



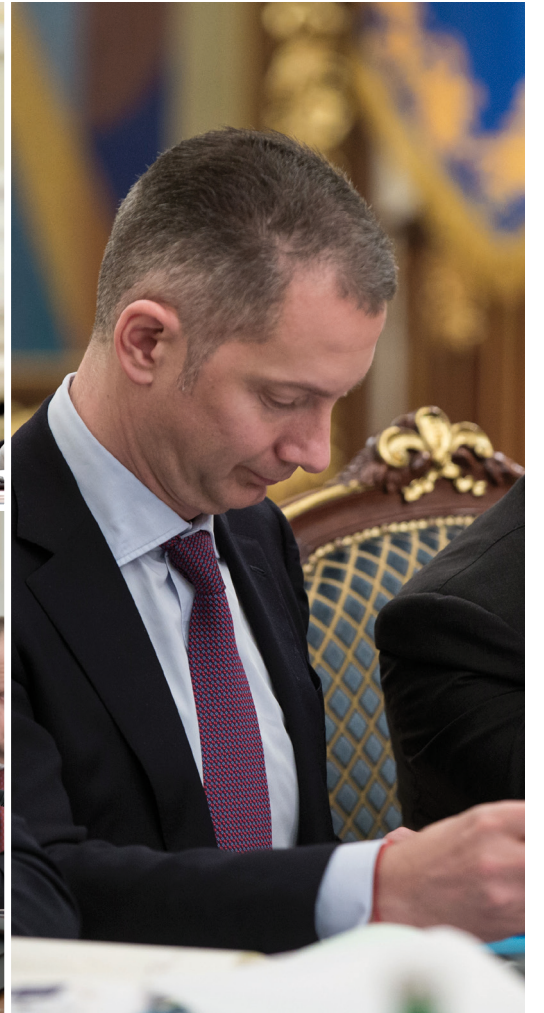
NATIONAL REFORMS COUNCIL

UKRAINE 2015



# REFORMS MONITORING PROGRESS

2015



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# INTRODUCTION



**Petro Poroshenko,**  
*President of Ukraine*

Ukraine achieved a lot last year - we withstood foreign aggression and set the foundation for national development. We - the people, the army and the government - have rapidly strengthened Ukraine's defence capability. We discouraged our enemy from undertaking further major offensives and will continue to remain vigilant.

Close cooperation with our international partners is a daily reality and we sincerely value their support. The steps we are taking in cooperation with our international partners are not measures imposed on Ukraine from the outside but truly reflect what we all understand must be achieved to build a prosperous, democratic country.

Last year, all 28 EU member states unanimously voted to continue sanctions on the Russian Federation as an aggressor country violating the Minsk agreements. A cost of this aggression is additional economic contraction, pushing Russia deeper into recession.

On January 1, 2016, the Deep and Comprehensive Free Trade Area between Ukraine and the EU came fully into force despite strong resistance from the Kremlin. We have also secured a positive decision of the European Commission to grant a visa-free regime for Ukrainians. This is yet another indicator that the EU positively assesses reforms in Ukraine.

We have managed to escape default, achieve macroeconomic and financial stabilization, restructure foreign debt, replenish gold and foreign-exchange reserves, and rehabilitate the banking sector. This all means we have paved the way for strong economic growth.

Our initial deregulation efforts on abolishment of numerous permits and licenses were followed by a sizeable reduction in the payroll tax burden through cutting the unified social security contribution rate.

Work is underway to set up new law enforcement agencies based on new principles, made up of new people and formed through new competitive selection process. I refer to the Patrol Police, National Anti-Corruption Bureau and Specialized Anti-Corruption Public Prosecution Office. Their formation requires both time and effort. Therefore, it is still too early to make conclusions about their operation. However, judging from the scale of their efforts and the vested interests they are already tackling, I am sure their achievements will reshape economic sectors and political institutions that were previously considered as operating above proper democratic processes.

The gas needle on which Ukraine had been hooked for decades seemed to be our never-ending curse. Previously, we could never in our wildest dreams have imagined weaning Ukraine off Russian gas. Today the volume of gas we purchase from the European Union is almost double the volume delivered from Siberia.

The Ukrainian energy system is being integrated into a single European energy market. This process began last year and will continue in 2016. Gaining energy security unshackles our economy as well as our politics.

I would also like to highlight our decentralization efforts, whereby the financial capacities of local governments have increased by 40 percent, despite economic crisis. Political will, combined with state-of-the-art technologies, offers a wealth of opportunities for public oversight of government: from access to title registers to a corruption-free electronic public procurement system.

All these steps have been taken with the active involvement of the National Reform Council, which hosted meetings at which solutions to Ukraine's most pressing challenges were sought and found, even after sometimes contentious debates.

All that was planted last year must this year produce fruit.

Within the limits of competence and authority vested in me under our presidential-parliamentary form of government, I have set the following priorities for the year 2016.

# INTRODUCTION

The top priority is to secure peace and bring all of Donbas back to Ukraine. Efforts to regain Crimea are also on the agenda. We will propose setting up an international mechanism for de-occupation of the peninsula. The “Geneva plus” format involving the EU and the US, and also perhaps the signatories of the Budapest Memorandum, would be best to set such a mechanism in motion.

I plan to solve such pressing issues as regaining Donbas and Crimea using political and diplomatic means as well as the rules of international law as a first resort.

The role and importance of the Armed Forces of Ukraine, however, should not in any way be underestimated by the focus on diplomacy and law.

Orders to produce new weapons are being placed with enterprises of the military and industrial complex, as was done last year.

The Reforms Project Management Office and Ministry of Defence have already secured transparent procurement of medical, food and clothing supplies.

Further reform of the Armed Forces will be implemented in close cooperation with our international partners and in full compliance with NATO criteria on armed forces’ structure, operations and materials.

Transitioning to Euro-Atlantic and European standards lies at the center of our domestic and foreign policies.

Visa-free travel to the European Union should become a reality this year, but we must also focus on developing traffic in the opposite direction. We have to facilitate European investment in Ukraine. Investment means job creation. Investment means economic revival. Investment means increased well-being of the Ukrainian people.

European integration gives a great impetus to combat corruption. The new national anti-corruption strategy envisages full operation of the National Anti-Corruption Bureau, government agencies completely transitioned to e-procurement, further deregulation and privatization of non-strategic state-owned enterprises and the launch of the National Agency for Prevention of Corruption.

I expect the Verkhovna Rada to vote finally and affirmatively for the constitutional amendments relating to the judiciary of Ukraine by this summer. Unfortunately, the proposal for total dismissal of judges was not welcomed by the Venice Commission. Therefore we have decided to use, among other mechanisms, the National Reform Council to clean up the judiciary through assessing judges on an individual basis, verifying their income and expenses and abolishing their immunity.

In my opinion, the two most important reforms have been tax reform, above all tax administration, and healthcare reform. It is high time we put an end to the lies spread by populist politicians about healthcare having no economic cost.

I remember the beginning of last year, with widespread apocalyptic sentiments: fear of the enemy going on the offensive, bombardments of Ukrainian cities, minimal gold and foreign-exchange reserves, predications of default, coal deficits and rolling blackouts.

January 2015 brought questions of survival. We, together, resolved these questions, showing all of the strength that makes Ukraine a great nation.

January 2016 poses the question of how to accelerate along the path to becoming a prosperous democracy. This question has to be addressed to the National Reform Council.

I look into the future with optimism that, with hard work, our reforms are already beginning to succeed. I want to encourage this determined optimism in as many people as possible.

# INTRODUCTION

It is my firm conviction that unity, maturity and responsibility of the national political leadership are the principal preconditions for Ukraine's success, real irreversible transformations and victory over the Russian aggression.

The exceptional challenges we are going through today provide a unique opportunity for change. The essence lies in a no-alternative, imperative epoch-making demand to reform our country, wean ourselves off mental, political and economic dependency from post-Soviet corruption and misgovernance, keep revanche and populism misrepresenting our common cause at bay, guarantee the rule of law, democracy and security, integrate Ukraine into Europe and, finally, set the perspective for a contemporary, successful and carefully protected twenty-first century nation-state.

In 2014 and 2015 a qualitatively new Government, nurtured by democratic change, succeeded in fulfilling such vitally important tasks as repealing a large-scale Russian aggression, stabilising the economy, summoning all the strength for defence and reform, and making the first basic transformations, the messengers of the new Ukraine.

Our efforts have gained global support and high commendation from international partners, who have acknowledged that the already implemented changes are unparalleled in their scale and scope for the time of Ukraine's independence. However, we must not rest on our laurels: having embarked on a course of reforms Ukraine faces a tough road ahead. The wearisomeness of the situation, in both internal and external terms, places an exceptional burden on our society. But the success is possible and attainable. Reform is simply a tool to secure a better future. Our success is directly related to consistency of the day-to-day consolidated work of the Government, Parliament, the President and the people of Ukraine.

I highly appreciate all the effort that many men and women professionals, members of the large government team, have exerted to beat the odds over the past two years. They have managed to take control over the process toward a possible economic collapse, normalize the situation and solicit international financial support through responsible fulfilment of obligations and commitments, implement the first phase of decentralization reform, set up a brand new police force and streamline administrative services for the public, carry out broad deregulation and ease the business environment, enable transparent public procurements, provide for the operation of anti-corruption agencies, ensure robust funding of the Army and social expenditure, reform the energy sector and provide for utility subsidies, make Ukraine more energy independent of Russia, give traction to the implementation of EU-Ukraine Deep and Comprehensive Free Trade Area, and have turned many other fundamental changes into reality.

This was possible thanks to selfless dedication of the teams from various ministries, agencies and the Government at large. Many achievements are the product of active civic engagement, cooperation and interaction with the parliamentary coalition and a joint political will of the leadership in Ukraine.

I am confident that wisdom and unity will help us preserve and build on every achievement. Being aware of the responsibility for the future of our country, it is important that today we join efforts to continue implementing strategic actions: reforming the judiciary, healthcare and education systems, ensuring real decentralization of power, carrying out transparent privatization and creating an enabling environment for the economic recovery.

Our Government is well aware of the weight and complexity of every achievement. We value every success and know that we have no time to stop.

We must move forward. We must fight and win. Our nation deserves a victory and is able to attain it.



**Arseniy Yatsenyuk,**  
*Prime Minister of Ukraine*

# INTRODUCTION

We have survived 2015, which was a tough year indeed. Amid unprecedented external security threats and domestic economic challenges, we have worked together to succeed in launching many crucial reforms and providing a sturdy foundation for the modernization of Ukraine in the years to come.

In the short term, we will break new regulatory and economic ground to launch and implement mass structural reforms in Ukraine.

For the first time in the history of our independence, the Ukrainian Parliament has shouldered political responsibility and come to the forefront of reforms together with the President and the Government. An Action Plan on Legislative Support to the Reform Agenda, approved by the Verkhovna Rada, has become one of Ukraine's most important strategic documents and a vital roadmap for the implementation of reforms.

The Verkhovna Rada fulfilled its obligations to Ukrainian society and our international partners in the period covered by this report, providing essential legislative support to reforms.

Our efforts on issues such as anti-corruption, visa-free travel for Ukrainians in the European Union, improvement of defence capability, ratification of international treaties, civil service and law enforcement reform, decentralization, deregulation and deoligarchization are important steps on the path to a new Ukraine. We will continue steering a steady course towards making Ukraine a modern, successful European country.

May New Year and Christmas celebrations inspire all of you to new achievements and fruitful cooperation honoring our commitments to our people and our country.



**Volodymyr Groysman,**  
*Verkhovna Rada Chairperson*

# INTRODUCTION



**Borys Lozhkin,**  
*Head of The Presidential Administration of Ukraine*

The Information Age opens up a wide variety of avenues to implement reforms. State-of-the-art technologies are powerful tools for change. Innovations help effectively tackle a broad range of issues and challenges in public administration. In 2015, we saw it for ourselves.

Brand new, automated approaches to the provision of administrative services are already eliminating corruption. This is a powerful stimulus for businesses and a mighty boost for foreign investors.

Introduction of an electronic platform for subthreshold government procurements helped save half a billion UAH of taxpayer money in 2015, while gradual transition of all public procurements to electronic form in 2016 will substantially increase this figure.

Professionalism in public administration is improving, along with a sizeable reduction in the number of civil servants. Regular training abroad and engagement of experts to build the capacity of Ukraine's civil service provide for the professional development of a qualitatively new type of government officials - using creative approaches, being able to think globally and capable of giving a fitting response to modern challenges.

Declaration of 2016 as the Year of the English Language in Ukraine by President Petro Poroshenko is yet another testimony that Ukraine is on an irreversible European path. Learning a foreign language goes beyond a mere educational process, it paves the way for deeper cultural, economic and political interactions.

Ukraine is steadily becoming part of Western civilization. I am confident that our steps to resolve the challenges we face are setting solid foundations for Ukraine's future prosperity.

# INTRODUCTION



**Dmytro Shymkiv,**  
*Secretary of the National Reforms Council,  
Deputy Head of the Presidential  
Administration of Ukraine*

National Reform Model was developed and approved in 2014, but it was last year that the National Reforms Council began firing on all cylinders. The Council held 17 meetings, analyzing and discussing 25 themes to implement reforms with the direct participation of top government officials including the President, Chairman of the Verkhovna Rada and Prime Minister as well as Members of Parliament, community leaders and representatives of the business community. Almost 73 percent of more than 200 decisions approved by the National Reforms Council found their way into laws, regulations and government documents.

The National Reforms Council is, above all, the platform for debate and discussion of issues at the center of the reform agenda. The Council has become the key place for high-level debate on reforms involving civil society and the business community. Our work is still only beginning and we will stay the course on the challenging path of change.

At the same time, we are aware that the National Reform Model needs to be further developed. To that end, an opinion survey of the National Reforms Council's members and participants to identify the model's strengths and weaknesses was held at year-end 2015. A list of improvements and innovations designed to enhance management efficiency will be presented to members of the National Reforms Council at a meeting in early 2016.

This report is the first systemic publication to map progress on 17 priority reforms set for the year 2015. It also reflects how the public perceive changes – an indicator indispensable to reform progress. Flipping through the pages of this publication you can draw an unbiased conclusion about the pace and success of changes, while the teams responsible for the implementation of reforms are setting even more ambitious goals for this year.

Our main task for the near future is to make changes inevitable and irreversible and to turn the National Reform Model into a universal mechanism for all policy issues which must be addressed to drive positive changes for the people of Ukraine.

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**RESULTS OF THE  
NATIONAL REFORMS COUNCIL  
DURING 2015**

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# RESULTS OF THE NATIONAL REFORMS COUNCIL DURING 2015



The National Reforms Council was established to determine reform priorities, make political decisions as to the content of reforms and coordinate the reform process. Members of the Council are national key policy makers: the President, the Prime Minister, the Chairman of the Verkhovna Rada, Ministers, Chairs of Parliamentary Committees, and four civil society representatives. In addition, NRC meetings are regularly attended by leaders of parliamentary coalition's factions, representatives of business associations and heads of other government authorities who are invited depending on the meeting agenda.

Since its constituent meeting on December 24, 2014, the National Reforms Council has held 17 meetings and carried 209 resolutions 71% of which have already been implemented.

The main results of the National Reforms Council's efforts can be grouped into the following areas:

The National Reform Council provided a **frame of reference** and **standards** for the preparation and implementation of reforms. NRC members approved "Ukraine 2020" Strategy for Sustainable Development – a vision of the country's development, identified priority reforms and those responsible for their implementation, set up Reform Task Forces (RTF) to embark on priority reform areas and approved the reform progress monitoring system. Supported by the Project Management Office, the National Reforms Council plays a pivotal role in the systematization of reform planning information enabling to look at reforms from a comprehensive perspective.

The National Reforms Council provides a platform for getting **political consensus around** the content and pace of reforms, as well as for consolidating opinions and efforts of principal stakeholders. NRC meetings afford the opportunity to share information, explain the essence of reforms and receive feedback from the country's key policy makers. NRC meetings saw political consensus found, inter alia, around reforms related to the prevention and combating of corruption, prosecution authorities and Ukrainian Railways, education and public procurements, decentralization and financial sector.

The National Reforms Council **engages civil society in the decision-making and ensures transparency of the reform process**. Four civil society representatives sit on the National Reforms Council, while Ukrainian and international experts, and civil activists are invited to NRC meetings when the agenda so requires. All materials discussed and resolutions carried at NRC meetings are published on its website at [www.reforms.in.ua](http://www.reforms.in.ua).

The National Reforms Council has been acting **as a moderator** for controversial and challenging reform issues. NRC meetings saw all versions of tax reform presented and steps to agree on key points of their authors taken. NRC stepped in as a mediator between Ministry of Health and Ministry of Regional Development to align healthcare reform with the decentralization strategy.

NRC has a crucial role to play in **communicating** reforms to society at large. NRC explains and reports on reforms to both senior political figures and the general public. NRC maintains public and media attention on crucial and often unpopular reforms.

# NATIONAL REFORMS COUNCIL MEETINGS

December

24  
December

## №1: National reforms governance model

### DECISIONS:

- Uphold Decree of the President of Ukraine On Ukraine 2020 Strategy for Sustainable Development, or
- Approve Ukraine 2020 Strategy for Sustainable Development
- Set up Project Management Office for development and implementation of reforms;
- Draft amendments to the Constitution of Ukraine to restrict judicial immunity and expand the list of grounds for the removal of judges.

12

12

0

0

2015

February

02  
February

## №2 (part one): EU-Ukraine Association Agreement, judicial reform, law enforcement reform issues

### DECISIONS:

- Pivotal decisions with respect to ratification of the EU-Ukraine Association Agreement; putting in place anti-corruption laws; providing for ratification of the Agreement in Parliament; approval of implementation plans.
- Develop a uniform draft law with respect to reform of the judiciary.
- Introduce Draft Law On National Police and Draft Law On Law Enforcement Agencies to the Verkhovna Rada.

11

11

0

0

17  
February

## №2 (part two): Reform progress coordination, resolutions related to IMF program, state property governance reform

### DECISIONS:

- Set up Reform Task Forces (RTF) and appoint their executives.
- Set and approve key performance indicators to measure the progress of reforms (scorecards);
- Enact legislation enabling the establishment of the Anti-Corruption Bureau enjoying broad investigatory authority
- Lift restrictions on the maximum remuneration of senior executives of state-owned enterprises.

23

22

1

0

March

04  
March

## №3: Deregulation, Digital Ukraine initiative status

### DECISIONS:

- Reform the anti-monopoly law.
- Consider and introduce Law of Ukraine On Civil Service.
- Implement electronic subthreshold procurements in all Ministries.
- Ensure that draft laws on access to information in the form of open data pass through second reading and adopt draft law on electronic applications and petitions.

14

13

0

0

1

30  
March

## №4: Energy and agricultural sectors reforms, International Conference on Support for Ukraine

### DECISIONS:

- Hold the International Conference on Support for Ukraine.
- Ensure transparent privatization process through passage of a respective Law of Ukraine.
- Publish consolidate financial statements of NJSC Naftogaz of Ukraine.

10

8

1

0

1

April

16  
April

## №5: Healthcare reform, Program to promote Ukraine's interests on the international stage

### DECISIONS:

- Make the register of reference prices of pharmaceuticals open to the public.
- Refine and approve draft amendments to Law of Ukraine On Public Prosecutor's Office.

12

8

1

2

1

May

15  
May

## №6: Comprehensive Program of Ukraine's Financial Sector Development to 2020, public procurement reform

### DECISIONS:

- Uphold a number of NBU proposals on the presented Comprehensive Program of Ukraine's Financial Sector Development.
- Draft the Public Administration Reform Strategy 2015-2020.
- Approve an action plan for the fulfilment of technical requirements for the liberalization of visa regime with the EU and ensure its implementation.

17

10

3

0

4

June

03  
June

## №7: Go Global: the national foreign languages learning and promotion program. Demopolization and promotion of competition

### DECISIONS:

- Draft the raft of deregulation legislation and have it introduced to the Verkhovna Rada.
- Have the public administration reform strategy approved and submitted to the Cabinet of Ministers of Ukraine.
- Present the results of a comprehensive survey of the energy sector pertinent to spheres falling within the remit of the Antimonopoly Committee.

14

11

0

0

3

23  
June

## №8: Progress and prospects for decentralization reform

### DECISIONS:

- Develop decentralization reform communication support plan.
- Prioritize decisions pertinent to Ukraine 2020 Strategy for Sustainable Development, Coalition Agreement, Action Program of the Cabinet of Ministers of Ukraine, Action Plan on Legislative Support to the Reform Agenda, Coalition Agreement Implementation Plan, and EU-Ukraine Association Agenda.
- Align conceptual framework for education, healthcare and social protection reforms with the fundamental provisions of the Concept of Reform of Local Self-Government and Territorial Organization of Power in Ukraine.

