.

In October 2020, the CCU additionally declared that provisions imposing criminal liability for providing false information in public officials' and politicians' asset declarations were also unconstitutional. This had been a core element of the country's anti-corruption architecture. Moreover, the CCU ruled that core powers held by the NAPC were also unconstitutional. While in late December 2020, a new law reestablished the NAPC authority, its ongoing investigations, including against CCU judges, had to be closed. The new law also reduces penalties for false declarations.

The Specialized Anti-Corruption Prosecution Office (SAPO) has remained without a head since the resignation of its previous head in August 2020. As of January 2021, the process of appointing election commission members had stalled.

In December 2020, a public scandal erupted around interference by the Prosecutor General Office in the NABU investigations of the top official in the presidential administration. Despite the publicity, the interference persisted.

## 16 | Consensus-Building

Officially, all actors are committed to the principles of democracy. The electoral system is the best-working democratic institution in the country, delivering repeated changes in the political elites. A new election code and decentralization are expected to strengthen this component of democracy further.

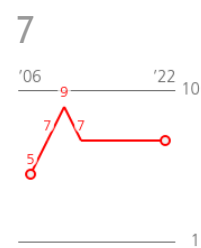
However, there are also multiple actors who resist the reform process, including: 1) oligarchs who prefer the old rules of the game, including a weak rule of law and a politically controlled judiciary; 2) political parties with a populist agenda; 3) those negatively affected by potential reforms, such as civil servants or judges from the old system who will have no chance of keeping their benefits in the reformed institutional environment.

These actors, while shying away from challenging democracy in their public statements, often use undemocratic means (e.g., corrupting the legislative process or ignoring legal rules) to promote their specific aims.

Formally, there is a consensus among the key political actors that Ukraine should have a market-based economy as the long-term strategic goal for the country.

However, there are acute debates about the ways to achieve that goal.

Consensus on goals



The association agreement with the EU, like the country's WTO-related commitments previously, has performed as an anchor for market-based reforms, and limits the maneuvering room for actors who might otherwise veto reforms. However, some policies are obstructed by influential business actors (e.g., oligarchs) in some key sectors of the economy.

The situation in Ukraine is best described 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, such as an unwillingness to cooperate with political opponents, the desire to preserve their own power or privileged access to resources, or links to particularistic informal interests. Therefore, reform efforts have produced patchy results, and have faced considerable resistance.

After the Euromaidan, reform achievements were impressive thanks to democratic political actors, civil society and international pressure. Reforms were especially successful where new institutions were created, as opposed to where old institutions were reformed. Some examples include the new anti-corruption institutions, the electronic public procurement system ProZorro and the electronic declaration of assets. Many succeeded in large part because they stemmed from conditions set forth by international institutions.

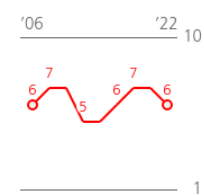
However, by mid-2020, vested interests regained veto power on some reforms. The insufficiently reformed judiciary struck back against the anti-corruption architecture and the judicial reform. The civil service reform was undermined by a moratorium on open competitive hiring practices and the simplification of firing procedures, resulting in a significant personnel reshuffling that included the firing of many reform-minded professionals. The NBU's independence was threatened after the politically induced resignation of its head. The public procurement reform was also undermined when parliament passed a draft law on localization requirements that contradicted WTO and DCFTA commitments.

Two significant cleavages persist in Ukraine. One has to do with Ukraine-Russia relations, and most of all the Russian occupation of Ukraine's territories and the associated military conflict, which is perceived somewhat differently by different parts of society. Another has to do with the social and economic situation in Ukraine.