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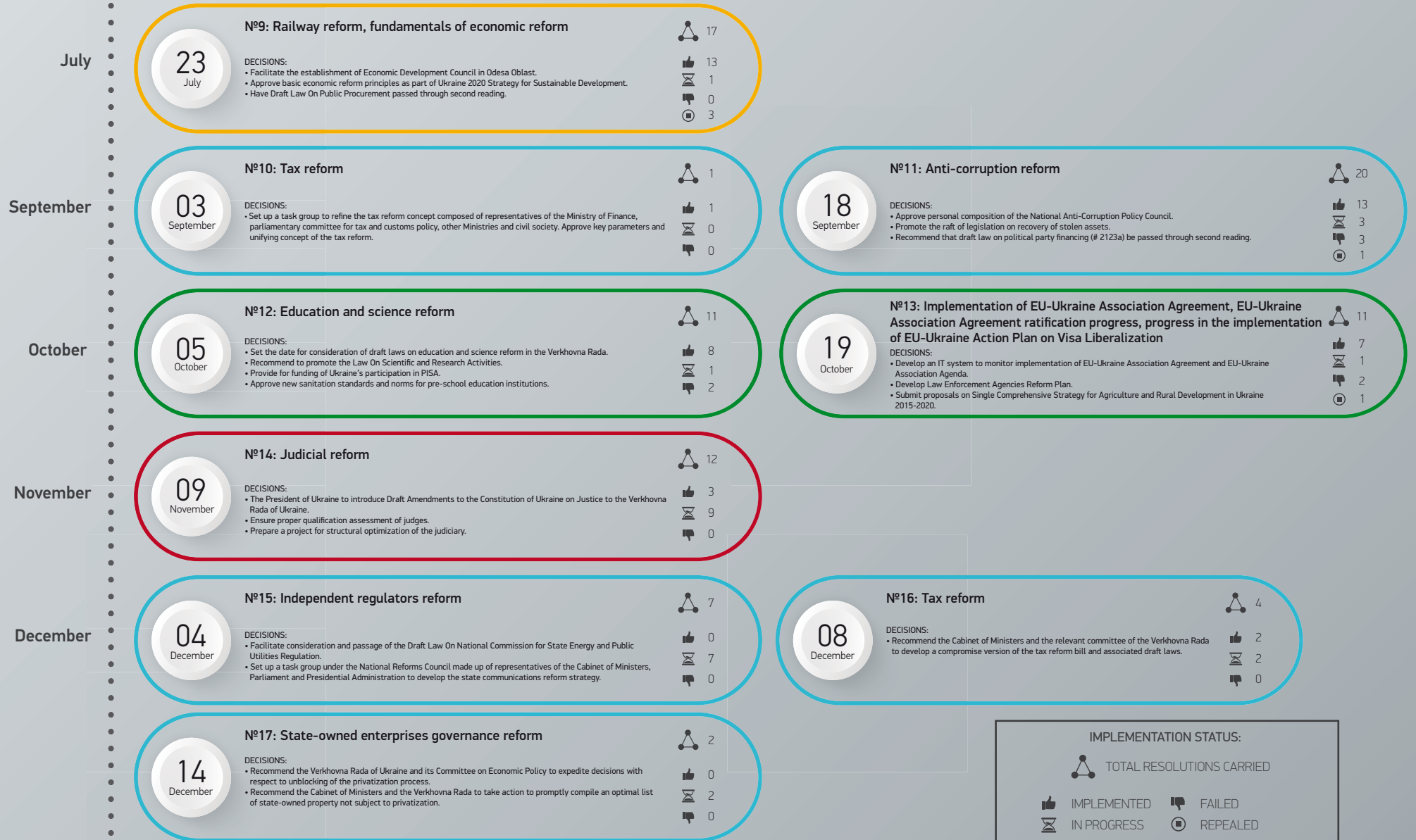
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# NATIONAL REFORMS COUNCIL MEETINGS



**IMPLEMENTATION STATUS:**

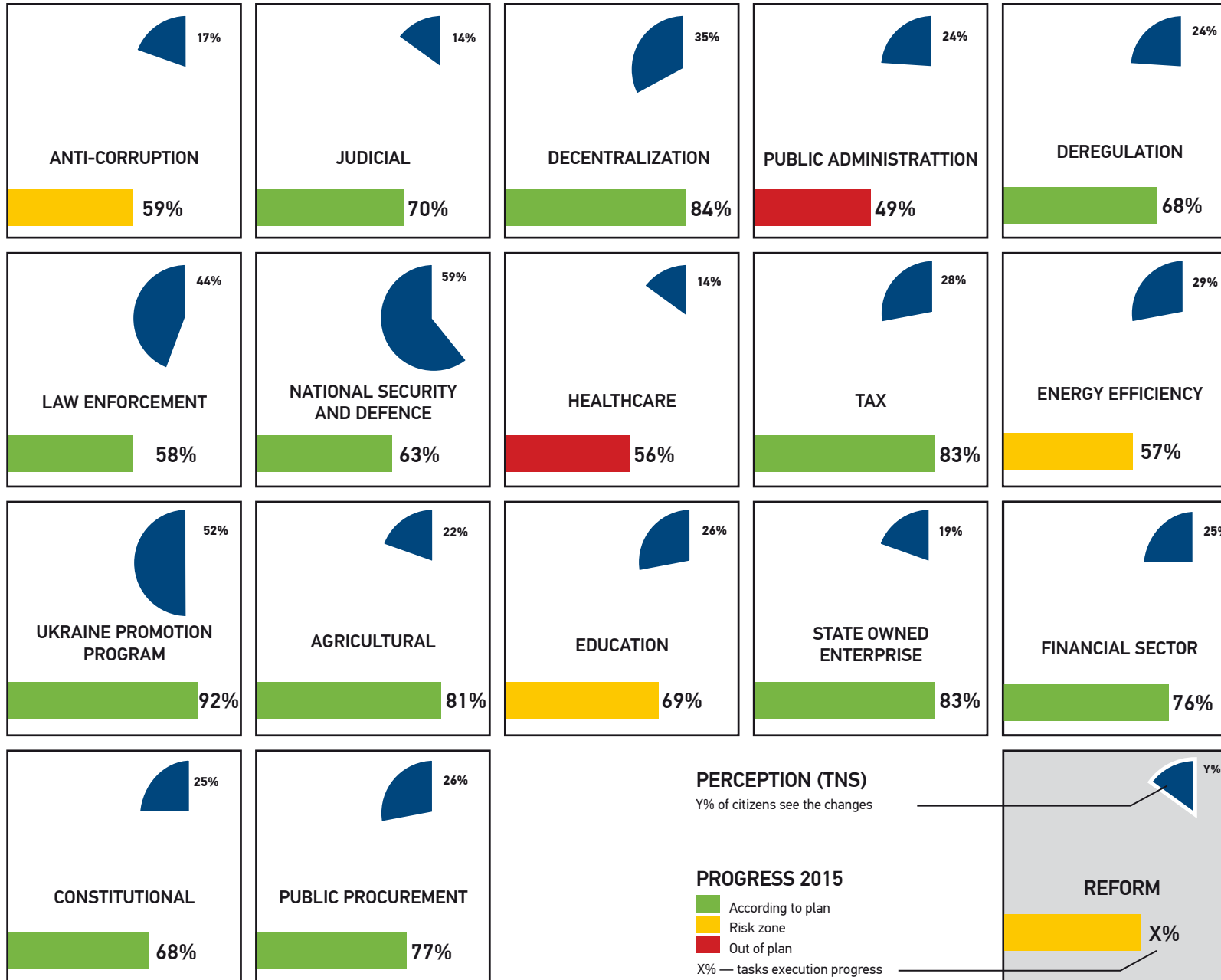
- TOTAL RESOLUTIONS CARRIED
- IMPLEMENTED
- FAILED
- IN PROGRESS
- REPEALED

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# **MONITORING OF REFORMS PROGRESS**

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# REFORMS SCORECARDS AND INDICATORS



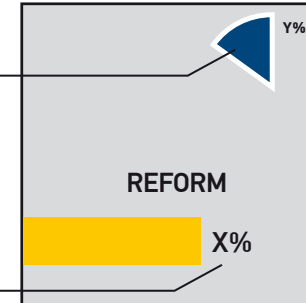
### PERCEPTION (TNS)

Y% of citizens see the changes

### PROGRESS 2015

- According to plan
- Risk zone
- Out of plan

X% — tasks execution progress



Survey conducted by the TNS agency on a monthly basis.

Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes



# ANTI-CORRUPTION REFORM

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
<p>Corruption does not pose risks to the country's national security and does not serve as a barrier to sustainable economic development</p>	<p>Effective mechanisms for prevention of corruption are established in public and private sectors</p>	<p>Electronic system of filing, disclosure and verification of asset declarations of public officials</p>
		<p>Merit-based human resource system in the public service that eliminates nepotism, promotes integrity and provides fair remuneration</p>
		<p>Reduced impact of private equity on policy through the introduction of public funding of parties and transparency and accountability of party finances</p>
		<p>Open, free and proactive disclosure of all information that is of public interest and can assist in the detection or prevention of corruption</p>
		<p>Effective system of identifying and eliminating corruption risks, including introduction of e-governance tools</p>
		<p>Bring Ukraine in line with international best practices in preventing corruption in state-owned enterprises and private sector</p>
	<p>Inevitability of responsibility and punishment for corruption is ensured</p>	<p>All persons found guilty of corruption, subjected proportionate sanctions and removed from service</p>
		<p>Effective system of seizure and confiscation of illicit assets</p>
		<p>System of integrity checks and lifestyle monitoring for all civil servants, illegal enrichment is punishable</p>
		<p>Specialized anti-corruption agencies and courts are economically and politically independent in their operations</p>
	<p>Society professes "zero tolerance" to corruption</p>	<p>Citizens, business and bureaucrats aware of the phenomenon of corruption, its social damage and personal liability, as well as the methods of fighting and preventing corruption</p>
		<p>Significantly reduced susceptibility and tolerance to acts of corruption</p>
		<p>Proactive watchdog mechanisms enabling non-government oversight and promoting exposure of corruption</p>

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents:

Sustainable development Strategy "Ukraine 2020"; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



# ANTI-CORRUPTION REFORM

## What has been achieved:

### Renewal of Government

- The Unified State Register of Persons Falling under the Law of Ukraine On Government Cleansing (Lustration) was compiled and put into operation. The Register is public, free of charge and provides 24-hour access to information. Data on 843 persons was entered in the Uniform Register by the end of the year.
- The Ministry of Justice and experts of the Venice Commission have jointly elaborated on the Law of Ukraine On Government Cleansing (Lustration). According to the Conclusion of the Venice Commission (# 788/2015 on 19.06.2015), the lustration of power in Ukraine has been in line with internationally recognized standards. A working group on the topic was set up. The efforts of the working group resulted in the introduction of the Draft Amendments to the Law # 2695 to the Parliament.
- The Ministry of Justice checked the State Fiscal Service of Ukraine for compliance with the Law of Ukraine On Government Cleansing (Lustration). The inspection revealed 37 persons (or 42.04% of the total number of senior executives) of the central apparatus and 39 persons (15.35% of the total number of senior executives) of the territorial offices of the State Fiscal Service not meeting the criteria established by the Law of Ukraine On Government Cleansing (Lustration) required to remain in their posts.
- An investigation was launched against officials (except elected positions) in all public authorities and local governments according to the plan of inspection and requirements of the Law of Ukraine On Government Cleansing (Lustration).

*On December 4, NAB's detectives entered information about the first criminal offences into the Unified Register of Pre-Trial Investigations (URPTI). Said offences concerned the plundering of funds from state-owned companies for a total of nearly UAH 1 billion.*

- The Ministry of Justice submitted an appeal to the Supreme Council of Justice of Ukraine to investigate 59 judges' compliance with the Law of Ukraine On Government Cleansing (Lustration).

### Corruption prevention and counteraction:

- The Government approved the State Anti-Corruption Strategy Implementation Program for 2015-2017 setting out primary tasks within the scope of anti-corruption reform for a three-year period and specifying responsible parties and deadlines. The draft program underwent public discussion and was positively assessed by experts and international organizations.
- The composition of the National Anti-Corruption Policy Council, established as an advisory body under the President of Ukraine in 2014 was approved by Presidential Decree. Mustafa Dzhemilev was appointed as Chair of the Council. The primary tasks of the National Anti-Corruption Policy Council are to: 1) prepare and submit proposals for establishing, updating and improving the Anti-Corruption Strategy; 2) carry out a systemic analysis of the situation on preventing and fighting corruption, efficiency of the Anti-Corruption Strategy implementation and the efforts to prevent and combat corruption; 3) prepare and submit the agreed proposals for improving coordination and cooperation among entities engaged in preventing and fighting corruption; 4) assess the status of and support to the implementation of recommendations of the Group

of States against Corruption (GRECO), Organization for Economic Cooperation and Devel-

*On December 10, Head of the National Anti-Corruption Bureau resolved to set up NAB's first territorial offices in Lviv and Odesa.*

opment (OECD) and other leading international anti-corruption institutions, and raise the efficiency of Ukraine's international cooperation in this field; 5) contribute towards a methodological framework for preventing and fighting corruption. The Council met for the first time on September 21, 2015. The second meeting was held in December. One of the Council's resolutions envisages setting up separate working groups to develop measures for the prevention of corruption and their discussion at subsequent meetings.

- On April 16, 2015, the President appointed Artem Sytnyk as Director of the National Anti-Corruption Bureau of Ukraine (NABU) following an open and transparent competition. NABU is the designated state law enforcement agency tasked with counteracting criminal corruption offences committed by senior public officials and threatening national security. The Anti-Corruption Bureau is to play a crucial role in combating corruption at the top echelons of the civil service. NABU has been staffed since June 2015. During these seven months 307 people were recruited through open competition with participation of the Public Control Council established through open voting. The first 70 detectives underwent the necessary training and have proceeded to collect and analyze information on potential cases. They started investigations following the appointment of the Head of the Anti-Corruption Prosecutor's Office. Competition to select an additional 130 detectives was announced in December.

- On December 10, the Director of the National Anti-Corruption Bureau announced establish-

ment of NABU's first regional offices in Lviv and Odesa. Open competition for the position of heads of regional offices was announced on December 14.

- On December 4, NABU detectives filed the first criminal offences into the Unified Register of Pre-Trial Investigations (URPTI). These offences concerned the theft of funds from state-owned companies totalling nearly UAH 1 billion.
- On July 2, the Verkhovna Rada (Parliament) amended the Law On Public Prosecutor's Office outlining the procedure for setting up the Specialized Anti-Corruption Prosecutor's Office (SAPO) as a separate unit within the Prosecutor General's Office. The task of SAPO is to oversee pre-trial investigations of NABU and prosecute cases in the courts. According to the Law, the Head of SAPO and other administrative positions are selected through open competition held by a selection committee made up of 4 representatives of the Prosecutor General's Office and 7 representatives nominated by the Verkhovna Rada. On September 21 the selection committee embarked on its duties and shortlisted three candidates for the position of Head of SAPO. On November 30, 2015 Ukraine's Prosecutor General appointed a Deputy Prosecutor General – Head of the Specialized Anti-Corruption Prosecutor's Office. The First Deputy Head and Deputy Head of SAPO embarked on cooperation in investigating the first corruption offences using the Anti-Corruption Bureau. In addition, a number of organizational issues were tackled before



# ANTI-CORRUPTION REFORM

the year-end, in particular provision of SAPO with properly equipped premises and appointment of heads of several departments. An agreement was reached to engage US donor agencies in holding the second stage of competition for the positions of public prosecutors within SAPO.

- On November 12, 2015 the Verkhovna Rada adopted the Law of Ukraine On the State Bureau for Investigations (SBI). According to the Law, the Bureau is the law enforcement agency of the executive branch. The SBI is to be set up by March 1, 2016. The Bureau will exercise investigative functions and deal with offences committed by senior government officials, law enforcement officers and officials of NABU and SAPO including corruption related offences in accordance with the division of competences. The SBI's senior officials and investigators are to be selected on a competitive basis. The competitive selection process is set forth in the Law.
- On March 18, 2015 the Cabinet of Ministers of Ukraine passed a resolution to establish the National Agency for Prevention of Corruption (NAPC), and on March 25, 2015 the Cabinet resolved to hold a competitive selection of NAPC members. A central agency of executive power, NAPC is responsible for the formation and implementation of national anti-corruption policy, monitoring of public officials' lifestyles and oversight of political party funding. Other functions of the Agency include drafting an Anti-Corruption Strategy, maintaining uniform registers of declarations of civil servants and corruption offenders, cooperating with whistle-blowers, etc. NAPC members are selected by an independent selection commission made up of 8 members, of whom 5 are representatives of civil society. In August 2015 the Ministry of Justice took the lead in setting up the NAPC by resolving a public conflict regarding formation of the selection commission: on August 28 four representatives of civil soci-

ety were re-elected to the board through an open and transparent process. On September 2 the Cabinet approved the composition of the commission chaired by the First Deputy Minister of Justice. Between September and December 2015 the selection commission held 7 working meetings, interviewed 22 candidates and shortlisted 9 candidates who successfully passed the proficiency test shortly thereafter. Three candidates received the required majority of votes at the extraordinary meeting of the selection commission held on December 11 and were appointed as NAPC members by the Cabinet of Ministers upon the recommendation of the Prime Minister the same day. The selection commission has yet to select 2 members in order to have the Agency fully staffed.

- The Law of Ukraine On Prevention of Corruption (# 1700-VII dated 14.10.2014) introduced a new system of financial control whereby paper-based declarations of assets, income, expenditures and financial obligations of public officials were replaced with declarations of persons authorized to perform the functions of the state or local self-government filed at the official website of the National Agency for Prevention of Corruption (NAPC). Declarations are to be submitted electronically and made available to the public in the Unified State Register on the NAPC website. The Ministry of Justice of Ukraine and the World Bank prepared the terms of reference for software development to build a public electronic register of asset declarations of public officials and implement the mechanisms for control and verification of submitted declarations. The software development is financed by the United Nations Development Programme in Ukraine: a contractor to design the system was selected through an open bidding process. Testing of the system is scheduled for early 2016. Respective developments will be handed to the NAPC as it starts functioning. The Law On State Budget of Ukraine 2016 (№ 928-VIII) adopted by the Par-

liament and signed by the President at the end of December 2015 contained a provision which

*April 9, 2015 saw the passing of the Law of Ukraine On Access to Information in the Form of Open Data*

- postponed introduction of an electronic asset declarations system till 2017. The Parliament will vote for a separate draft law in January 2016 in order to correct the situation and make it possible for the NAPC to monitor public servants' declarations this year.
- The Law On the National Agency of Ukraine for Identification, Tracing and Management of Assets Derived from Corruption and other Crimes is to come into force on June 11, 2016. The Law envisages setting up an institutional mechanism for tracing of assets subject to seizure, recovery and management of seized assets, and sets forth a legal framework for the establishment and functioning of an independent authority to carry out such activities, i.e. the National Agency of Ukraine for Identification, Tracing and Management of Assets Derived from Corruption and other Crimes, the creation of which is one of the crucial indicators of implementation by Ukraine of the Action Plan on Visa Liberalisation with the EU. In addition, laws passed in December 2015 provided for respective amendments to the Criminal Procedure Code, Criminal Code and Civil Code with respect to streamlining seizure and special confiscation mechanisms.
- The Business Ombudsman Council (BOC) is an independent permanent advisory body under the Cabinet of Ministers of Ukraine (Cabinet Resolution #691, dated November 26, 2014, and the Memorandum of Understanding with the Ukrainian Anticorruption Initiative, dated May 12, 2014), with a mandate to help establishing a transparent business environment

- and preventing corruption at the central and local government levels, and in state-owned and state-controlled companies within the scope of their administration. BOC is funded through a dedicated multi-donor account set up at the European Bank for Reconstruction and Development (EBRD) in 2014.
- The Council has three main objectives:
  - facilitate combating corruption and other business abuse;
  - contribute to greater investment attractiveness in Ukraine;
  - promote a public service culture of fairness, openness and accountability.
- The Business Ombudsman Council is meant to be an initial point of contact for companies seeking redress against unjust treatment. The Council publicizes all its reports on incoming complaints from businesses and how they were handled.
- In 2015 the Council received 585 complaints from business and 164 cases were successfully closed. 131 recommendations were provided to governmental agencies, 106 out of which implemented and 25 are still subject to monitoring. 4 systemic reports issued for the Cabinet of Ministers' consideration.
- April 9, 2015 saw the passing of the Law of Ukraine On Access to Information in the Form of Open Data (drafted by civic experts and submitted by the President of Ukraine). The Law introduces the notion of open data, provides for the publication of such data on a central web-portal and associate websites and envisages, in particular, mandatory publication of public procurement databases, register of legal entities, urban planning documentation, etc. The Law limits the possibilities for corrupt



# ANTI-CORRUPTION REFORM

practices to a substantial degree. The National Open Data Portal ([data.gov.ua](http://data.gov.ua)) was launched in April 2014. The portal is based on data of government agencies openly obtained under the Law of Ukraine On Access to Public Information. It is planned to transfer the functions of data administration to data owners. The portal currently contains around 100 datasets submitted by various government institutions. However, these datasets are outdated.

- The Ministry of Justice has launched an updated register of corruption offenders. It used to be possible to search the register by last name only. Today one can search the register by first name, patronymic, place of employment at the time of offence, elements of offence, and type of punishment or penalty. Thus, more information is now made public as a result of the search. It will also be possible to download a file containing information about those who have been freshly entered into the register. The register is currently operating in test mode to identify

**On November 16, 2015 Kyiv hosted the biggest anti-corruption summit in independent Ukraine's history – International Conference "Preventing, Fighting, Acting".**

and eliminate technical problems and enhance functionality.

- On July 14, 2015 the Verkhovna Rada adopted the Law On Amendments to Some Laws of Ukraine in Order to Increase Transparency in the Sphere of Property Relations for the Purpose of Corruption Prevention, in particular by opening up registers of owners of property, vehicles and land. The Law improves transparency of the state registers of property by providing public access to information about owners of registered vehicles and real estate as well as details of land plots from the State Land Cadastre (including, importantly, information about owners and users of land plots). The Law con-

tributes greatly to public control over payment of taxes by civil servants and enhances transparency of local governments and the executive branch. The Law came into force on October 6, 2015. All three registers were made open to the public under the Law before the year-end. However, some technical improvements and data updates required.

- On November 21, 2015 the President signed the Law On Amendments to Some Legislative Acts of Ukraine Concerning Prevention and Counteraction to Political Corruption, which provides for direct public funding of political parties beginning 2017. The Law stipulates the criteria for political party funding from the state budget and respective expenditure items, and sets limits on annual contributions to political parties from legal entities and individuals. Control over compliance with the Law rests with the National Agency for Prevention of Corruption. Some provisions of the Law take effect as the NAPC starts functioning; others will come into force on July 1, 2016. Political parties are to report on their assets, income, expenditures and financial obligations starting on January

1, 2016.

- At its 104th Plenary Session held on 23-24 October, the Venice Commission adopted the Interim Opinion on the Draft Law On Integrity Checks of Persons Authorized to Perform the Functions of the State or Local Self-Government prepared by the Ministry of Justice of Ukraine. The rendered Interim Opinion is positive overall. The Draft Law is viewed as a step towards international standards to prevent and fight corruption in Ukraine. The revised Draft Law is to be submitted for consideration by the Verkhovna Rada following further consultation and mindful of the Venice Commission's Opinion.

- On November 16, 2015 Kyiv hosted the biggest anti-corruption summit in Ukraine's history – the International Conference "Preventing, Fighting, Acting". The Conference became a platform for a fair and open dialogue among public officials, businesspeople and civic activists, presented international best practices, brought together all parties involved in anti-corruption reforms, and outlined Ukraine's priorities in overcoming corruption. The Conference gathered more than 900 guests and around 20 high-ranking foreign speakers from over 10 countries.
- 2015 was a year of many anti-corruption initiatives being implemented across high-priority reform areas. These include the launch of comprehensive judicial reform, reform of the General Prosecutor's Office, police reform, decentralization, implementation of electronic sub-threshold public procurement, economic deregulation, transferring procurement of drugs to international organizations, modernization of corporate governance of state-owned enterprises, and raising liability limits for bank owners and many other significant developments.
- According to the conclusion of GRECO (Council of Europe Group of States Against Corruption), with the adoption of the Fifth Addendum to the *Joint First and Second Evaluation Round Compliance Report*, out of the *twenty-five recommendations* issued to Ukraine, *in total twenty recommendations have now been implemented satisfactorily or dealt with in a satisfactory manner, four have been partly implemented, and one not implemented*. GRECO has also concluded that *Ukraine has implemented satisfactorily or dealt with in a satisfactory manner ten of the sixteen recommendations* contained in the Third Round Evaluation Report, Second Compliance Report on Ukraine (Theme I – Incriminations and Theme II Transparency of party funding). Moreover, of the remaining recommendations *six have been partly implemented*.

## **What needs to be done to catch up on or accelerate reform:**

- Complete staffing of the NABU's central apparatus so that the Bureau operates at full capacity. Continue forming the Bureau's regional offices.
- Complete selection of the NAPC's five members. Select two additional members through a new competition. Provide a baseline minimum of the Agency's staff for it to start functioning.
- Approve a new form of electronic asset declaration for submission by public officials in line with the new requirements and complete respective software development.
- Appoint the necessary number of anti-corruption prosecutors to provide efficient support to investigations of the Anti-Corruption Bureau.
- Ensure that registers of owners of property, vehicles and land function properly and in accordance with the law.
- Proceed with uploading updated datasets of government institutions in an appropriate format to the National Open Data Portal.
- Develop a nationwide strategy of anti-corruption communications aimed at developing a zero tolerance attitude to corruption in the society.



# ANTI-CORRUPTION REFORM



## CORRUPTION PREVENTION National Agency for Prevention of Corruption (NAPC)

*A central executive agency enjoying special status responsible for the formulation and implementation of national anti-corruption policy*

### Principal duties and functions:

- Analysis of the situation with corruption prevention and counteraction in Ukraine
- Formulation and implementation of anti-corruption policy
- Development of anti-corruption policy
- Monitoring and oversight of compliance with the code of ethical conduct and conflict of interest policy
- Control and verification of declarations of assets and liabilities made by public servants
- Oversight of political party funding
- Maintenance of a Unified State Register of Corrupt Officials
- Whistleblower cooperation and protection
- Developing a culture of zero tolerance for corruption among the general public

### Management and composition:

- A collegial body made up of five members appointed by Resolution of the Cabinet of Ministers for a four-year period through a competitive procedure. Head of NAPC is elected by and from among NAPC members for a two-year period.



## POLICY COORDINATION AND DEVELOPMENT National Anti-Corruption Policy Council

*An advisory agency under the President of Ukraine*

### Principal duties and functions:

- Updating and improving the Anti-Corruption Strategy
- Monitoring of the situation with corruption prevention and counteraction in Ukraine
- Improving coordination and cooperation among entities engaged in the implementation of anti-corruption reform

### Management and composition:

- The Council is chaired by the Head appointed by Decree of the President of Ukraine
- The Council is made up of government officials, community leaders and representatives of business



## INVESTIGATIONS AND SANCTIONS National Anti-Corruption Bureau of Ukraine (NABU)

*A law enforcement agency enjoying broad powers vested with prevention, detection, suppression and solving of corruption offences*

### Principal duties and functions:

- Counteraction of corruption-related crimes committed by high-ranking public or local government officials that threaten national security

### Management and composition:

- The Bureau is managed by the Director appointed by the President of Ukraine upon the recommendation of the selection board for a seven-year period

## Specialized Anti-Corruption Public Prosecution Office (SAPO)

*An independent structural unit within the Prosecutor General's Office of Ukraine established to provide procedural support to cases initiated by the Anti-Corruption Bureau*

### Principal duties and functions:

- Supervision over observance of laws during the course of operational and investigative activities carried out as part of NABU pre-trial investigations
- Supporting prosecutions on behalf of the state in respective proceedings
- Representing the interests of the citizens or the state in courts

### Management and composition:

- Head of Specialized Anti-Corruption Public Prosecution Office is Deputy Prosecutor General who reports directly to the Prosecutor General of Ukraine, Head of SAPO is appointed by the Prosecutor General upon the recommendation of the selection board.

## State Bureau of Investigations (SBI)\*

*A law enforcement agency of the executive branch responsible for prevention, detection, suppression and solving of crimes falling within its competence*

### Principal duties and functions:

- Investigating and solving crimes including corruption-related offences committed by officials holding positions of high responsibility, civil servants of I-III categories, judges and law enforcement officers, NABU officials and SAPO prosecutors except cases when investigation of such crimes and offences falls within the competence of NABU

### Management and composition:

- SBI is managed by the Director, some of whose authority is exercised jointly with the First Deputy and Deputy Director, appointed for a five-year period. SBI Director and Deputy Directors are appointed by the Cabinet of Ministers of Ukraine upon the recommendation of the Prime Minister as recommended by the selection board

\* Only SBI's functions of anti-corruption nature are listed



## RECOVERY OF STOLEN ASSETS National Agency of Ukraine for Identification, Tracing and Management of Assets Derived from Corruption and other Crimes

*A central executive agency enjoying special status responsible for the formulation and implementation of the national policy for identification, tracing and management of assets derived from corruption and other crimes*

### Principal duties and functions:

- Formulation and implementation of the national policy for identification, tracing and management of assets
- Identification, tracing and appraisal of assets
- Accounting and management of assets
- Maintenance of a Unified State Register of Seized Assets
- Representing the rights and interests of the State in asset recovery proceedings

### Management and composition:

- The Agency is managed by the Head appointed by the Cabinet of Ministers of Ukraine upon the recommendation of the Prime Minister for a five-year period through a competitive procedure.
- The Agency reports to the Verkhovna Rada of Ukraine and is subordinated and held accountable to the Cabinet of Ministers

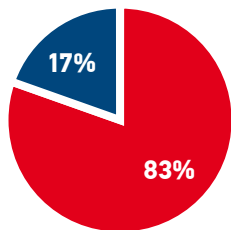


# ANTI-CORRUPTION REFORM

**59%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST

**TNS** Survey conducted by the TNS agency on a monthly basis.

Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

## TASKS

State Programme for implementation of 2014-2017 Anticorruption Strategy is approved	100%	National Anticorruption Bureau is launched and functioning	75%
		Specialized Anticorruption Prosecution is launched and functioning	50%
		National Agency for Prevention of Corruption is launched and functioning	46%
		Reformed system of financial control of assets and incomes of public officials is launched	0%
		Legislation on financing of political parties and election campaigns is reformed, foreseeing public financing of political parties	100%
		Legislation on access to publicly important information in open data format is adopted; independent state supervisory body for access to public information identified	75%
		Legislation on integrity checks of public officials is adopted	25%

## OUTCOMES

Anticorruption Bureau has finalized investigations; at least 20% of assets under arrest are confiscated, including assets located abroad (after the Bureau been launched)	
All declarations of public officials have been verified according to the Law on Prevention of Corruption	
Web portal of open data functions. Public data are available on web portal in the scope defined by Cabinet of Ministers and in the format, which is suitable for free access and processing	
5 registers are available in open data format and updated on a regular basis	50%

## PERCEPTION

Transparency International Corruption Perception Index ranking of Ukraine grew significantly and approaching the target	
Group of Countries against Corruption (GRECO) positively assess situation with recommendations implementing regarding the level of corruption	98%
Level of trust in NABU	
Share of respondents who had experience of bribery (were solicited for a bribe or offered/gave a bribe) (66%, Pact)	
Society evaluates anticorruption efforts as effective (19.6%, TNS)	



# PUBLIC PROCUREMENT REFORM

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
<p>The best public procurement (PP) system in Europe to ensure efficient public spending</p>	<p>TRANSPARENCY OF PP through launching electronic auctions and monitoring</p>	<ul style="list-style-type: none"> <li>Phased transition to electronic auctions</li> <li>Legislative support electronic auctions and implementation of necessary international standards</li> <li>BI introduction, statistics and analytics</li> <li>External monitoring and risk assessment system</li> </ul>
	<p>COMPETITIVENESS create faith among businesses in fair PP processes and promote the new PP system</p>	<ul style="list-style-type: none"> <li>Effective complaints system</li> <li>Gathering and publication of business intelligence</li> <li>Proactive Involvement of suppliers Into biddings</li> <li>Facilitating the access of businesses to PP</li> </ul>
	<p>PROFESSIONALIZATION of PP officers through training and law clarification</p>	<ul style="list-style-type: none"> <li>e-learning &amp; e-testing followed by voluntary certification of PP</li> <li>Pro active law clarifications</li> <li>Standard specifications for procurement objects</li> </ul>
	<p>JOINING TO WTO GPA and development of export capacity</p>	

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents:

Sustainable development Strategy “Ukraine 2020”; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



# PUBLIC PROCUREMENT REFORM

## ***What has been achieved:***

- ProZorro electronic public procurement system developed and put into operation.
- More than 2,200 procuring entities from all over Ukraine operated in the system as at year-end. The system saw nearly 35,000 tenders for a total of more than UAH 6 billion. Savings equalled 12-18% on average.
- bi.prozorro.org – a publicly accessible system of government procurement business analysis – was launched.
- A dedicated procurement department within the Ministry of Economic Development and Trade was launched and staffed with 10 new experts.
- New director of State-Owned Enterprise Zovnishtorhvydav appointed; financial performance of the enterprise assessed.
- IT audit of the operating web portal and ProZorro carried out, integration of both systems is underway.
- Ukraine's accession to the WTO Agreement on Government Procurement is nearing completion, making other countries' government procurements (worth USD 1.7 trillion annually) accessible to Ukrainian exporters.
- Roadmap for harmonization of Ukrainian procurement system with EU Directives developed.
- Public procurement legislation amended to increase the pace of reform. Anti-corruption and deregulation provisions introduced, thresholds for procurements falling under the legislation increased (making it now possible to include nearly 70% of procurements). Legislation brought into line with international requirements.
- Draft Law adopted by the Verkhovna Rada and pending the signature of the President providing for setting up a brand-new system of government (public) procurement, introducing the notion of e-procurement and envisaging gradual transition of all procurement to electronic form during 2016.
- Transition of public procurement guidance into electronic form initiated, contracting authorities support portal at help.vdz.ua developed.

***Nearly UAH 500 million saving estimated.***

## ***Draft Law on Public Procurement developed***

- Legislate for the use of international cloud service providers which have achieved ISO27001 certification for storage of unclassified information.
- Have the roadmap for harmonization of the Ukrainian procurement system with EU Directives approved by the Cabinet of Ministers of Ukraine.
- Ratify the WTO Agreement on Government Procurement.

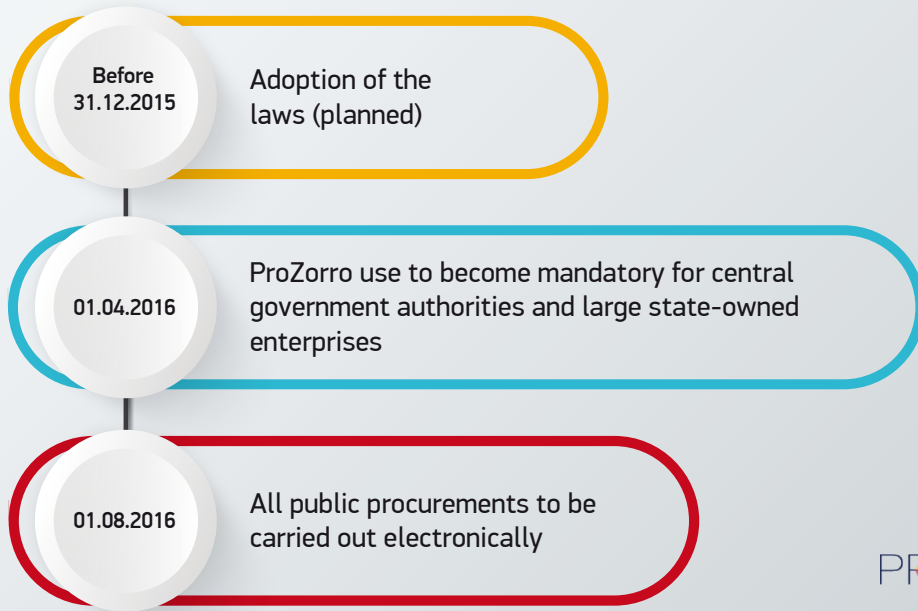
## ***What needs to be done to catch up on or accelerate reform:***

- Establish cooperation with the State Service of Special Communication and Information Protection to obtain ProZorro security certificate.
- Provide for the integration of the e-procurement system with public registers.



# PUBLIC PROCUREMENT REFORM

## PUBLIC PROCUREMENT REFORM



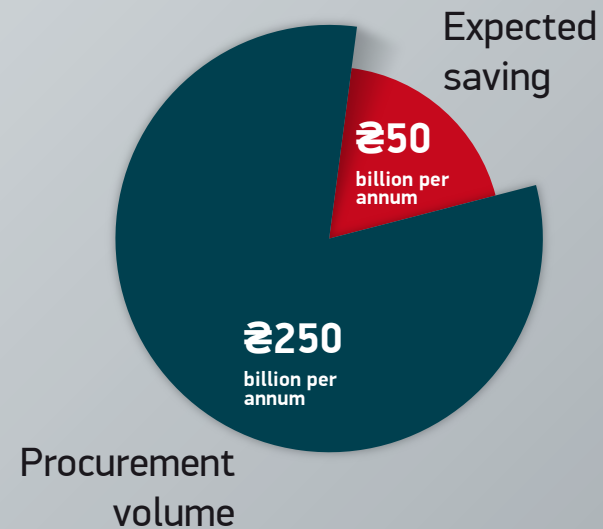
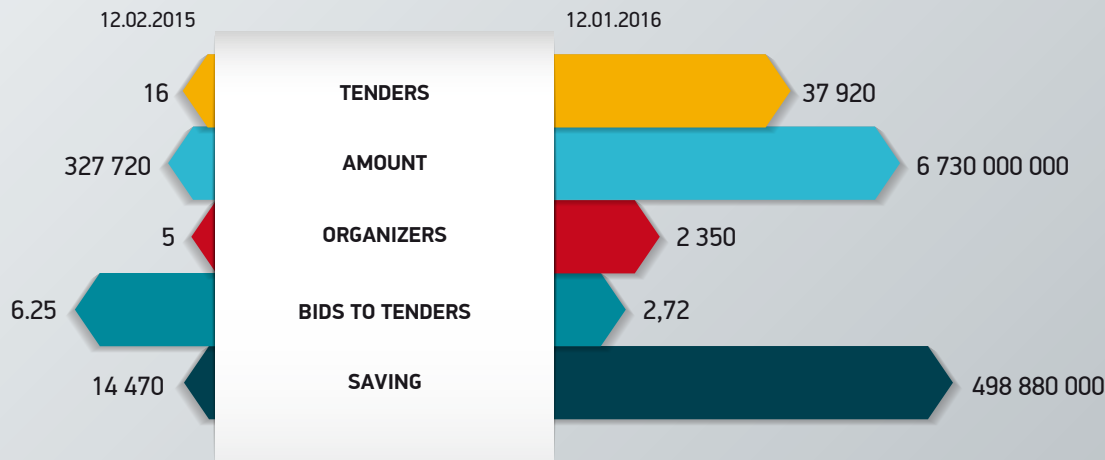
**01** ProZorro to host all public procurements worth more than UAH 50 thousand

**02** Trade with the government from your computer

**03** Obtain all necessary documents electronically

**04** See competitors' terms and challenge a tender award electronically

**05** Analytical module for citizen oversight over public expenditures



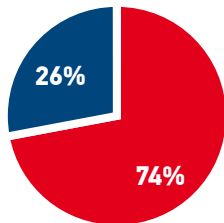


# PUBLIC PROCUREMENT REFORM

84%

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST

Survey conducted by the TNS agency on a monthly basis.