Concerning the first cleavage, while most of the population in western and central Ukraine consider Russia to be responsible for the conflict, a significant portion of the people in eastern Ukraine have no opinion on the Russian-Ukrainian conflict or prefer to avoid expressing their opinion. Several political parties, including parts of the Opposition Platform – For Life and two new parties, Ours and For Life, have an openly pro-Russian agenda. The Opposition Platform is the strongest opposition

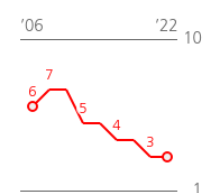
Anti-democratic actors

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Cleavage / conflict management

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party in the newly elected parliament (despite a share of just 13% in the national vote). Far-right groups, although marginal, have been present in the informational space as well. Though President Zelensky came to power promising to mitigate the internal tensions related to the conflict with Russia, and won support throughout the country, he was not able to achieve substantial progress.

As to the second cleavage between large parts of the population and those who are perceived to be the winners of corrupt reforms (i.e., oligarchs along with those who support them in government as well as clientelistic groups), public dissatisfaction with socioeconomic developments in Ukraine has been substantial. Before the 2019 elections, opinion polls consistently showed that most of the people thought that developments in Ukraine were moving in the wrong direction, and that the authorities were responsible for this. The landslide victory of Zelensky and the Servants of the People party temporarily boosted optimism and reduced dissatisfaction. However, by late 2020, disapproval levels were again climbing. This has created favorable conditions for populists and the anti-democratic opposition.

In the period under review, civil society continued to play an important role in driving the reform process and exercising pressure on the authorities. Conditionalities imposed by international actors have played an important role in strengthening civil society's voice in the reform process, while also developing favorable conditions for funding improvements and demands that civil society be consulted by the authorities.

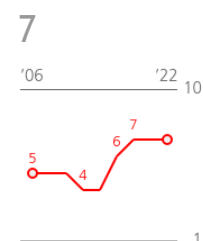
Still, civil society's impact on decision-making has not been straightforward. During the period under review, civil society had good working relations with some parliamentary committees, the Cabinet of Ministers of Ukraine, and some ministers, but not with the Office of the President, which largely ignored civil society. As the Office of the President has been de facto the central decision-making authority in Ukraine, civil society's expertise has had a somewhat reduced impact.

The coronavirus pandemic mobilized Ukrainian civil society. While during the 2013 – 2015 period, mobilization took the form of anti-government protests and voluntary initiatives, civil society in 2020 made up for state failures. It helped improve the quality of health institutions by providing hospitals with critical equipment, helped vulnerable groups perform their watchdog functions and advocated for policy change.

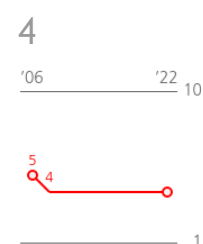
Reconciliation and the achievement of (moral) justice for past acts of injustice are not issues that are adequately addressed in Ukraine.

Since 2014, Ukraine has been engaged in an ongoing military conflict with Russia, with the Crimea and a part of Donbas remaining occupied. The fighting and occupation have produced human rights violations and numerous casualties. These fresh wounds have to be better understood and dealt with. Furthermore, there has as yet been no comprehensive and sincere public debate about the reintegration of Donbas and the Crimea.

#### Civil society participation



#### Reconciliation





The investigation of crimes related to the Euromaidan has gradually progressed but remains incomplete. At that time, over 100 people – mostly protesters, but also several police officers – were killed, and over 2,000 injured. By the end of 2019, 445 individuals had been charged, and 59 had been convicted, though mostly not imprisoned. In late 2019, the Office of the Prosecutor General passed the Euromaidan cases to the State Investigation Bureau (SIB), which continued the investigations. In late 2020, the SIB announced that an additional 23 indictments had been handed to the courts. However, society is still waiting to see convictions, including of those who gave the orders to kill and those who followed those orders. In December 2019, in the context of a prisoner exchange with Russia, President Zelensky released five former Berkut servicemen who were on trial for killing protesters. This step aggravated concerns about the eventual likelihood of justice being done in the Euromaidan cases.