TNS

Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

### TASKS

Capacity building & functions' optimization of the Authority body	100%	New normative base in the public procurement sphere developed & accepted in line with DCFTA Roadmap for 2015-2017	100%
		Implementation of anticorruption actions in Ukraine's legislation	75%
		Integration of ProZorro IT-system with official web-portal & transfer of control to the government	75%
		E-procurement legislation approved	100%
		Procurement procedures fully digitalized	25%
		Ukraine joined the WTO GPA	66%

### OUTCOMES

Average savings from e-procurement system use increased: from 0.5% ("paper" procedures to 12% (e-procurement)
UAH 0.5 B saved during the pilot project (UAH 200 M – for Ministry of Defense)
Competition increased: average number of participants 2.72
Wide implementation of the E-procurement system: all regions, 2300 state customers, close to 8000 participants

### PERCEPTION

High level of trust to the eProcurement system formed
High level of trust toward the Authority body from business formed

## SCORECARD

IN TIME RISK ZONE OUT OF TIMING



# DECENTRALIZATION REFORM

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
<p>Creating a safe and comfortable environment for citizens' lives in Ukraine through an effective system of governance</p>	<p>An effective system of governance</p>	<p>Separation of powers between local governments and public authorities</p>
		<p>The transfer of sufficient financial resources to local governments</p>
		<p>Providing the openness, transparency and public participation in solving local problems</p>
	<p>High level of competitiveness of the regions</p>	<p>Efficient use of resources for sustainable development</p>
		<p>Favorable conditions for business</p>
		<p>Effective interregional collaboration</p>
	<p>High quality services</p>	<p>State quality standards (norms) of administrative services</p>
		<p>Quality of services</p>
		<p>Accessibility to services</p>

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents:

Sustainable development Strategy “Ukraine 2020”; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



# DECENTRALIZATION REFORM

## What has been achieved:

### Local self-government and territorial organization of power

Legal basis for the voluntary merger of territorial communities established:

- Concept of the Reform of Local Self-Government and Territorial Organization of Power in Ukraine and the Action Plan for its implementation approved.
- Law On Voluntary Merger of Territorial Communities adopted, setting out a legal framework for building up the financial and economic capacity of communities.
- Methodology for the Formation of Capable Territorial Communities developed and approved by the Government (Resolution of the Cabinet of Ministers of Ukraine # 214 of April

**159 merged territorial communities made up of 794 village, settlement and city councils formed**

8, 2015)

- Regional Reform Office set up in each oblast with support from donors.
- Long-term plans for the Formation of Community Territories developed by oblast state administrations with support of the Regional Reform Offices and Association of Ukrainian Cities as well as active community involvement. Out of the twenty-four oblasts, twenty-three oblasts had their long-term plans approved by respective oblast Councils and endorsed by the Cabinet of Ministers of Ukraine as at year-end 2015. Long-term Plan for the Formation of Community Territories in Zakarpattia oblast is pending approval of the oblast council.
- During the period under review, a merger process has been initiated in more than 6,300 territorial communities (more than half of the

total number).

- 794 village, settlement and city councils voluntarily merged to form 159 capable communities.
- Following the Resolution of the Central Election Commission, these 159 merged territorial communities (21 city, 45 settlement and 93 village communities) saw the first elections of village, settlement and city council deputies as well as mayors and heads of village and settlement councils.
- Other 40 newly merged communities (comprising around 170 communities) insisted that the first elections be held.
- The formation of such a number of merged communities was made possible through the coordinated efforts of the Cabinet of Ministers, Parliament and the President of Ukraine in amending the law with respect to the first local elections (passage of the Law of Ukraine # 676 dated as of September 4, 2015). The Law made it possible to additionally obtain a resolution of the Central Election Commission to set the first local elections in 85 merged territorial communities (made up of nearly 400 communities).
- There was a legal framework established for the cooperation of territorial communities with a view to supporting local governments in solving local problems on a contractual basis:
- Law of Ukraine On Cooperation of Territorial Communities adopted;
- Methodological recommendations for the application thereof developed;
- Ministry of Regional Development passed the Resolution on Approval of Model Agreements for Cooperation of Territorial Communities. These model agreements provide for the implementation of joint projects, joint financing (maintenance) of utilities, formation of joint

municipal companies, and setting up of joint management bodies;

- Procedure for the Formation and Operation of the Register of Cooperation of Territorial Communities approved.
- 31 agreements were entered into by 167 territorial communities as at year-end 2015.
- Real fiscal and financial decentralization was undertaken by adopting amendments to the Budget Code and Tax Code of Ukraine, vesting local governments with additional budgeting authority and identifying stable sources of revenue for exercising thereof. The volume of local governments' own resources grew by almost half in 2015. This means that local governments obtained sizeable additional resources for regional development compared to 2014.
- In 2015, the revenue of local governments triggered by financial decentralization grew by 42.5% to UAH 80 billion, against UAH 56.2 billion in 2014. These are funds local governments and territorial communities may utilize independently. Mindful that the system provides for local budget autonomy and decentralization, these changes will deliver synergies leading to a two- to three-fold increase in local budget revenues. This will furnish local governments with resources to tackle community development issues.
- Draft Law of Ukraine On Amendments to the Law of Ukraine On Voluntary Merger of Territorial Communities Concerning the Adjusted Calculation of the Amount of Financial Support to Budgets of Merged Territorial Communities # 3009 proposes to allocate an overall amount of financial support among budgets of merged territorial communities pro rata to their areas and population with both factors being equally

**The revenue of local governments triggered by financial decentralization in the first 12 months of 2015 grew by 42.1% to UAH 99.8 billion against UAH 70.2 billion in 2014.**

weighted.

### Implementation of the new regional development management system

- A new regional development planning mechanism introduced and adopted entitled "The National Strategy for Regional Development" (and an Action Plan for its implementation).
- Twenty-one oblasts had their Regional Development Strategies developed and approved (strategies for the remaining oblasts are pending update or approval); development of respective actions plans is in progress.
- Fifteen oblasts had Action Plans for the Implementation of Regional Development Strategies developed and approved.
- Action Plans for the Implementation of Regional Development Strategies for 10 oblasts (namely: Vinnytsya, Volyn, Donetsk, Zakarpattia, Zaporizhzhya, Odesa, Lviv, Ternopil, Kherson, Chernihiv, as well as for the city of Kyiv) were developed and are pending approval.
- Legal framework is being developed for supporting regional policy efficiency and effectiveness monitoring and institutional support to regional development and programs and projects financed based on EU standards and approaches (in pursuance of the Law of Ukraine On Fundamentals of the State Regional Policy # 156-VIII of February 5, 2015 adopted by the Verkhovna Rada of Ukraine).
- Adoption of Resolution On Using Funds of the State Fund for Regional Development # 195 and Resolution On Certain Issues of the State Fund for Regional Development # 196 by the Cabinet of Ministers of Ukraine on March 18, 2015 helped improve the instruments of financing. In addition, the Cabinet approved 791



# DECENTRALIZATION REFORM

projects of the State Fund for Regional Development and an online platform was launched on the Ministry of Regional Development website to raise transparency in decision making.

- The regional policy monitoring and assessment system was enhanced to add quality to managerial decisions. The Resolution of Cabinet of Ministers of Ukraine dated 11th November 2015 #931 established the procedure for developing the National Strategy for Regional Development of Ukraine and the action plan for its implementation as well as monitoring and efficiency evaluation of the Strategy and action plan implementation that will improve the quality of management decisions.
- The regional development institutional support system is undergoing formation: the Government Committee for Regional Development has been set up while the establishment of oblast Regional Development Agencies is to get underway.
- Supported by the EU project, the Ministry of Regional Development, Construction, Housing and Utilities of Ukraine set up an online platform of the State Fund for Regional Development ([dfrr.minregion.gov.ua](http://dfrr.minregion.gov.ua)). For the first time ever, regional development investment projects are being selected through an open tender process rather than manually.
- Functional decentralization in the field of architecture and construction led to adoption of a package of legislative amendments to decentralize the functions of the State Architectural and Construction Inspectorate, whereby local governments have been vested with complete control over territorial development all the way through urban planning projects' implementation: from parcelling out of land to the commissioning of completed construction projects.
- As far as deregulation and entrepreneurial development is concerned, the procedures for approval of construction projects and for re-planning/modification of residential prem-

ises have been streamlined. An important factor for supporting the merged territorial communities is the implementation of provisions:

- On 26th of November 2015 The Law of Ukraine #837-VIII «On Amendments to the Budget Code of Ukraine concerning the special aspects of budget formation and implementation of merged territorial communities, setting forth special aspects of formulation and implementation of budgets of merged territorial communities formed under the Law of Ukraine On Voluntary Merger of Territorial Communities and Long-Term Perspective Plan for the Formation of Community Territories During the Transition Period;
- concerning special aspects of state registration of local government authorities as legal entities formed through merger, acquisition, division or transformation of a local government authority as a legal entity. The Law will help eliminate deficiencies in the regulatory framework concerning succession of merged territorial communities and their village, settlement and city councils and executive com-

***A Donor Coordination Council under the Ministry of Regional Development set up to ensure efficient cooperation with the donor countries.***

- mittees.
- 1.9 billion UAH for socio-economic development, particularly through regional development strategy
- State Budget of Ukraine for 2016 envisages UAH 1 billion subvention to support merged territorial communities.
- 3 billion UAH – for funding the State Fund for Regional Development.
- Further decentralization legislation developed and action already underway to have it adopted; methodological recommendations for newly formed local governments prepared.

Memorandums of cooperation on the preparation of community formation time plans and formulation of a project for the development of modern infrastructure for the provision of community administrative services (Administrative Service Centers) and municipal facilities has been executed and signed with international partners.

- Law of Ukraine On Amendments to the Budget Code of Ukraine Concerning Special Aspects of Formulation and Implementation of a Merged Territorial Community Budget adopted.
- Law of Ukraine On Amendments to the Budget Code of Ukraine Concerning Financial Support to the Provision of Administrative Services by Local Governments adopted.
- Law of Ukraine On State Registration of Titles to Immovable Property and Encumbrances Thereon adopted.
- Law of Ukraine On State Registration of Legal Entities, Sole Proprietors and Community Groups adopted.
- Law of Ukraine On Amendments to Some Legislative Acts of Ukraine Concerning the Empowerment of Local Governments and Optimization of Administrative Services adopted.
- Draft Law On Amendments to Some Legislative Acts of Ukraine Concerning Provision of Healthcare and Pharmacy Services to Rural Population Amid Decentralization of Power # 2104a submitted for consideration in the Verkhovna Rada of Ukraine.
- Transitional Provisions of the Law of Ukraine On Amendments to Some Legislative Acts of Ukraine Concerning Delineation of State-Owned and Municipally-Owned Land to Delineate the Land Within the Territories of Merged Territorial Communities have been developed and referred for review by the Verkhovna Rada

committees.

- Draft Law of Ukraine On Service in Local Government Bodies (as amended) # 2489 of March 30, 2015 has passed through first reading in the Verkhovna Rada and is undergoing preparation for second reading.
- Law of Ukraine On Local Elections # 595-VIII of July 14, 2015 adopted by the Verkhovna Rada of Ukraine.
- Draft Law of Ukraine On Municipal Guard allowing local councils to establish a municipal guard has passed its first reading in Parliament.
- The President of Ukraine signed the Law of Ukraine On Amendments to Some Legislative Acts of Ukraine Concerning Decentralization of Architectural and Construction Control and Improvement of Urban Planning Legislation # 320-VIII of April 9, 2015 providing for the decentralization of powers in the field of architectural and construction control and enhancing town planning legislation.
- Draft Laws On Local Referendums have been registered by the Verkhovna Rada and referred for review by the Verkhovna Rada committees.
- The State Service of Ukraine for Geodesy, Cartography and Cadastre has developed the Draft Law On the Introduction of Amendments to Certain Legislative Acts of Ukraine to Provide for the Delegation of State-Owned Land Management Powers to Local Governments and Strengthening of Control Over Land Use and Protection. The draft law has been endorsed by central executive agencies and submitted to the Government for review.
- Most importantly, the Draft Law of Ukraine On Amending the Constitution of Ukraine (Regarding Decentralization of Power) (registration # 2217a of July 15, 2015) submitted by the President of Ukraine as a priority bill passed its first reading on July 16, 2015 after more than a year of review by experts and the Constitutional Commission of the Verkhovna Rada of Ukraine. The Draft Law has been sub-



# DECENTRALIZATION REFORM

mitted for review by the Constitutional Court of Ukraine on its compliance with Articles 157 and 158 of the Constitution of Ukraine. According to the Constitutional Court of Ukraine dated 7th of July 2015, № 2-Б / 2015 the draft law on amending the Constitution of Ukraine (concerning the decentralization of power) complies with the Articles 157 and 158 of the Constitution of Ukraine.

- On August 31, 2015 the Verkhovna Rada of Ukraine gave its preliminary approval to the Law On Amending the Constitution of Ukraine (Regarding Decentralization of Power) registration №656-VIII of July 15, 2015.
- Having undergone expert discussion, the preliminary version of the Draft Law On Prefects was reviewed at the meeting of the Central Coordination Council. The final wording, however, may only be adopted following amendments to the Constitution of Ukraine.
- At the 8th Meeting of the National Reforms Council the Ministry of Information Policy of Ukraine was appointed as a coordinator responsible for the communication support to the reform.
- The Ministry of Information Policy together with the Ministry of Regional Development, Construction, Housing and Utilities has developed, agreed with all-Ukrainian associations of local government bodies and implemented the unified reform support communication plan under which state television and radio broadcasting companies and other organizations (NTKU, NRKU, DTRK UTR World Service, oblast and regional state-owned television and radio broadcasting companies) delivered a Ukraine-wide decentralization and local government reform awareness TV campaign throughout 2015. Particular emphasis of themed TV shows, newscasts, etc., was placed on supporting constitutional amendments. State-owned television and radio broadcasters delivered nearly 1,000 hours of television and nearly as many hours of radio

broadcasting products to support the decentralization of power. Decentralization related advertisements were placed in print media and at healthcare facilities, railway stations, educational establishments, and transport facilities.

- A National Reform events calendar reflecting activities underway in each region on a daily basis was designed with support of the Ministry of Regional Development, Construction, Housing and Utilities, Verkhovna Rada of Ukraine, Oblast State Administrations, Regional Reform Offices, all-Ukrainian associations of local government bodies, international donors and civil society organizations.
- A Donor Coordination Council under the Ministry of Regional Development was set up to ensure efficient cooperation and coordination of donor activities and to determine the need for channelling technical and financial assistance to those areas of reform that require utmost attention.
- Donors helped carry out a number of events related to constitutional amendments and support 159 merged territorial communities.
- At the initiative of the Ministry of Regional Development, Kharkiv Law Academy has analyzed legislation for 22 fields and sectors that are in need of decentralization. Task teams to develop roadmaps and action plans for reforms in respective industries and sectors and to bring the conceptual fundamentals of reforms into compliance with the Concept of Reform of Local Self-Government and Territorial Organization of Power set up in relevant ministries at the instruction of H.H. Zubko, Vice Prime Minister of Ukraine, Minister of Regional Development, Construction, Housing and Utilities in charge of the reform.

#### **What has not been achieved:**

- Reform of local self-government and territorial organization of power must go hand in

hand with successful reforms in all spheres of public life. Constitutional amendments, above all those pertinent to the decentralization of power (i.e. distribution of the functions of central executive authorities among local governments), are a precondition for further comprehensive and systematic reform efforts.

- The following draft laws are to be adopted (within three months of the effective date of the Law of Ukraine On Amending the Constitution of Ukraine Regarding Decentralization of Power):
  - On Local Self-Government in Ukraine (as amended);
  - On Prefects;
  - On Fundamentals and Procedure for Solving Issues Pertinent to Administrative and Territorial Structure of Ukraine.

#### **What needs to be done to catch up on or accelerate reform:**

- Support constitutional amendments by implementing a package of measures to raise awareness of and provide expert backing to modification of the Constitution of Ukraine regarding decentralization at central, regional and local levels.
- 1. Develop legislation required to implement the decentralization amendments to the Ukrainian Constitution: Law of Ukraine On Local Self-Government in Ukraine (as amended), Law of Ukraine On Prefects and Law of Ukraine On Fundamentals and Procedure for Solving Issues Pertinent to Administrative and Territorial Structure of Ukraine.
- 2. Draft laws that do not require modification of the Constitution, in particular:
  - those related to land matters, urban development planning, improvement of inter-governmental fiscal relations, local taxes and levies, administrative services, social standards;
  - proposals for the improvement of legisla-

tion governing related sectors and industries regarding decentralization of powers of the executive branch.

3. Facilitate the merger into capable territorial communities and provide government support to such communities through:
  - drafting, correcting and approving long-term plans for the formation of capable communities within oblasts;
  - fostering the establishment of administrative service centers within merged territorial communities.
4. Continue delivering communication and promotional support for reforms.



# DECENTRALIZATION REFORM

## FIRST VOLUNTARILY-MERGED COMMUNITIES FORMED

Merger process has been initiated in **more than 6,300** territorial communities (more than half of the total number)



- FORMED
- FIRST ELECTIONS HELD
- DEPUTIES IN MERGED COMMUNITIES ELECTED



FIRST SESSIONS, REGISTRATION, FORMING OF EXECUTIVE COMMITTEES



## COMMUNITIES OBTAINED ADDITIONAL FINANCIAL RESOURCES



- 5 PERCENT EXCISE DUTY ON TOBACCO PRODUCTS, ALCOHOLIC BEVERAGES AND PETROLEUM PRODUCTS
- LOCAL TRANSPORT TAX
- PROPERTY TAX
- LAND CHARGE
- +42,1%**



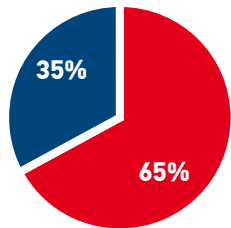


# DECENTRALIZATION REFORM

**84%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST

Survey conducted by the TNS agency on a monthly basis.

**TNS**

Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

## TASKS



Approval/ update of the plan of measures on realization of the Concept of reforming local government and territorial organization of power in Ukraine	100%	Adoption of the Law of Ukraine «On the Principles of the State Regional Policy» that regulates the legal, economic and organizational grounds of the state regional policy with the purpose of improving the efficiency of the state regional development administration system	100%	The adoption of the Law of Ukraine «On Administrative and Territorial Structure» to ensure – based on the amendments introduced to the Constitution of Ukraine – the principle under which the same area has no more than one body of self-government of the same level and ubiquity of the jurisdiction of local self-government at the level of Territorial Communities	50%	Development and approval of Perspective Territorial Plans for Capable Communities	96%	Online platform of the State Fund for Regional Development created	100%				
Adoption of the Law of Ukraine «On Amendments to the Constitution of Ukraine» pertaining to local self-government and territorial authority structure reform	80%	Adoption of the Law of Ukraine «On Amendments to Certain Legislative Acts to Extend the Powers of Local Self-Government Bodies in Disposal of Land Plots and Monitoring Use and Protection of Land»	60%	Providing financing through The State fund of regional development projects (including cooperation projects and voluntarily United territorial communities)	100%	Adoption of the Law of Ukraine «On Local Self-Government in Ukraine» so as to ensure the optimal distribution of powers among local self-government bodies and executive authority bodies based on the amendments to the Constitution of Ukraine	75%	The Framework for Creation of Capable territorial Communities adopted	100%	Opening regional reform offices and ensuring their effective activity	100%	The European system of statistic reports has been introduced for monitoring and assessment of the social and economic development of the regions of Ukraine	80%
Adoption of the Law of Ukraine «On Voluntary Association of Territorial Communities» with the purpose of legislative settlement of organizational and legal grounds for the emergence of capable territorial communities that can provide the entire scope of public services within the community	100%	Adoption of the Law of Ukraine «On Self-Organized Bodies» (new version)	70%	Adoption of the Law of Ukraine «On Municipal Police» aimed at ensuring law and order in communities	70%	Adoption of the Law of Ukraine «On Service in Local Self-Government Bodies» (new version)	60%	Strategy on regional development agreed	100%	Institutional basis for local government bodies work	0%	Communication support for the decentralization reform held according to the approved reform communication plan	100%
Adoption of laws of Ukraine on amending the Budget and Tax Codes of Ukraine as to decentralization of finance, strengthening of the material and financial basis of local self-government	100%	Adoption of the Law of Ukraine «On Local Self-Government in Ukraine» (new version) so as to ensure the optimal distribution of powers among local self-government bodies and executive authority bodies based on the amendments to the Constitution of Ukraine	70%	Adoption of the Law of Ukraine «On Self-Organized Bodies» (new version)	60%	Adoption of the Law on "Regional communities cooperation"	100%	Adoption of the Law on regional development agreed	100%	The Single Unified List of Standards for the Provision of Public Services created	10%	Adoption of the Law of Ukraine «On Local Referendum»	70%
Approval of Action Plans to implement regional development strategies	75%	Adoption of the Law of Ukraine «On Local Self-Government in Ukraine» (new version) so as to ensure the optimal distribution of powers among local self-government bodies and executive authority bodies based on the amendments to the Constitution of Ukraine	70%	Adoption of the Law of Ukraine «On Amendments to Certain Legislative Acts of Ukraine concerning Decentralization of Powers in the Field of Architecture and Construction Control and Improvement of Urban Planning Legislation»	100%	Approval of the new procedure of preparation, assessment and selection of investment programs and regional development	100%	Approval of the new procedure of preparation, assessment and selection of investment programs and regional development	100%	Approval of Regional Development Strategies developed taking into account new approaches based on European practices	96%	Local Development strategy approved	96%
		Local budgets grew by UAH 12 B during 6 months	100%	State standards of administrative services approved	10%								

## SCORECARD

IN TIME RISK ZONE OUT OF TIMING



# DECENTRALIZATION REFORM

OUTCOMES 		PERCEPTION 
159 voluntary united territorial communities created (793 councils included)	Index of human development in regions due to the implementation of state regional policy	The level of state budget financing for regional development programs and projects
Effective functioning of capable communities in terms of subsidies	Technical and financial support from international organizations for the implementation of regional development projects (expected – EUR 50 million in 2015-2018 budget years)	Ensured the distribution of powers based on the principle of subsidiarity among local authorities and executive authorities (functional decentralization), and between local governments of various levels of the administrative and territorial structure whose powers are provided with adequate financial resources
Effective functioning of capable communities as to their financial self-sufficiency	Employment in regions due to the state regional policy implementation	Survey among heads of LSGB and selectively – LSGB department heads – concerning the availability of appropriate resources in LSGB as well as powers to perform their duties
Effective functioning of capable communities as to the growth of own revenues	Index of human development in regions due to the implementation of state regional policy compared to the average EU indicators	Ensured the distribution of powers based on the principle of subsidiarity among local authorities and executive authorities (political decentralization), and between local governments of various levels of the administrative and territorial structure whose powers are provided with adequate financial resources
Financial support of investment projects of territorial community cooperation <span style="float: right;">100%</span>	Energy efficiency of regions due to the state regional policy implementation – level of the final energy resources consumption	The index of openness of local self-government
Ensured law enforcement and safety organization at the level of communities and regions	The efficiency of the system of state administration of regional development increased.	
17 cooperation agreements of territorial communities with the participation of village, town and city councils <span style="float: right;">100%</span>		



# LAW ENFORCEMENT REFORM

## What has been achieved:

- On July 2, the Verkhovna Rada adopted the **Law On National Police** that provided the impetus for reform of the Ministry of Internal Affairs. The Law came into force on November 7, 2015, and laid the foundation for the establishment of the National Police of Ukraine. As of January 19, 2016 the new patrol police service was rolled out in 10 cities (Kyiv, Lviv, Odesa, Kharkiv, Mykolaiv, Uzhhorod-Mukachevo, Lutsk, Khmelnytskyi, Dnipropetrovsk and Boryspil International Airport as well as part of a highway Kyiv – Chop between cities of Uzhhorod and Mukachevo) and staffed by 6,500 young people selected and trained under the new system. The new service is patrolling the Kyiv-Zhytomyr and Kyiv-Boryspil highways on a pilot basis.
- New police officers have impressed the public greatly, above all by their human attitude and willingness to help not only in the event of public order offences, but also amid ordinary situations. The Internet features many videos illustrating new approaches of the new patrol officers: they help push start cars, carry wheelchair users upstairs, rescue animals under the road, etc. This project gives the public a chance to see the irreversibility of reforms and has become a bright example of successful government work.
- The National Police of Ukraine chaired by Khattia Dekanoidze embarked on its duties on November 7, 2015.
- In November 2015, the National Police of Ukraine launched a comprehensive assessment of all police staff. Performance of all staff-irrespective of their positions, ranks and territorial or structural subordination - is subject to assessment.
- December 11, 2015 saw the opening of Ukraine's National Police Recruiting Center tasked with recruitment, attestation, selection, appraisal and development of the National Police staff. Five regional representative offices of the Center are to be opened at the earliest possible time.

- Kyiv and Kyiv oblast has become the first region to undergo assessment of all police staff. The assessment has covered a total of nearly 13,500 police officers, including members of central national bodies. The assessment, which comprises two stages: testing (undergoing a polygraph test where required) and interviews by independent commissions established with the participation of civil society representatives, is due to be completed by the end of January. The results of the assessment (stating the number of staff to continue serving with the new National Police of Ukraine and the number of staff to be dismissed) will then be communicated. The next region to undergo assessment (starting January 20, 2016) is Khmelnytskyi city and oblast. Within the next six months assessment is expected to be carried out in all regions of Ukraine.
- An internal security unit with a fundamentally new operation philosophy was set up within the National Police.
- Leadership training courses for all chiefs and deputy chiefs of regional patrol police forces have been initiated with support of international partners. In addition, the Knights of Honor Project aimed at identification, evaluation and preparation of new leaders and professionals capable of filling senior positions within territorial forces of the National Police of Ukraine has been launched.
- Establishment of and recruitment to the Rapid Tactical Response Corps (RTRC) – a brand new special weapons and tactics team within the National Police designed to replace the special units of the former militsiya and operate based on international standards similar to that of SWAT (USA), Special Branch (UK), GIGN (France), etc., – got underway in cooperation with international partners in Kyiv, Kharkiv, Odesa and Lviv.
- The Verkhovna Rada adopted a package of amendments to road safety legislation to provide, in particular, for photo and video recording of violations of road traffic regulations. This would make it possible to free up police cars from sitting on the side of the road with-

out compromising traffic safety (opportunities for corruption will also decrease). The amendments took effect in November 2015.

- The Verkhovna Rada passed the Law On Amendments to Certain Legislative Acts of Ukraine in Connection with Adoption of the Law of Ukraine On National Police # 3225 taking into account proposals of the President and the Law of Ukraine On Amendments to Certain Legislative Acts of Ukraine Concerning the Operation of the National Police # 3387.
- In November 2015 the Verkhovna Rada passed the Law of Ukraine On State Bureau of Investigations. The President signed the Law on 14<sup>th</sup> of January.
- The National Police has commenced a comprehensive re-assessment of staff for Kyiv and Kyiv oblast. 4,200 employees underwent re-assessment as at December 31, of which 13% were discharged as unfit for duty. Employment of another 37% of the personnel for Kyiv and Kyiv oblast was terminated before the re-assessment due to poor test results.
- The competitive selection of staff for newly established local prosecutor's offices in all regions of the country in line with the new Law of Ukraine On Public Prosecutor's Office has been completed. Nearly 11,000 candidates participated in the selection process. Candidates for the position of prosecutor underwent testing of knowledge of legislation and a general knowledge test. Those most successful at completing the tests were appointed to the positions at the newly established local prosecutor's offices. Employees at the bottom of the list were released from service. Overall, the number of local prosecutor's offices' staff dropped by more than 25%. Candidates for senior positions in local prosecutor's offices underwent a selection process divided into four stages: test of knowledge of legislation, general knowledge test, personality test and selection board interview. Out of the three-person shortlists

*Patrol police staffed and operating in 10 cities. Training is underway in 9 cities; personnel selection and training launched in 9 cities.*

determined subject to the interview results, the Prosecutor General selected and appointed 154 chiefs, while oblast prosecutors appointed more than 400 deputy chiefs of local prosecutor's offices. New local prosecutor's offices began operating on December 15, 2015.

## What has not been achieved:

- The Draft Law **On Services and Service Centers of the Ministry of Internal Affairs of Ukraine** is pending the second reading. The Draft Law envisages transformation of corruption-prone MREO's (Driver and Vehicle Licensing Divisions) and other departments of the MIA rendering administrative services into contemporary service units providing prompt, high-quality services to the public. The Draft Law has been subjected to a lengthy widespread consultation process and is expected to be adopted in the nearest future.

## What needs to be done to catch up on or accelerate reform:

- The Draft Law **On Services and Service Centers of the MIA of Ukraine** should pass through second reading.
- Having analyzed the successes and problems of the competitive selection procedure for filling the positions at local prosecutor's offices, it is necessary to renew the staff at regional prosecutor's offices and the Prosecutor General's Office of Ukraine in line with updated, more transparent rules independent of the old prosecutorial vertical. This would enable the establishment of high-quality bodies of prosecutorial self-governance envisaged by the Draft Law.



# LAW ENFORCEMENT REFORM

## COMPETITIVE SELECTION PROCEDURE FOR FILLING POSITIONS AT LOCAL PROSECUTOR'S OFFICES

**638**

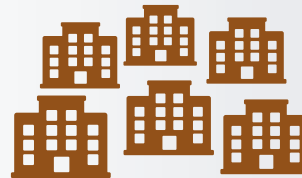
district prosecutor's offices



The highest scoring local prosecutors within the competitive selection process continued in office, which means that overall labor force quality has improved

**178**

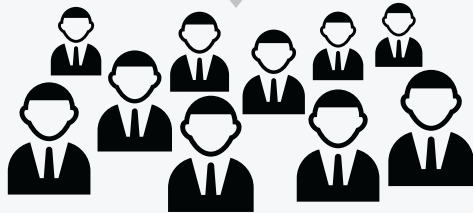
local prosecutor's offices



(of which 155 set up and operating as fully-fledged, and 23 (to have only the head appointed under the staffing table) set up in the occupied territories (9 in Donetsk Oblast, 6 in Luhansk Oblast and 8 in the Autonomous Republic of Crimea))

**nearly 2500**

persons holding administrative positions



**75% reduction**  
in administrative positions

**613**

persons holding administrative positions



(heads and deputy heads of 155 fully-fledged local prosecutor's offices) (a total of 636 persons holding administrative positions provided that heads of 23 prosecutor's offices in the occupied territories are appointed)

**nearly 7700**

prosecutors with district prosecutor's offices



Prosecutors employed with local prosecutor's offices reduced by more than **1,800 (23%)**

**a total of 5890**

prosecutors with local prosecutor's offices



**KEY ACHIEVEMENTS**



## REORGANIZATION PITFALLS

- Pre-existing staff constituted the majority of those who participated in the open selection process;
- For some reasons, not least due to organizational solidarity, more than 50% of candidates recommended for appointment by selection boards were former heads of district prosecutor's offices;

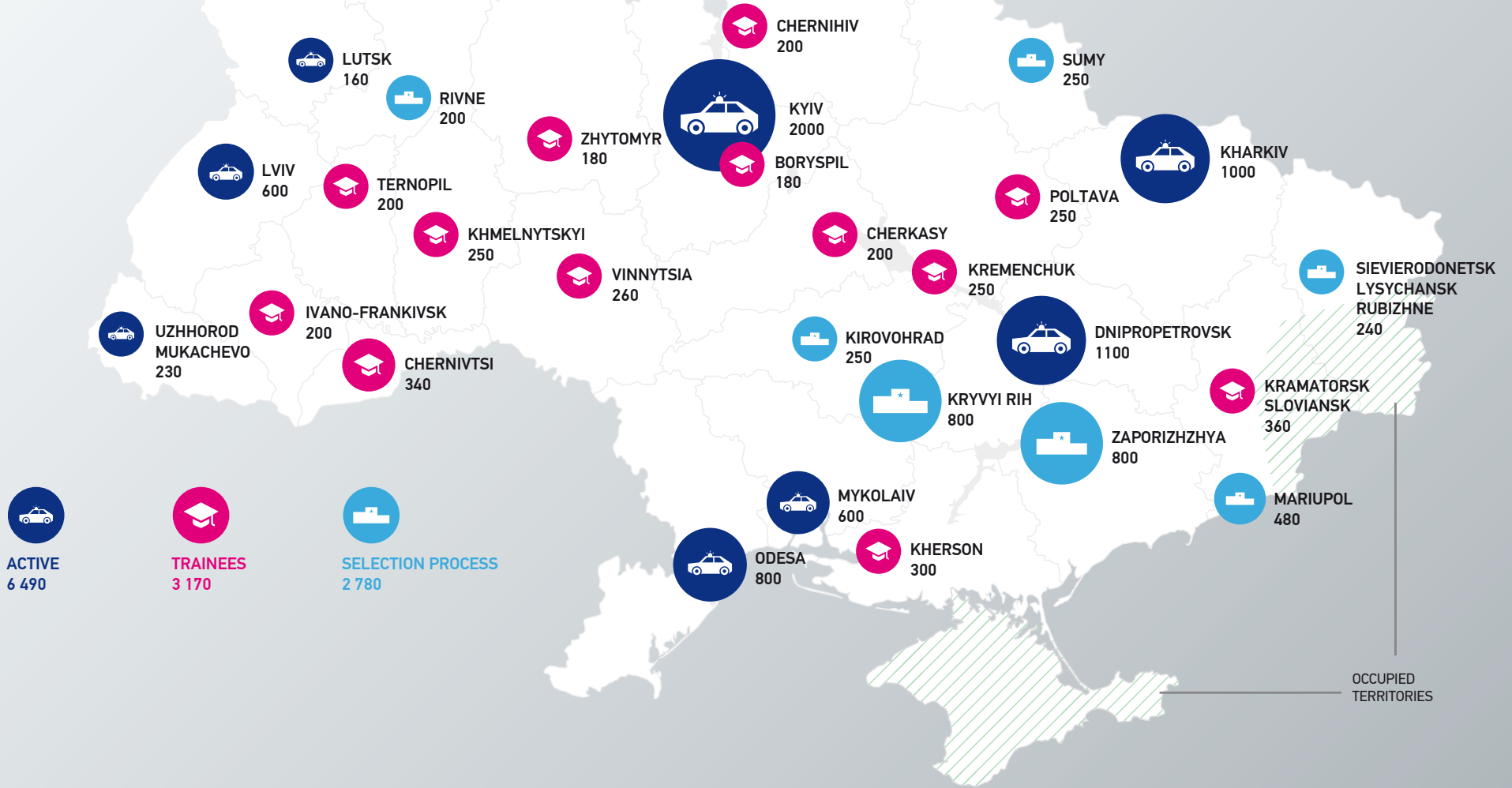
Of three-man shortlists, the Prosecutor General mostly (84%) selected former heads and deputy heads of district prosecutor's offices for appointment, while 16% were frontline prosecutors promoted to executive roles. No external candidate was appointed to an executive position;

60% of first deputy heads or deputy heads of local prosecutor's offices were appointed by oblast prosecutors from among former heads or deputy heads of district prosecutor's offices; external candidates filled 3.5% of vacancies, while over 36% of vacancies were filled by frontline prosecutorial staff



# LAW ENFORCEMENT REFORM

January 17, 2016



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SPECIAL THANKS TO

Use hash tags in social networks

According to official data of the MIA of Ukraine

Thousands of police officers, trainees and sympathizers, who believe in themselves and the country. And personally to Arsen Avakov, Ekaterine Zguladze, Mustafa Nayyem, Khatia Dekanoidze, Anastasia Frank and Andriy Zhelieznyi.

## KEY ACHIEVEMENTS

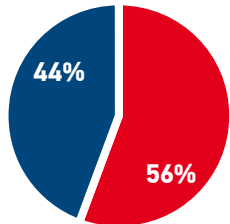


# LAW ENFORCEMENT REFORM

**58%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:  
■ NO CHANGES  
■ CHANGES EXIST

Survey conducted by the TNS agency on a monthly basis.

**TNS**

Age of respondents: 18-55  
 Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

TASKS			
New law on the national police is adopted	100%	New patrol service is established and operates	100%
New law on agencies of interior affairs is adopted	65%	HR processes are optimized in the MIA	34%
Law enforcement reform package is adopted	70%	Law enforcement agencies are decentralized	0%
Standard operating procedures/instructions are developed	80%		
Internal documents that will influence internal discipline and enforcement are developed and approved (MIA)	55%		
		The State Bureau of Investigation is created and operates	70%
		The single universal special police unit is created and operates	20%

OUTCOMES	
A quality investigation of protestor persecution and Maidan shooting incidents is conducted	
MIA structure is optimized and harmonized with European standards in terms of personnel quantity	
Business costs of organized crime (GCI) Index change by 0.5 points in the positive direction	-20%
Organized crime level Index change by 0.5 points in the positive direction	-10%
Reliability of police services (GCI) Index change by 0.5 points in the positive direction	0%
Rule of Law Index Index change by 0.5 points in the positive direction	5%
Criminal Justice Framework and Independence Index change by 0.5 points in the positive direction	

PERCEPTION	
Increased people trust in the new patrol in the selected cities (TNS)	56%
Increased trust in the police by people (TNS)	21%
People started feeling safer	
People believe that police is less affected by corruption	



# DEREGULATION

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
<p>Enter the top 30 countries in the World Bank's Doing Business ranking by 2020 to ensure for:</p> <p>SME development</p> <p>Increase in FDI and capital investments</p> <p>Robust market competition</p>	<p>Number of regulations, inspections and causes for contact between the government and businesses, as well as cost thereof drastically reduced</p>	<p>Number of excessive, overlapping and inconsistent regulations, permits, etc., reduced</p>
		<p>Number of inspections/regulatory agencies reduced, transparent inspection principles laid down</p>
		<p>Regulation of international commerce streamlined and harmonized as required by EU-Ukraine Association Agreement</p>
	<p>Barriers to setting out new excessive and economically unjustified regulations reinforced</p>	<p>A comprehensive Regulatory Impact Assessment (RIA) Methodology to result in all public authorities applying new regulation drafting principles and purposes developed and introduced</p>
		<p>The process is underway for CMU and parliamentary approval of a legal act to provide for streamlining of Regulatory Impact Assessment, implementation of M-Test and other best practices to assess the regulatory impact on SMEs</p>
		<p>Enhancing institutional capacity of public authorities to perform proper quality RIA</p>
	<p>An effective regulatory and legal framework harmonized with EU legislation and other relevant best practices set out and put into operation</p>	<p>Improving Ukraine's Ease of Doing Business ranking</p>
		<p>Technical regulation system harmonized with that of the EU and mutually recognized</p>
		<p>Food Safety and Quality System harmonized with that of the EU and mutually recognized</p>
		<p>Legal framework for the operation of self-regulatory organizations (SRO) to reduce the role of government in regulating certain activities established</p>
		<p>Communication between the government and businesses using digital resources and state-of-the-art technologies established</p>

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents:

Sustainable development Strategy "Ukraine 2020"; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



# DEREGULATION

## What has been achieved:

- An updated Deregulation Concept focusing on building an effective regulatory framework, developing a responsible governmental approach to new regulations and elimination of unnecessary and ineffective rules and standards was agreed in 2015.
- As the result of it, September 2015 saw the completion of negotiations with donors and the first tranche of technical assistance disbursed by the Government of Canada for the implementation of the reform. A three-year funding arrangement for the Better Regulation Delivery Office (BRDO) commencing in 2016 was signed with the EU.
- BRDO is to become the crucial driving force behind deregulation. Staffed by 70 experts (lawyers, business analysts and EU-Ukrainian free trade zone experts), BRDO is tasked with analysing Ukraine's regulatory environment and drafting deregulation initiatives on an ongoing basis. The core team has already been staffed, first-priority organizational issues sorted out, priority action plan prepared and the first regulations drafted. BRDO is focused on sectors and industries that are of the greatest importance to small and medium-sized businesses.
- In September 2015, the Rules of Procedure of the Cabinet of Ministers of Ukraine were amended so as to simplify the approval of de-regulatory documents (the period for approval is reduced to 5 days; some documents may, on a case-by-case basis and subject to the consent of the Prime Minister, be submitted to the Government for review without having to seek prior approval of the central executive agencies).
- November 2015 saw an Economic Develop-

ment and Deregulation Day in the Verkhovna Rada, whereby 14 draft laws related to the economy were adopted (primarily in the first reading). The majority of these bills were directly or indirectly connected with deregulation.

- In December, a Deregulation Day was held in the Cabinet of Ministers, whereby 21 documents were approved, of which 10 concerned technical regulation, the CMU Resolution On the Action Plan to Improve Ukraine's Rating in the Doing Business Ranking (43 measures) and a wide range of points on the Deregulation Plan.
- Out of 212 priority initiatives, 70 were adopted

**An independent donor-funded Better Regulation Delivery Office set up in September 2015. Law of Ukraine On Public Procurement (2087a) amended to substantially streamline access of businesses to public procurements (self-declaration, shortened list of necessary documents, etc).**

before and 44 after the approval of the official plan. Currently, 22 draft laws are undergoing review by the Verkhovna Rada, 21, by the Cabinet of Ministers, 23 are pending approval of the central executive agencies, and the rest are under development. According to experts, priority initiatives' implementation progress stands at 72%, while Deregulation Plan implementation progress is 54%.

- The Government has developed and approved a new Regulatory Impact Assessment (RIA) Methodology. The Draft Law On Mandatory RIA for All New Primary Legislative Proposals has been developed and submitted to central executive agencies for review.
- Obligatory certification for 16 types of products, including technical rehabilitation facilities, detergents, the bulk of the fuel market, baby food, etc., have been cancelled.
- Ukraine acceded to the EEC UN Agreement

of 1958 on road vehicles allowing for cancellation of mandatory certification of new vehicles.

- The number of business activities subject to licensing was reduced from 56 to 30, electronic

### New Regulatory Impact Assessment Methodology (M-Test) approved

licensing was introduced.