Concerning historical injustices in Ukraine – mostly related to the Soviet Union and Nazi crimes – most of these have not yet been discussed comprehensively or systematically. The “decommunization” process launched in 2015 has led to the renaming of cities, streets and squares and the removal of memorials, but has not produced a full awareness and understanding of the past by the society. There are historical events and circumstances that are not perceived identically across Ukrainian territory, including the Great Famine (Holodomor) of 1932-33 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 2020, Ukraine revised its coordination of international technical assistance (ITA) to ensure a better match with the country’s development goals. These partners are now referred to as “development partners” instead of “donors” in official documentation.

A three-tier coordination structure was established. The tiers include:

- a Development Partnership Forum for high-level policy dialogue on strategic issues related to the progress of national reforms;
- a Strategic Platform for strategic coordination of international technical assistance (ITA), with national reform priorities taking into account the Sustainable Development Goals and the EU-Ukraine Association Agreement; and
- sectoral working groups for regular dialogue and coordination between central executive bodies and development partners in relevant areas of public policy and sectoral reforms.

Effective use of support

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The new Directorate for Coordination of International Technical Assistance under the Secretariat of the Cabinet of Ministers of Ukraine has been given responsibility for monitoring and coordinating ITA. The first development partnership forum was held in October 2020. The development partners confirmed their support for Ukraine in the fight against the spread of the pandemic. Although the new coordination structure looks promising, its effectiveness remains to be seen. The incoherence among Ukraine's various strategic planning documents could weaken the effectiveness of ITA.

According to the CMU Secretariat, as of 2019, Ukraine had received ITA worth \$6.5 billion in the framework of 581 projects. The largest donors have been the United States, the EU and Germany. A particular case was the consortium of over 40 countries contributing to constructing the new confinement structure in Chernobyl.

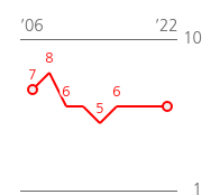
The European Union has been the largest donor to Ukraine, taking into account macro-financial assistance, budgetary support, technical assistance and funds provided by the European Investment Bank (EIB) and EBRD. Since 2014, the European Union has committed about €16.5 billion in grants and credits to Ukraine. As of the end of 2019, there were 217 EU-funded technical assistance projects in Ukraine, representing about one-third of the total. Other active donors include 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 been far from smooth, as in previous years. The latest stand-by arrangement was signed in June 2020.

Ukraine is actively engaged in cooperation with international monitoring institutions and adheres to most of its international commitments, notably with respect to the OSCE and the Council of Europe.

However, Ukraine's credibility with international donors has experienced ups and downs, depending on its reform progress. Cooperation with the IMF stalled in 2019, although the international community welcomed the election-driven change in the political elite with hope for an acceleration of the reform process. Ukraine signed a new stand-by arrangement with the IMF only in June 2020, after the launch of the land market reform. However, the second and third tranches of the previous arrangement scheduled for 2019 were not disbursed that year due to concerns over NBU governance and commitments to anti-corruption and judiciary reforms.

#### Credibility

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Ukraine aims at having good relations with all neighboring countries (with Russia being a special case). The country participates in multiple regional and international organizations and is developing strong bilateral links.

The European Union is Ukraine's leading partner in the region. Relations are framed by an association agreement that describes Ukraine's political association and economic integration with the EU. EU membership is identified as a strategic goal in Ukraine's constitution.

In late 2020, Ukraine signed a political, free trade and strategic partnership agreement with the United Kingdom. The agreement provides for continued free trade and allows for closer cooperation in political, security and foreign matters with the UK.

Relations with Poland improved after elections in both countries. During a meeting in Kyiv in October 2020, Polish President Andrzej Duda stated that contentious historical questions had been removed from the bilateral agenda.

Relations with Hungary have remained uneasy. Hungary reacted furiously when the parliament of Ukraine adopted the law on education in September 2017, which promotes the teaching of the Ukrainian language in schools. Hungary retaliated by threatening to block Ukraine's aspirations to forge closer ties with the European Union and NATO. Other sources of tension include Hungary's issuance of Hungarian passports to ethnic Hungarians in Transcarpathia, which borders Hungary, and the intervention of Hungarian officials in local elections in Ukraine in 2020.