- State-owned company UkrEcoResursy's monopoly to collect, recover and recycle packaging waste was abolished. Although the company's turnover was UAH 300 million, it had no positive effect.
  - A CMU Resolution concerning disposal of engine oils targeted at elimination of shadow schemes in this market was adopted.
  - Quarantine certificates, costing businesses nearly UAH 2 billion annually, were abolished.
- The period for issuing a phytosanitary certificate was shortened significantly (from five to two days), reducing its cost for businesses by almost UAH 5 billion.
- Simplification of the subsoil use licensing procedure yielded a UAH 3 billion reduction in its annual cost.
- It has been established that a business entity's production (manufacturing), sales, execution of work or provision of services may only be suspended by a court order.
- The moratorium on company inspections – one of the most effective measures to protect businesses from regulators – has been in force for almost one and a half years. A draft law aimed at extending the moratorium for another six months that has passed through the first reading is currently before the Verkhovna Rada.
- The Business Ombudsman Council, facilitat-

ing, among other things, the improvement of legal protections for businesses, was set up.

- The procedure for granting work permits to foreigners was simplified.
- There were material amendments introduced to the Law on Protection of Investor Rights (by providing for a derivative suit (the right of a minority shareholder to claim compensation for losses on behalf of the company; making disclosure of related party transactions mandatory; imposing a requirement to engage the services of an independent auditor to evaluate whether a related party transaction is at market terms and conditions).
- The procedure for setting up and running a business has been simplified, providing for voluntary use of company seals.
- There are currently three draft laws concerning reform of controlling bodies and inspections (liberalization, introducing liability for misconduct, setting up an integrated public database of inspections, harmonization with EU legislation) before the Verkhovna Rada that have passed through first and are pending second reading.
- Adopted Draft Law # 2102 improves transparency and predictability of actions of the Antimonopoly Committee.
- Two other draft laws reforming antimonopoly legislation (as regards deregulation for SMEs and other changes) have passed through first and are pending second reading.
- Draft laws on the abolishment of licenses for 6 types of activities have been registered with the Verkhovna Rada.
- The Verkhovna Rada adopted Draft Law # 2558 as a whole, either abolishing or simplifying the procedure for obtaining 22 agricultural permits, including fertilizer registration.
- In addition, the Ministry of Economic Development and Trade has prepared a draft law concerning cancellation or declaratory nature of 20 permits (currently being prepared for registration with the Verkhovna Rada).



**2087a draft law adopted, that significantly ease the access to public procurement for SMEs (principle of self-declaration implemented, shortened the list of required documents etc.**

- Draft Law On the List of Administrative Services # 3319 (envisaging reduction in the number of administrative services from more than 3,000 to less than 560 as well as measures to prevent the introduction of new ones) was registered. Another draft law streamlining the provision of administrative services has been approved by the Government and is to come before the Verkhovna Rada.
- The annual plan for the adaptation of EU Directives to Ukrainian legislation on technical regulations has been 96 percent fulfilled. Out of four top priority technical regulations, three have been adopted and one is pending approval of the central executive agencies.
- Preliminary agreement with the World Bank to run a twinning project with the UK Better Regulation Delivery Office for the next 12-24 months reached.
- Law of Ukraine On Electronic Commerce (the "E-Commerce Law") governing operations in the relevant field passed.
- The Cabinet of Ministers of Ukraine has approved the Strategy for the Development of Technical Regulation System 2020 – an official roadmap for harmonization of Ukrainian system with that of the EU.
- The National Accreditation Agency has obtained the next phase of recognition from the EU (Conformity Assessment – Requirements for bodies certifying products, processes and services) and fulfilled its part in getting the execution and delivery of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) underway.
- National Standardization Agency has been revitalized, work on the adoption of harmonized standards unblocked. In a course of the year 4833 national standards were adopted, 2,651 of which are harmonized with international and European standards, including in 1459 – with the EU directives.. A working group tasked with launching the TRADOS software for the automated translation of standards was set up.
- Creation of the electronic database of standards is nearing completion. The database currently contains more than 13,6 thousand standards.
- More than 16 thousand Soviet government standards (GOSTs) adopted before 1992 were cancelled in December 2015. However, the lion's share thereof will continue to apply until early 2018 to allow adaptation to the new environment.
- The State Food Product Safety and Consumer Protection Inspectorate is absorbing the functions of 8 former inspectorates and their reorganization and/or liquidation speeded-up.
- The list of non-ferrous metal products for export which are subject to licensing was shortened substantially.
- "Form 2" veterinary certificate ceased to be mandatory.
- Mandatory certification of imported alcohol cancelled.
- The Ministry of Infrastructure, together with the Ministry of Ecology and Natural Resources, has partially deregulated maritime transport. The commission-based control aboard vessel, chemical control of isolated ballast, procedures for the passage between ports of Ukraine, yacht registration procedures, and fi-

nancial guarantees of the cargo delivery have been cancelled. In addition, environmental declaration have been and automated radiological control and other procedures introduced to substantially reduce the time needed to process cargo.

#### **What has not been achieved:**

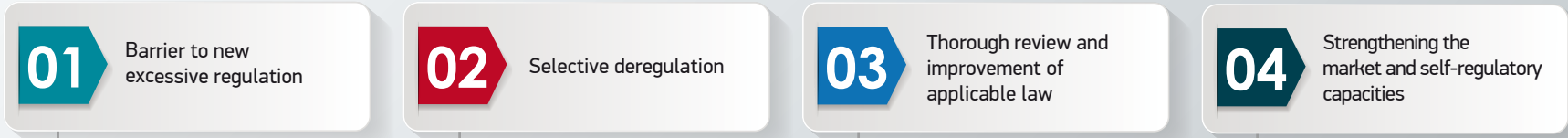
- There has been substantial delay in reviewing draft laws put before Parliament. The Verkhovna Rada has failed to approve more than twenty registered deregulation draft laws.
- In addition, the Cabinet of Ministers has been sluggish in approving respective regulations. Despite some breakthroughs and the Deregulation Day held at the CMU, the process still involves too much red tape.
- Development and approval of licensing conditions for various types of business subject to licensing drastically lag behind schedule.
- Such crucial issues as restriction or cancellation of price controls on food, normal provision of electricity connections and waste disposal remain pending.

#### **What needs to be done to catch up on or accelerate reform:**

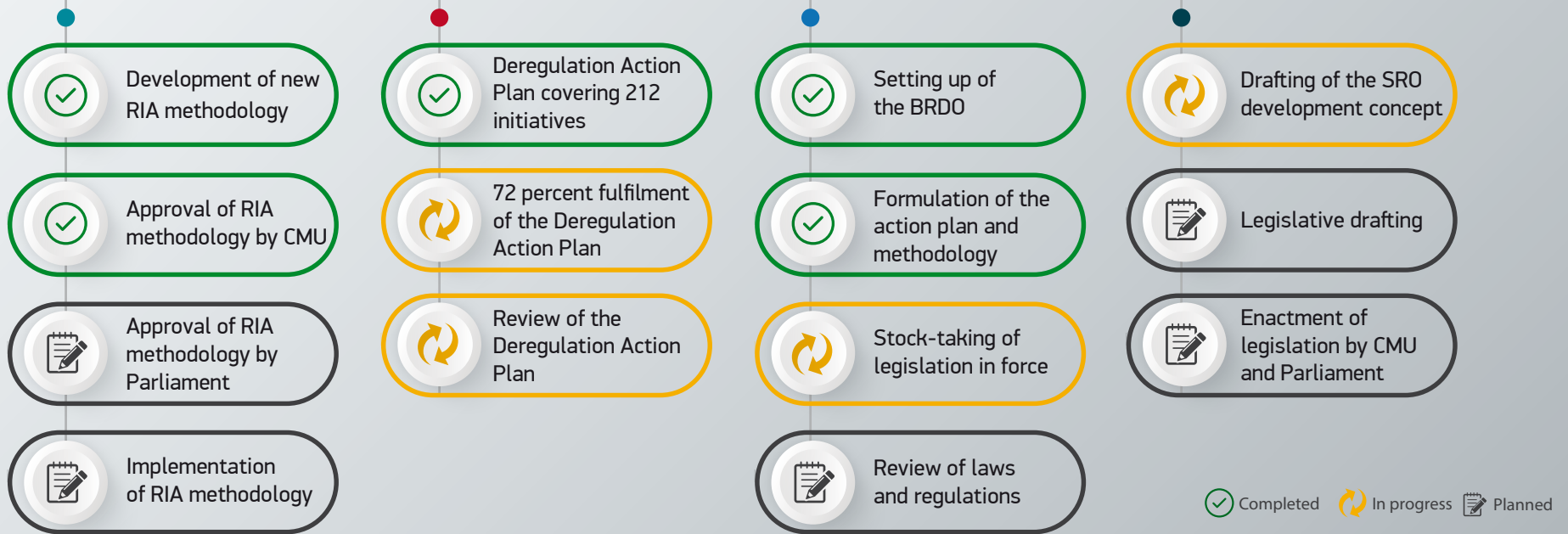
- Hold dedicated meetings of the Verkhovna Rada on a regular basis.
- Hold dedicated meetings of the Government on a regular basis.
- Update and amend the Deregulation Action Plan (CMU Resolution # 357-p).
- Extend the moratorium on business inspections to allow for regulatory reform.



# DEREGULATION



## ALL PROCESSES TO RUN SIMULTANEOUSLY



## IMPLEMENTATION STATUS



## KEY ACHIEVEMENTS

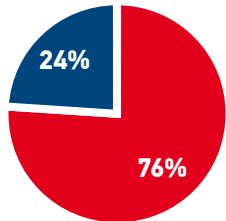


# DEREGULATION

**68%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST

**TNS** Survey conducted by the TNS agency on a monthly basis.

Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

### TASKS

Action plan for immediate deregulation is developed, compiled and approved	100%	Necessary amendments in the regulatory and legal regulations to enable the issuance of permits electronically made	0%
Monitoring procedure for the Action plan defined	100%	Law «On the number of administrative services and Payment» adopted	75%
Comprehensive deregulation Concept and Action plan developed, agreed and approved	100%	Comprehensive inventory of the existing legal framework for state control and regulation of business conducted	0%
State Regulatory Service (DRS) developed and implemented an effective mechanism for proper regulatory impact assessment (RIA), which provides for the inclusion of RIA to projects of all laws and regulations to ensure protection against excessive government regulation	100%	Concept of delegation of particular state functions through implementation of the mechanisms of self-regulation developed; the number of business activity that can assess themselves on compliance to the requirements and adopted norms instead of system of governmental observation increased	0%
Necessary amendments in the Law of Ukraine «On Administrative Services» and «On licensing system in the sphere of economic activity» to enable the issuance of permits electronically made	75%	Law of Ukraine «On technical regulations and conformity assessment procedures» is adopted in new wording	100%
		Independent metrology and standardization bodies in line with EU legislation established	100%

### OUTCOMES

Improved positions in the Doing Business rating	100%	Number of new standards adopted in compliance with the EU regulation	100%
Decrease in the number of inspection bodies	60%	Execution of the Plan of the priority deregulation (131 item)	58%
Outdated regulations cancelled, reduced number of permits, licensing and conciliation, the list of business activities subjected to licensing, and the list of products subjected to compulsory certification in Ukraine. Legal acts and acts that used to regulate business activities that are not placed in the public domain cancelled	0%		
Technical regulations based on the European Directive on the principles of «New Approach» to technical harmonization and standardization and «global approach» in the field of conformity assessment developed and implemented	96%		

### PERCEPTION

Business expectations index of Ukrainian enterprises for the next 12 months, 100.2% (NBU)

## SCORECARD

IN TIME RISK ZONE OUT OF TIMING



# HEALTHCARE REFORM

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
<p>Modernized health system capable of responding to current health needs, providing affordable services of good quality and ensuring financial protection for people</p>	<p><b>MEDICINES AND VACCINES</b> of good quality are more accessible and affordable for people</p>	<ul style="list-style-type: none"> <li>Efficient, transparent health products public procurement system in place</li> <li>Increased access to medicines and medical products via market deregulation</li> <li>Strategic long-term planning to vaccines and essential medicines purchasing deployed</li> </ul>
	<p><b>HEALTH CARE SERVICES</b> of better quality delivered in efficient and patient-centered manner</p>	<ul style="list-style-type: none"> <li>Hospital network optimized to meet health needs of people</li> <li>Autonomy of public providers of health services introduced</li> <li>Access to primary care services of good quality ensured</li> </ul>
	<p><b>FAIR FINANCING SYSTEM</b> in place with more financial protection and lower informal payments</p>	<ul style="list-style-type: none"> <li>Cost-efficient single payer system of public funds pooling and allocation in place</li> <li>Guaranteed volume of free medical care defined and provided</li> <li>Health services are funded on "money follows the patient" principle</li> </ul>
	<p><b>NEW PUBLIC HEALTH SYSTEM</b> established and provides quality population health services</p>	<ul style="list-style-type: none"> <li>New Public Health Agency established and effectively operating</li> <li>"Health in all policies" principle in place</li> <li>Health promotion system designed and deployed</li> </ul>
	<p><b>MOH IS RE-PROFILED</b> away from operational functions toward policymaking</p>	<ul style="list-style-type: none"> <li>Undue functions defined and cut down and/or outsourced</li> <li>New functions implemented, respective capacities built</li> <li>New system of data management (including eHealth) and accountability in place</li> </ul>

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents:

Sustainable development Strategy "Ukraine 2020"; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



# HEALTHCARE REFORM

## What has been achieved:

- March 19, 2015 saw the passage of laws to allow purchasing of medicines and medical supplies through public procurement involving international organizations – a crucial step towards overcoming corruption, enhancing the efficiency of government procurement and ensuring broader public access to medicines and medical supplies. In the first half of 2015 the progress on this front was modest, but the situation improved considerably over the third quarter. In July-August the Ministry of Health (MoH) opted for UNICEF, UNDP and Crown Agents Limited, UK, as procurement agents. In its Resolution dated October 8, 2015, the Cabinet of Ministers listed pharmaceuticals and medical supplies subject to international procurement. On October 12, 2015, a Memorandum of Understanding for the Provision of Procurement Services was signed between UNICEF and MoH. October 27, 2015 saw a respective agreement signed with UNDP. A contract with Crown Agents was signed on November 6, 2015. The government transferred 100 percent of funds under relevant agreements to international organizations as at the end of December 2015. The first tender for the procurement of medicines was announced in mid-December. With this in mind, it is safe to say that in the year 2015 the transition to procurements involving international organizations was successful overall, although no procurements were completed.
- In October 2015, MoH and the European Commission established a working group with a view to developing a new national system for

the procurement of medicines and medical supplies. The new transparent and effective national procurement system is to be put into operation following termination of international organizations' involvement in public procurements in 2019.

- In September 2015 a new Public Health Center was set up by Resolution of the Cabinet of Ministers through reorganization (merger) of the existing healthcare facilities. This is an important step towards building a new pub-

## Supply of medicines is expected to commence in early 2016.

lic health system in Ukraine. The new Center replaces the old Soviet model represented by such an atavism as the Sanitary and Epidemiological Service (SES). Preparation of facilities for reorganization got underway in November-December 2015.

- Ukraine has acceded to Global Health Security Agenda. The accession is one of the sectoral stages of implementation of the EU-Ukraine Association Agreement.
- The Government of Ukraine and the World Bank signed a USD 214 million loan agreement for the implementation of the "Serving People, Improving Health" project. The project provides for investments in the regional healthcare infrastructure and strengthening of healthcare system governance at the central level.
- MoH and World Health Organization (WHO) have embarked on the Policy Dialogue Project. The emphasis of the Project is on strengthening the Ministry's capacity in planning and implementing crucial reforms.

## What has not been achieved:

- The key reform-oriented draft laws on the autonomy of healthcare facilities have not been passed. A raft of draft laws (# 2309a, # 2310a and

# 2311a) were registered by the Cabinet of Ministers as early as 7 July 2015. These draft laws stipulate the launch of transition from state-financed hospitals into healthcare facilities enjoying broad managerial and financial autonomy – a step crucial for reforms. However, due to lack of consensus between MoH and the relevant parliamentary committee, the latter produced a negative assessment. For its part, the committee proposed two alternative bills elaborated based on the government draft laws (registered on July 17 and December

10, respectively). None of the versions were put to a vote in the end. This means that - in a best-case scenario - large-scale transfer of managerial authority to healthcare facilities will happen in mid-2016 (although 2017 seems more realistic).

- No substantial progress has been made in deregulating the pharmaceutical market. This reform is crucial for broadening the range of available pharmaceuticals and increasing their affordability. Despite the functioning of several task groups and availability of some elaborated concepts, no overall strategy for deregulation of Ukraine's pharmaceutical market emerged over the year.
- In effect, the Ministry of Health is undergoing no reform. Albeit formally reorganized, MoH remains concentrated on bureaucratic routines and is institutionally incapable of leading reforms.
- Progress in the implementation of the World Bank's "Serving People, Improving Health" project (worth USD 214 million) has almost come to a standstill due to organizational problems.
- No compromise solution between healthcare and decentralization reforms has been found. Although MoH developed a separate healthcare reform within the context of decentral-

ization, it has not been officially approved. The approach offered by MoH is at odds with the healthcare decentralization stance of the Ministry of Regional Development. A solution is yet to be found.

## What needs to be done to catch up or accelerate reform:

- Adopt a strategic document setting forth a uniform vision of healthcare reform up to 2020 for all key stakeholders. This can help solve the problem of a lack of meaningful cooperation between MoH and the relevant parliamentary committee.
- Adopt legislation transferring managerial authority to healthcare facilities, which is crucial to proceed to the next phase of healthcare reform, specifically introduction of the "Money Follows the Patient" funding model.
- Remedy differences between healthcare and decentralization reforms. This step is absolutely critical so as not to put progress in healthcare reform at risk.
- Strengthen the Ministry of Health with staff and experts. Poor institutional capacity of the Ministry is the bottleneck in stepping up the pace of reform.

*Between October 12 and November 6 MOH signed all agreements with international agencies for the procurement of medicines and vaccines.*

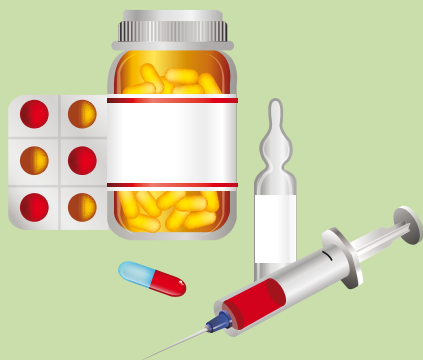



## Procurement of medicines and vaccines through international organizations

(Reflected in the Action Programme of the Cabinet of Ministers of Ukraine and Ukraine-IMF Memorandum<sup>1</sup>)

Transfer of medicines and vaccines procurement to international organizations is a crucial step towards rooting out corruption in public procurements. According to the reform, by 2019 the Government is to transfer the procurement function to credible global institutions while building up a new effective and transparent system of public procurement.


It has been planned for 2015 to transfer procurements under 7 out of 18 national programs (UAH 2,2 billion out of UAH 4,1 billion). Despite complexities, 100% of planned funds have been transferred to international agencies before year-end.

**UAH 620 million**  
Tuberculosis  
HIV/AIDS  
Haemophilia  
Orphan diseases, etc.



**UAH 750 million**  
Oncology  
Haematology



**UAH 827 million**  
Vaccines  
Antiretrovirals

Funds transferred; invitation to bid gets underway

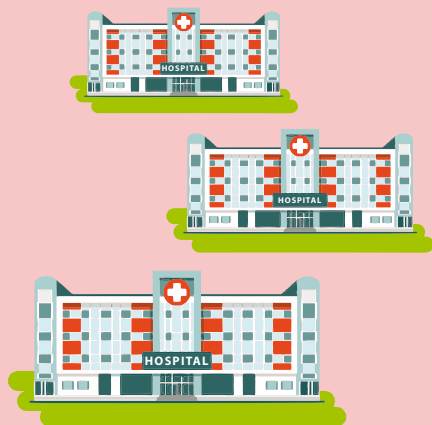
<sup>1</sup>Procurement of vaccines and other special medicines through UN based and other international organizations and funds (Action Programme of the Cabinet of Ministers of Ukraine);





<sup>2</sup>Healthcare reform... will change public procurement regulation to allow purchasing medicines and medical supplies through direct, multi-year procurement involving UN based organizations" (IMF, Ukraine: Memorandum of Economic and Financial Policies, II.C.26.III)



## Autonomy of healthcare facilities (reflected in the Coalition Agreement and Ukraine-IMF Memorandum<sup>2</sup>)

- **Medical facilities:** afforded an opportunity to independently plan their operations and command financial resources (efficient performance)
- **Government and communities:** afforded an opportunity for transition from funding a medical facility to procuring medical services on a contractual basis (responsible fiscal relations, competition)
- **Healthcare professionals:** afforded an opportunity to cease being a state-paid employee and instead make a contract with one or more medical facilities and generate income in a competitive environment (higher income, freedom as a professional)
- **Patients:** receive higher quality medical services and reduction in unofficial payments (higher quality services, lower out-of-pocket payments)



	2015	2016	2017	2018	2019
 GRANT MEDICAL FACILITIES MANAGERIAL AND FINANCIAL AUTONOMY					
 INTRODUCE A GOVERNMENT-GUARANTEED MEDICAL SERVICES PACKAGE					
 SET UP A SINGLE NATIONAL MEDICAL SERVICES ORDERING CUSTOMER					
 INTRODUCE A "MONEY FOLLOWS THE PATIENT" FUNDING MODEL					

<sup>2</sup> "Ensuring self-governance and autonomy of medical facilities by granting medical facilities a non-for-profit organization status by resolution of respective local government authorities, approval of new charters, entering into agreements for the provision of medical services" (Coalition Agreement, XVI.2.6)

"Healthcare reform will allow medical facilities to legally generate own revenue" (IMF, Ukraine: Memorandum of Economic and Financial Policies, II.C.26.III)

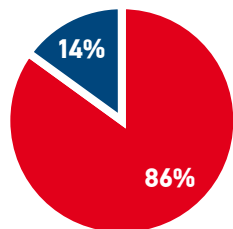


# HEALTHCARE REFORM

**56%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST

Survey conducted by the TNS agency on a monthly basis.