The country has also been developing closer relations with Turkey. In 2020, Ukraine and Turkey signed a framework agreement on military cooperation, and free trade negotiations are still ongoing.

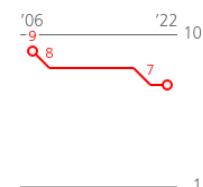
At the same time, Ukraine's relations with Russia have undergone a dramatic transformation since March 2014, when the Crimea was occupied and the military conflict with Russia in Donbas started. In 2018, the conflict territory was expanded to the Azov Sea, where Russia seized Ukrainian military vessels and sailors after the construction of the Kerch bridge. The conflict forced Ukraine to boost its military capabilities and consume substantial resources and has cost many human lives.

Over the years, Ukraine has joined multiple regional organizations, such as the GUAM (Georgia, Ukraine, Azerbaijan and Moldova) group, which has recently restarted work, as well as the Organization of the Black Sea Economic Cooperation (BSEC) and the Central European Initiative (CEI).

In 2020, Ukraine became part of the newly created Lublin triangle, a regional cooperation initiative involving Lithuania, Poland and Ukraine. Its goal is to strengthen military, cultural, and economic cooperation, and to support Ukraine's integration into the EU.

## Regional cooperation

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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 EU Eastern Partnership countries (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. In 2019-2020, Ukraine, Georgia and Moldova – all signatories of association agreements with the EU – intensified their cooperation based on their joint European aspirations.

## Strategic Outlook

The next parliamentary elections in Ukraine are scheduled for 2023, and the next presidential elections for 2024. Although there are rumors about possible early parliamentary elections, there are no real reasons for this to occur. Most probably the elections will take place as planned. As already observed many times, we might see the rebranding of parties currently represented in parliament and also some new ones. Although Zelensky initially claimed that he would not run for a second term, one gets the impression that he might be planning to seek re-election. For the time being, Zelensky remains the most popular politician in the country despite the plunge in his popular support.

The COVID-19 pandemic will continue to be an important factor for some time. Given the Ukraine vaccination plan, it might take several years for most of the population to get vaccinated. Various restrictive measures might be implemented or maintained until this happens.

In 2021, the economy is expected to rebound amid the global economic revival. However, the speed of Ukraine's recovery will largely depend on further reforms, especially in the judiciary and the field of anti-corruption.

The struggle for the reform process will continue. Civil society pressure has been growing, and Western conditionality is expected to become stronger. At the same time, anti-reform actors remain powerful, influential and (increasingly) energetic. Given this constellation, pushing for new reforms will be challenging, while the reforms introduced thus far are not necessarily sustainable.

In this situation, all reform-minded actors need to consolidate their efforts, better communicate their achievements to society and continue to push for crucial reforms. One top priority should include reform of the rule of law system, which includes fighting corruption; reform of the judiciary, the police and the prosecution services; and reform of the public administration and civil service. Also important are reforms that limit opportunities for vested interests to influence policy and enhance transparency and competition.

The ruling elites need to lead by example, particularly by following democratic rules. This includes the separation between business and politics, and a 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 policymaking and political debates in general. The consolidation of the political party system should be enhanced to promote sustainable program-oriented parties instead of prominent individuals' political projects.

International actors should continue using conditionality as leverage to push for reforms and further enhance the capacities of civil society groups, young reformist political parties, alternative trade unions, media organizations and other social actors, especially at the local level, that

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 relevant positions.

It is unlikely that the conflict with Russia will be resolved in the near future. Nevertheless, the international community should maintain its conflict mediation efforts, which might include sanctions and a readiness to support Ukraine militarily if Russia opts to escalate the current conflict. It should also find ways to arrange some sort of effective international peacekeeping mission, be it under the auspices of the United Nations or the OSCE, which would have the mandate to control the Russian-Ukrainian border along with the entire occupied territory in Donbas.