**TNS**

Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

### TASKS

Health care reform implementation plan approved	40%	New national public health centre established, with local branches and single lab network (by reorganization existing institutions and organizations)	60%
Project for a World Bank loan for health care reform prepared	100%	Approved formula for distribution of medical subvention from the state budget to the local budgets on the basis of the standarts per capita of services provided and successfully treated case based on the DRG methodology	20%
Working group created for the preparation of law amendments related to advertising of medicines	50%	Shift toward financing based on standarts per capita	20%
Legislation developed to eliminate corruption in the public procurement system	100%	Pharmaceutical market deregulation	50%
National reform coordination mechanism established for the reform of the health care system	40%	Amendments made to Provisions on the Ministry of Health (MOH); Order on structure of the MOH adopted	100%
Law on health care facilities and health services approved	50%	Public procurement of medicines successfully completed in 2015	60%
New National list of essential medicines developed	40%		

### OUTCOMES

The concept of 'medical service' determined in legislature; service costing methodology developed	50%
Evidence based clinical guidelines approved	30%
Healthcare facilities autonomization	0%

### PERCEPTION

Public support for the health reform (TNS)	14%
Subjective evaluation of the healthcare system (TNS)	13%
Satisfaction with the quality of health care services (TNS)	5%

## SCORECARD

IN TIME RISK ZONE OUT OF TIMING



# TAX REFORM

## What has been achieved:

### Extensive dialogue with the business community and the general public on tax reform gained traction:

- Concept of Tax Reform discussed as part of 16 industrial communication platforms, 6 open communication platforms and an SME Roundtable Meeting.
- Industrial communication platforms saw 16 meetings held with agricultural, alcohol and bio-fuel producers, manufacturers of textiles, clothing, footwear and leather goods, representatives of the e-commerce sector, securities market participants, gambling operators, hoteliers, IT companies, mining and metallurgical entities, oil refineries, pharmaceutical companies, restaurateurs, manufacturers of tobacco products and banking institutions.
- In addition to meetings with the business community held as part of industrial communication platforms, 6 open communication platforms were carried out to provide a framework for extensive dialogue with members of the public to seek effective tax reform ideas.
- Nearly 60 experts representing the Government, professional associations, business and civil society organizations participated in the SME Roundtable Meeting.
- Tax Reform Task Group held 12 meetings to discuss different tax models, learn from the European Union experience and approved the principles of tax reform.
- National Dialogue on Tax Reform launched with meetings held in Lviv, Kharkiv and Dnipropetrovsk.

Overall, more than 450 companies operating across various sectors of the economy, 17 business associations and 36 international institutions took part in the discussion of tax reform.

### Tax reform:

- On December 8, 2015, the National Reform Council approved the compromise version of the tax reform bill, mindful of the inputs from the Coalition factions. The highlight of the ap-

proved compromise version of amendments to the Tax Code is the introduction of a flat personal income tax of 18% in 2017 and its reduction to 17% starting the same year. Another proposal is a revolutionary reduction in payroll tax and a uniform social security contribution (USSC) rate cut from nearly 41% to 20% as early as 2016. Other novelties include the introduction of a transition period for agricultural businesses to revert to the general taxation regime, as well as a whole range of important tax administration issues such as demilitarization of the tax police, setting up a taxpayer e-office and implementation of a transparent and fully automated VAT refund system.

### Comprehensive tax reform was introduced to the Verkhovna Rada by the Government.

- Comprehensive tax reform was introduced to the Verkhovna Rada by the Government in the form of Draft Law On Implementing a Competitive Tax Environment and Stimulating the Economy in Ukraine # 3630 of December 11, 2015. The Draft Law provides for the tax relief of 0.5 minimum salaries and a much larger number of persons eligible thereto; gradual reduction of the tax burden (through USSC capped at 20% and USSC of 3.6% withheld from salary abolished); introduction of investment tax credit as an investment tax regime for gas extraction industry and a viable mechanism to promote investments; expansion of the tax base through repealing tax privileges and preferences; improvement of tax administration and VAT refund procedure.
- The Verkhovna Rada of Ukraine adopted Law of Ukraine On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine with respect to Ensuring the Balance of Budget Revenues in 2016 # 909-VIII of 24.12.2015, which was introduced by the Government. The Law includes provisions that cancel advance corporate income tax payments; obligate taxpayers whose annual income from any activity is greater than

UAH 20 million to file corporate income tax returns quarterly; reduce USSC rate from 41% to 22%; abolish USSC of 3.6% withheld from salary; continue the special VAT regime for agricultural producers in force throughout 2016. An agricultural producer is eligible for state support depending on the type of agricultural products. For example, 85% of VAT go into the budget and 15% are held in agricultural producer's special account for transactions related to grains and industrial crops, 20% of VAT go into the budget and 80% are held in agricultural producer's special account for transactions related to cattle breeding and milk production, 50% of VAT go into the budget and 50% are held in agricultural producer's special account for transactions related to other agricultural products; discontinue the special VAT regime for

agricultural producers beginning on January 1, 2017; reinstate the right to VAT refund for all exporters of grains and industrial crops; introduce fuel sales electronic administration system; increase the rates of excise duty payable on spirits by 50%, on beer by 100%, on tobacco products (specific constituent) by 40%, on fuel by 13%; decrease rent payment for subsoil use for the extraction of natural gas (for industrial use) from 55% to 29% (for gas extracted from deposits that lie at depths of up to 5,000 meters) and from 28% to 14 % (for gas extracted from deposits that lie at depths greater than 5,000 meters) beginning on January 1, 2016; decrease rent payment for subsoil use for the extraction of natural gas (for residential use) from 70% to 50% between April 1 and December 31, 2016 and to 29% beginning on January 1, 2017 (for gas extracted from deposits that lie at depths of up to 5,000 meters); impose an additional tax of UAH

25 thousand payable on apartments of over 300 square meters and houses of over 500 square meters; levy a tax on premium cars that are worth more than UAH 1 million in value and less than 5 years old irrespective of engine size.

### State Fiscal Service reform and improvement of tax administration:

- State Fiscal Service Institutional Modernization Action Plan agreed with the Minister of Finance and IMF.

In particular, the Action Plan highlights the specific objectives of:

- improving tax administration (setting up automated intellectual administration systems and enhancing appeal and tax debt recovery mechanisms);
- supporting the budget and combating corruption (salary increase, new approaches to staff recruitment and selection, control over processes identified as posing corruption risks);
- structural optimization of the State Fiscal Service (SFS) (building the structure based on the functional principle, integrating tax and customs offices at the local level, increasing the

### Marginal number of SFS staff reduced by 30%.

- number of points of services for taxpayers);
- strict fulfilment of tasks set by the Government, the President of Ukraine, the Coalition of Deputies' Factions and international agreements to which Ukraine has become a party.
- Marginal number of SFS staff reduced by 30%.
- SFS central apparatus optimized: number of stand-alone structural units reduced from 28 to 23.
- Number of SFS territorial offices reduced from 318 to 169.
  - Central Office for Large Taxpayers restructuring concept drafted to help develop the Office of a European standard based on international best practices, create an enabling environment for

### Number of SFS territorial offices reduced from 318 to 169.



# TAX REFORM

taxpayers, ensure individual customer service and shrink the Office's regional network.

- Law of Ukraine On Amendments to Tax Code of Ukraine with respect to Reducing Taxpayer Burden # 655-VIII of July 17, 2015 adopted. The Law provides for a range of positive changes for taxpayers, such as:
  - affording taxpayers the opportunity to file supplements to tax declarations electronically (using optional form);
  - affording taxpayers the opportunity to challenge tax ruling, both individual and general, in court;
  - provisional (until December 31, 2016) exemption from penalty (for taxpayers with income of not greater than UAH 20 million on condition that they pay the accrued taxes in a timely manner and without challenging the tax assessment notices).
- Law of Ukraine On Amendments to Tax Code of Ukraine with respect to Improving the Administration of Value-Added Tax # 643-VIII of July 16, 2015, developed by the Government with the aim to improve the VAT electronic administration system to ensure its ongoing smooth operation, approved.
- The following draft laws were introduced to the Verkhovna Rada as part of the implementation of IMF recommendations on strategic reform of Ukraine's State Fiscal Service:
  - On Amendments to Article 19 of the Law of Ukraine On Central Bodies of Executive Power with respect to Deputy Heads of Central Executive Authorities (registration # 2176a), stipulating that the Cabinet of Ministers of Ukraine should have the right to increase the number of deputy heads of certain central executive authorities (currently not more than two deputy heads);
  - On Amendments to Customs Code of Ukraine with respect to Optimization of Territorial Offices of the State Fiscal Service (registration # 2177a) envisaging optimization of SFS territorial offices by divesting customs offices of legal entity status and designating them as standalone structural units of SFS territorial offices, and streamlining the procedure for handling

complaints against customs officers;

- On Amendments to Tax Code of Ukraine with respect to Minimization of Influence on Administration of Budget Revenues (registration # 2178a) envisaging simplification of the procedure for taxpayer administrative appeal against liabilities by establishing a one-tier system with the SFS central apparatus being the only tier for appeal.
- **Draft Law of Ukraine On Amendments to Sub-Section 10, Section XX Transitional Provisions of the Tax Code of Ukraine with respect to Specific Aspects of Administration of Value-Added Tax in the Anti-Terrorist Operation Zone** (registration # 3045 dated September 7, 2015) introduced to the Verkhovna Rada in an effort to put an end to sham tax credit schemes used by business entities located (residing) within the anti-terrorist operation zone.
- **The State Fiscal Service has introduced the following e-services:**
  - “ZIR” (a public information and reference system), helping taxpayers holding digital signature keys to access tax legislation and search for relevant tax information;
  - “Learn More About Your Business Partner”, helping assess tax risk exposure of one's business partner, who may not be a VAT payer or may turn out to be bankrupt or carrying out no business at the address specified in its official documents;
  - “Register of VAT Payers” and “Cancelled VAT Certificates”, helping learn the date of a VAT certificate, and whether one's counterparty VAT registration is valid or has been cancelled;
  - “Pulse” (anti-corruption service), affording the opportunity to report any misconduct by SFS officers;
  - “Electronic Reporting System”, a special-purpose application software for the preparation and presentation of reports to Electronic Reporting One Stop Shop.

*“Pulse” (anti-corruption service), affording the opportunity to report any misconduct by SFS officers.*

## Prevention of capital outflow from Ukraine

- Strategy for Revision of Existing Conventions for the Avoidance of Double Taxation developed to bring practice into compliance with the OECD Model Tax Convention. Agreement with Cyprus and Luxembourg to revise the existing Conventions reached. Revision underway of Conventions with the Netherlands, Belgium and Austria.
- The Verkhovna Rada of Ukraine has passed:
  - Law of Ukraine On Ratification of the Convention between the Government of Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains and the Protocol to the Convention # 606-VIII of July 15, 2015;
  - Law of Ukraine On Ratification of the Protocol

Amending the Convention between the Government of Czech Republic and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital # 747-VIII of November 4, 2015.

## Accounting reform

- Draft Law on Amending Law of Ukraine on Accounting and Financial Reporting in Ukraine (registration # 2486a of August 10, 2015) has been introduced to the Verkhovna Rada. The Draft Law envisages bringing statutory provisions on accounting into compliance with Directive 2013/34/EU to ensure that Ukraine fulfils its respective obligations under EU-Ukraine Association Agreement; enhancing the scope of International Financial Reporting Standards by statutorily providing for their mandatory application by large enterprises and entities engaged in the extraction of commercial minerals of national importance to increase national investment attractiveness; making requirements to source documents and their mandatory particulars less stringent to sim-

ply accounting, make transaction processing less time-consuming and improve Ukraine's Doing Business ranking.

## What has not been achieved:

- Passage of the new Tax Code in 2015 (Draft Law # 3630 of December 11, 20115) failed due to an alternative tax model (Draft Law # 3357 of October 26, 20115) developed by the relevant parliamentary committee. It was resolved to reschedule approval of the comprehensive tax reform to the first half of 2016 with its implementation to begin on January 1, 2017.
- Implementation of SFS e-services, namely taxpayer e-office, electronic excise duties and stamps, failed.
- Implementation of one-off declaration of assets by natural persons and indirect controls over matching of personal expenses against revenues failed.
- Implementation of financial mediation mechanism (improvement of administrative appeal procedure) failed.

## What needs to be done to catch up or accelerate reform:

- Ensure closer cooperation between the Government and the Verkhovna Rada and maintain a joint position on the adoption of the new Tax Code to be produced by the Government and Ukrainian Parliament in compliance with national economic development goals.



## REDUCING TAX BURDEN IN FINANCING HIGH-PRIORITY SPENDING

### TAX RATE CUT

USSC = 41%

USSC = 22%



The only exceptions are special USSC rates for people with disabilities (8.41 %, 5.3% and 5.5%), which remain intact

### REQUIREMENT TO WITHHOLD USSC FROM SALARY ABOLISHED



### IMPROVING UKRAINE'S RATING IN DOING BUSINESS RANKING AND REDUCING PAYROLL TAX RATE TO BELOW OECD AVERAGE

43%



30%

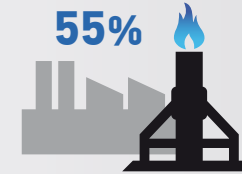


### INDUSTRIAL USE

RENT PAYMENT FOR SUBSOIL USE FOR THE EXTRACTION OF NATURAL GAS

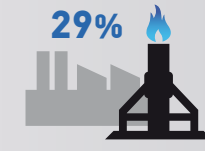
FOR GAS EXTRACTED FROM DEPOSITS OF LESS THAN 5,000 METERS

55%



before January 1, 2016

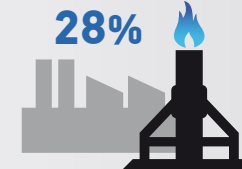
29%



after January 1, 2016

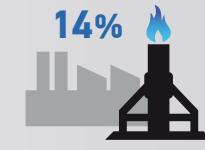
FOR GAS EXTRACTED FROM DEPOSITS OF MORE THAN 5,000 METERS

28%



before January 1, 2016

14%



after January 1, 2016

### RESIDENTIAL USE

RENT PAYMENT FOR SUBSOIL USE FOR THE EXTRACTION OF NATURAL GAS

FOR GAS EXTRACTED FROM DEPOSITS OF MORE THAN 5,000 METERS

70%



before April 1, 2016

50%



between April 1 and December 31, 2016

29%



from January 1, 2017

\* - Source: OECF, Dragon Capital calculation

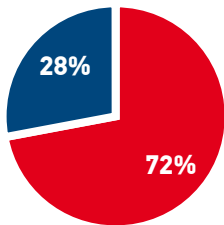


# TAX REFORM

## 83%

Progress in Tasks completion for 2015

### REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST

**TNS** Survey conducted by the TNS agency on a monthly basis.

Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

### TASKS

Developed and approved the Concept of tax reform	100%	Agreements on avoidance of double taxation with other countries and agreements on exchanging information with countries that are included in the list of offshore zones have been signed.	75%	Taxation aligned with EU requirements: (1) is brought into compliance with EU requirements for excise goods, which should include electricity. (2) harmonized with the EU requirements the structure of the excise tax on tobacco products. (3) The amount of the excise tax on tobacco products brought into line with EU law: the proportion of tax in the weighted average retail price of tobacco products increased to 60%, while the tax amount is not less than EUR 90 per 1 thousand pieces. (4) introduced the system of reimbursement of VAT tax subjects - legal entities that are not based in the EU. (5) the harmonized structure of excise duty on alcohol and alcoholic beverages by introducing a new category of excisable goods - «intermediate goods» (drink strength 1.2% - 22% of the volume, which is a mixture of natural wine and alcohol).	100%
Developed and endorsed the institutional changes of DFS (including the reduction of DFS employees and optimizing its structure).	100%	Introduced new tax treatment of mining industry taking into account the best international practices	100%	Simplified system of tax administration for taxpayers which use cash registers	100%
The Tax Code of Ukraine and other legislative acts amended according to the Concept of tax reform.	75%	The effect of the general VAT regime extended to the entire agricultural sector.	75%	Increased transparency of the tax system: (1) created public database of individual tax advice; (2) expanded use of electronic services for taxpayers. (3) open access to tax information on specific economic entities; (4) The tax control depends on the risk of taxpayers' activities.	50%
Improved tax administration by amending the Tax Code of Ukraine, which provide for: (1) consolidation of functions providing integrated tax advice for the Ministry of Finance; (2) the introduction of financial mediation (improving procedures for administrative appeal); (3) the transfer of large taxpayers - legal entities registered with the inspection services to large taxpayers; (4) introduction of taxpayers - individuals with large amounts of income in the inspection service for large taxpayers.	65%	VAT system brought in line with EU legislation.	25%	Introduced personal financial responsibility of DFS for losses incurred by taxpayers through illegal acts or omissions of employees of DFS.	0%
		Legislation on the control of transfer pricing harmonized according to the OECD principles.	100%	Included changes to legislation that simplified procedure for automatic VAT refund.	100%

### OUTCOMES

Rating «Paying Taxes» of the World Bank and the International Finance Corporation (IFC)

### PERCEPTION

Taxpayers positively evaluate the reformed tax system

Taxpayers trust the DFS employees (TNS) 17%

Taxpayers are generally satisfied with the DFS service level

### SCORECARD

■ IN TIME ■ RISK ZONE ■ OUT OF TIMING



# PUBLIC ADMINISTRATION REFORM

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
<p>The efficient public administration system ensures citizens' needs and implements a coherent public policy focused on sustainable development and adequate response to internal and external challenges</p>	<p>Professional civil servants ensure protection of the public interest and achieving government objectives</p>	<p>Civil servants are professional, result oriented and politically independent</p>
		<p>Civil servants have fair, transparent and competitive remuneration which ensure proper motivation</p>
		<p>Modern HRM practices and tools are implemented and effectively operate in the state bodies</p>
	<p>The rational and responsive system of state bodies effectively develops and implements the public policy</p>	<p>The state administration bodies ensure accountability, liability and transparency</p>
		<p>Each state body has clear responsibilities with corresponding functions and the optimal organizational structure</p>
		<p>The state bodies use public financial resources transparently, effectively and efficiently in accordance with strategic goals</p>
		<p>Government institutions effectively perform all procedures critical to consistent and competent policy making harmonized with strategic planning</p>
	<p>All citizens receive quality public services</p>	<p>Public services are available, affordable and accessible to all the citizens</p>
		<p>Citizens receive high-quality and convenient services oriented to satisfy their needs</p>
		<p>State policy aims to reduce the administrative burden and to ensure fair treatment in administrative cases. Citizens are satisfied with the level of administrative burden</p>

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents:

Sustainable development Strategy “Ukraine 2020”; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



# PUBLIC ADMINISTRATION REFORM

## What has been achieved:

- Strategy for Reform of Civil Service and Service in Local Government Bodies in Ukraine to 2017 and the Action Plan for its implementation adopted and approved (Resolution of the Cabinet of Ministers of Ukraine # 227-p of March 18, 2015).

**Law of Ukraine On Civil Service (# 2490 of 10.12.2015) passed through second reading and adopted in its entirety. The Law stipulates, among other things, a possibility of forming a payroll fund for civil servants out of the funds of international organizations\***

- Draft Law of Ukraine On Service in Local Government Bodies (# 2489 of March 30, 2015) stipulating the status of local government officials (as well as providing for equal access to and transparent mechanism of employment with local governments) approved by the Government (on 25.03.2015) and passed through first reading in Parliament (23.04.2015).
- The Government has developed the Strategy for Public Administration Reform to 2020 and the Action Plan for its implementation. Approval of the Strategy has been rescheduled to the 1st quarter of 2016. Negotiations with EU on financial support for public administration reform are underway.
- Draft Law On Amendments to Some Laws of Ukraine Concerning Organization of Activities of the Cabinet of Ministers of Ukraine and Central Executive Agencies (# 2354a of July 15, 2015) stipulating the enhancement of

**Setting up of the register of vacant positions with public authorities on the basis of the National Agency of Ukraine on Civil Service got underway.**

collective leadership and transparency of the Cabinet of Ministers of Ukraine, grounds for reorganization of ministries, and delineation of policy development and implementation functions between ministries and other bodies of executive power (services, agencies, inspectorates) registered with the Verkhovna Rada.

- Establishment of a register of vacant positions in public authorities on the basis of the National Agency of Ukraine on Civil Service got underway. New forms of reporting on the quantitative composition of the civil service approved for all public authorities (Order of NAUCS # 161 of July 24, 2015). Automated collection of data on the quantitative composition of the civil service got underway.
- Approximately 16% (34 thousand employees) reduction in staff size of the executive branch.

The State Fiscal Service has cut 17 thousand staff, or 52% of the overall executive branch total \*\*. The Ministry of Economic Development and Trade central apparatus has seen the largest reduction of staff – 29% (according to CMU Resolution # 840 of October 21, 2015).

- As of December 1, 2015, salaries of civil servants have risen by 25% on average as part of indexation. The Prime Minister's gross and net salaries are approximately UAH 8,300 and UAH 6,500 respectively (according to CMU

Resolution # 1013 of December 9, 2015).

## What has not been achieved:

- Extensive optimization of the Government's operation, i.e. streamlined Rules of Procedure of the Cabinet of Ministers and amended laws on the Cabinet of Ministers and central executive agencies (as required by the Coalition Agreement) failed, apart from the Law of Ukraine on Civil Service as amended.
- Elimination of wasteful duplication of functions (as required by Action Program of the Cabinet of Ministers of Ukraine), comprehensive functional analysis and organizational restructuring of public authorities (as required by the Coalition Agreement) has thus far failed.
- Introduction of a funding model whereby ministries and other central executive agencies are financed subject to the scope of their duties and performance (as required by the Coalition Agreement) has thus far failed.
- Development and enactment of the Administrative Procedure Law to regulate relationships between the government and the public and raise the efficiency of the administrative appeal procedure (as required by the Coalition Agreement) has thus far failed.

## What needs to be done to catch up on or accelerate reform:

- Amend the laws on the Cabinet of Ministers and central executive agencies as well as Rules of Procedure of the Cabinet of Ministers.
- Approve the Strategy for Public Administration Reform to 2020 and Agree with the EU on the terms of funding.

**It is necessary to approve the Strategy for Public Administration Reform to 2020 and agree the terms of its implementation funding with EU.**

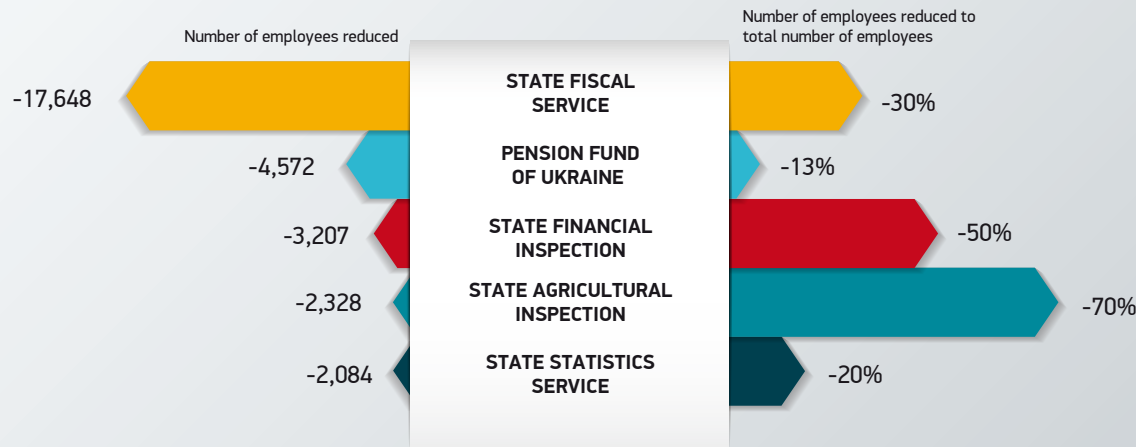
- Get competitive selection of civil servants underway on a new basis and provide for active involvement of professionals in the civil service with adequate remuneration supported by the EU, international financial institutions and other sources.
- Amend the Budget Code to stipulate the principles of formulation of budgets of ministries and other central executive agencies.

\* see infographic for the Law of Ukraine On Civil Service  
 \*\* see infographic for reduction in the number of civil servants in 2015

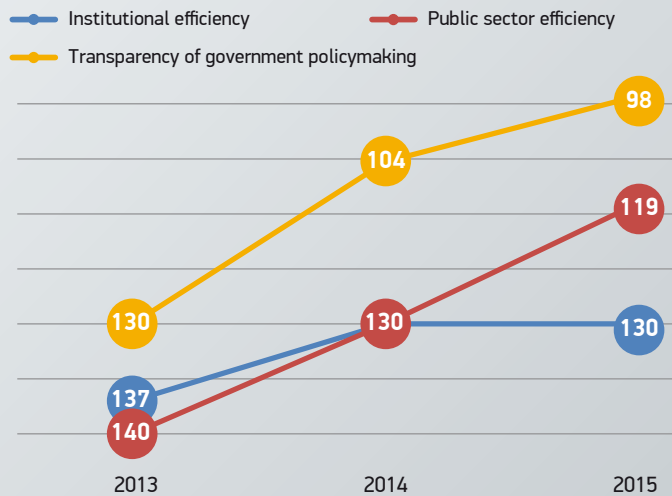


# PUBLIC ADMINISTRATION REFORM

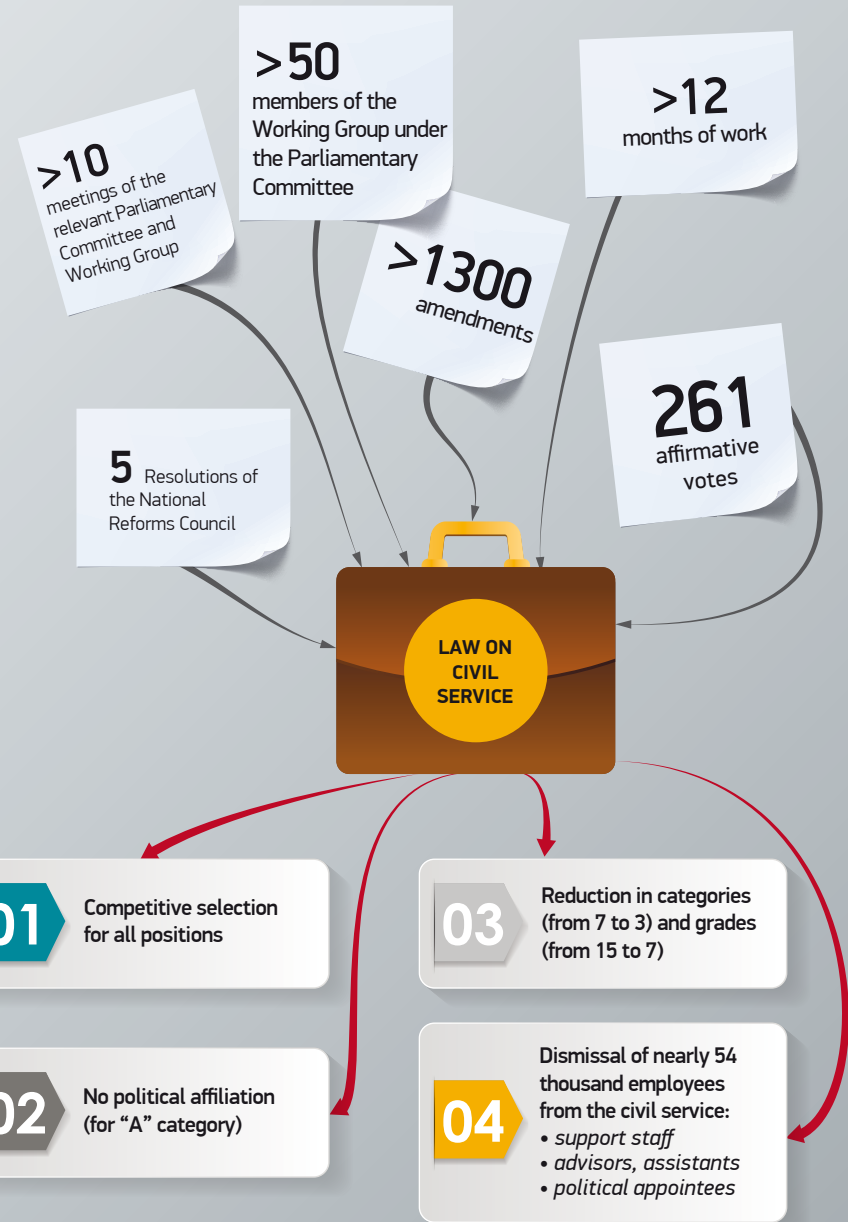
## TOP 5 agencies by marginal reduction\*



## Ukraine's Global Competitive Index Rank\*\*



\*of staff of central and territorial units of central executive agencies (according to CMU Resolution # 840 of October 21, 2015)  
 \*\*source: <http://www.weforum.org/reports>



## KEY ACHIEVEMENTS

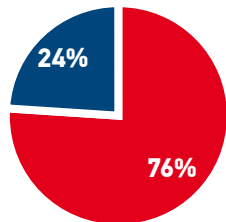


# PUBLIC ADMINISTRATION REFORM

**49%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST

Survey conducted by the TNS agency on a monthly basis.

**TNS**

Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

TASKS			OUTCOMES			PERCEPTION	
Concept of public administration reform and 2015-2017 implementation plan developed and adopted	40%	New Regulation Act adopted to distribute responsibilities and tasks among public bodies (central executive bodies, bodies with special status, national commissions) - based on public administration reform concept	0%	Number of non-core assets and budget expenditures for their ownership reduced.	% Increase of average civil service salary (in 2015 increase of salaries is to be ensured via reduction of functions and posts in public administration)	Number of basic administrative services delegated to local self-government (1 September 2015 - 70%, 1 July 2016 - traffic police (100%))	Stakeholders (civil society, business associations, other) are satisfied with openness and transparency of decision-making (policy making) in government bodies
New Law on Civil Service adopted in line with SIGMA benchmarks. Supporting regulations to implement the new Civil Service Law adopted.	90%	Law(s) on decentralization of basic administrative services developed and adopted	90%	Global Competitiveness Index by World Economic Forum: Ukraine holds 119th out of 140 according to «Institutional efficiency»	Ukraine's ranking in World Bank's Worldwide Governance Indicators: 40.4 out of 100	662 centres of administrative services created. They provide 51 services	18% level of trust to the Government (source: Democratic Initiatives and Razumkov center poll, July 2015)
New law On Service in Local Self-Government adopted in line with European principles of public service Supporting regulations to implement the new Law adopted. (List of regulations will be finalized after adoption of the law)	70%	Law(s) on fees for administrative services developed and adopted (2015 year) - 100%.	50%	Commission for Senior Civil Servants is not created and members are not appointed	Law on Lustration applied for 846 persons out of 127 THOU under check (1%). 80% - new managerial staff at the central executive bodies	Number of reduced administrative services (permit, certificate, other). Reduction in relation to the number of administrative services on 1 January 2015: by 30% in 2015; by 15% in 2016; by 15% in 2017.	Citizens assess civil service to be effective and transparent
Register of Public Servants developed	90%	Law On Administrative Procedure developed and adopted - 2015 (100%)	50%	Number of ministries where state secretaries are appointed on competitive basis	The number of civil servants on managerial level (categories A and B) does not exceed 1/3 of civil servants on execution level (category C)	Web-portal of administrative services launched: www.postluga.gov.ua. Work on the content in progress	14% of the population positively evaluate the of quality of administrative services. source: Democratic Initiatives and Razumkov center poll, July 2015)
Changes to the Laws on Cabinet of Ministers and Central Executive Bodies developed and adopted	60%	Indicators of effectiveness and efficiency of government performance and civil service are developed and adopted. (incl. effectiveness of the use of public funds) (in the form of Order of the Agency for Civil Service)	0%	Civil servants (including heads of central executive bodies) are appointed based on merit via open recruitment in line with the new Civil Service Law	Share of strategic decisions adopted at the Cabinet level (according to set criteria). Share of draft Cabinet decisions published in advance	Average salaries for comparable posts in central executive bodies diverge by no more than 20%	82% of the population evaluate positively the work of CAS in 40 cities source: Democratic Initiatives and Razumkov center poll, July 2015)
Changes to the Cabinet Rules of Procedure developed and adopted	0%			Share of civil servants who underwent performance appraisal according to the new Civil Service Law	List of outdated, irrelevant, and redundant functions and programmes of government bodies is identified. Number of such functions and programmes reduced in 2015 at least by 25%, in 2016 - at least by 50%, in 2017 - at least by 25%.		

## SCORECARD

IN TIME RISK ZONE OUT OF TIMING



# FINANCIAL SECTOR REFORM

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
<p>FINANCIAL SECTOR TO BE:</p> <ul style="list-style-type: none"> <li>• Fully competitive</li> <li>• Investment attractive</li> <li>• Innovative</li> <li>• EU-standards driven</li> <li>• Capable to ensure sustainable economic growth</li> </ul>	<p>Financial Stability and Dynamic Development of Financial Sector are achieved</p>	<p>Full-fledged competition and free movement of capital are introduced</p> <p>Strengthened macro and micro prudential regulation</p> <p>Corporate Governance of Financial Market Participants is Improved</p> <p>Modern financial instruments are introduced</p> <p>Financial Sector Infrastructure is modernized</p> <p>Creditors Rights Protection is ensured</p>
	<p>Regulators Institutional Capacity is strengthened</p>	<p>Institutional and financial independence is ensured, internal control and governance of regulators is increased</p> <p>Transformation of Financial Sector regulators is performed; functions are distributed; risk-based supervision is introduced</p> <p>Coordination between all regulators and between regulators and market participants is improved</p>
	<p>Protection of Consumers and Investors is ensured</p>	<p>Financial literacy is increased</p> <p>Consumers Protection Legislation corresponds to EU standards</p> <p>New tools for consumers and investors protection are introduced</p>

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents:

Sustainable development Strategy “Ukraine 2020”; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



# FINANCIAL SECTOR REFORM

## What has been achieved:

### Achieving macroeconomic stabilization

- The **international reserves of the National Bank of Ukraine (NBU) grew** from USD 7.5 billion at the beginning of 2015 to **USD 13.3 billion** as at January 1, 2016.
- **A new dimension was added to the monetary policy toolkit**, as the refinancing rate became the primary tool to reduce inflation expectations (the rate was decreased from 30% to 22%).
- **Inflation has passed its peak** and inflationary pressures are expected to keep falling to 12% (+/- 2%) as at year-end 2016;

*The international reserves of the National Bank of Ukraine (NBU) grew from USD 7.5 billion as at the beginning of 2015 to USD 13.3 billion as at January 1, 2016.*

- Hryvnia exchange rate stabilized; flexible exchange rate regime gained traction.

### Securing financial sector stability

#### I. Rehabilitating the banking sector

- **The banking sector has been cleaned up: 33 banks were removed** from the banking market in 2015 (32 in 2014);
- Implementation of the law on strengthening the Deposit Guarantee Fund's (DGF) institutional capacity **added to the improvement of insolvent bank resolution process.**

#### II. Strengthening the banking system

- Major banks underwent stress tests, whereby some banks fulfilled the recapitalization plans and those that failed were removed from the market;
- Corporate governance requirements for banks enhanced;
- Capital requirement of banks increased to **UAH 500 million**; methodology for determining **systemically important banks** (envisaging the use of a multi-factor model and grounded on the systemic importance criteria) introduced; requirements to introduce **capital buffers** and procedures on regulating a systemically important bank set out; **terms and conditions of capital increases** by foreign investors simplified; mechanism for **bank rehabilitation** through **elimination** of the effect of **devaluation** introduced;
- Reduced the negative effect of devaluation and war in the eastern Ukraine on the banking system through adoption and implementation of the relevant Law.

#### III. Ensuring soundness of the banking system

- Regulations were enacted to **scale down relat-**

**ed-party lending** in line with IMF requirements, **disclose ownership structures** and information about related parties, tighten requirements on **financial standing of qualifying shareholders in banks**, and **introduce liability for bank owners.**

#### IV. Rehabilitating the non-bank sector

- Significant steps were taken to **clean up the stock market** from junk assets and manipulators: a new procedure for identification of signs of fictitious nature of issuers established; more stringent listing requirements imposed; principles of acquisition of a qualifying shareholding in professional stock market participants synchronized with the principles established in Ukraine's banking sector; procedures

for overseeing compliance of professional stock market participants with prudential requirements enhanced. In 2015, the Na-

tional Securities and Stock Market Commission initiated 106 actions against market abuse (compared to 5 in 2014), which involved what the Commission described as deliberate efforts at manipulation of stock prices. During six months almost one hundred issuers, whose capitalization totalled nearly UAH 500 billion, had to suspend trading;

- Important steps were made to **clean up the non-bank financial market** through the development of new mandatory criteria and standards of adequacy, diversification and quality of insurer's assets to serve as a tool to keep the clean-up of insurance industry on track.

### Enhancing regulators' institutional capacity and financial independence

- Enactment and implementation of relevant laws added to NBU's **institutional capacity and financial independence**;
- Another stage completed of the NBU's organizational transformation, process reengineering is gaining traction; **NBU is being divested of non-key functions alien to the nature of a central bank**; new organizational structure and a committee-based decision-making system to ensure efficiency and eliminate corruption set in place; measures taken to reduce hierarchy and centralize some functions; territorial administration and staff optimized;
- Draft law to **improve the supervision system**, in particular to reduce credit risk concentration through the **establishment of an NBU register** is

being developed with support of international donors in pursuance of the IMF program;

- Draft law to strengthen **institutional capacity and financial independence of the National Securities and Stock Market Commission** and to implement International Organization of Securities Commissions (IOSCO) principles developed with support of international donors.

### Ensuring sustainable development

- Adoption of the law regarding **term deposits** helped provide a tool for setting up a sustainable and predictable bank funding base. On this front, reform has manifested itself in the following positive changes:

- National currency denominated deposits demonstrated growth almost every month beginning April 2015. In September the volume of **national currency denominated deposits exceeded their volume as at the beginning of the year**, and this trend persisted in the subsequent months.
- Beginning May 2015 the weighted average cost of national currency denominated loans and deposits kept reducing respectively (from 23.56% in May to 20.73% in November, and from 15.51% in May to 12.39% in November).
- A set of draft laws for the **protection of creditor rights** to accelerate **resumption of lending** was put before Parliament;
- Efforts were made to **address the challenge of foreign currency denominated mortgage loans**: Independent Association of Banks of Ukraine (NABU) developed a draft law to restructure foreign currency denominated liabilities of Ukrainian citizens under mortgage loans, which received IMF

*Capitalization of listed companies dropped by nearly UAH 500 billion.*

- preliminary approval;
- On December 2015, the Ukrainian **banking system transitioned to International Accounting Standards**;
- Draft law on financial restructuring **tackling non-performing loans** developed with support of international donors (e.g. EBRD and IMF) and registered with the Verkhovna Rada in pursuance of the IMF program;
- Draft law on shareholders' agreements developed to **increase investment attractiveness.**

### Sharpening existing instruments and developing new ones

- Draft laws to **promote development of capital**

**markets, including derivatives and commodity exchange markets**, registered with the Verkhovna Rada;

- NBU began publishing yield curves for zero coupon UAH and USD denominated Ukrainian government bonds.

## What has not been achieved:

Most reform measures are implemented in a quality and timely manner, and have received positive reviews from international donors such as the IMF and EBRD. In the opinion of the EBRD, Ukraine has demonstrated the most notable progress of any transition economy in reforming the financial sector, in particular in cleaning up the banking industry. However, delays over enactment of draft laws that are crucial for implementing financial sector reform are of particular concern. There are currently 22 draft laws pending in the Verkhovna Rada, some of which were introduced as early as spring 2015. The most part of these draft laws were developed in pursuance of the Coalition Agreement, EU-Ukraine Association Agreement and Ukraine's obligations to the International Monetary Fund.

## What needs to be done to catch up or accelerate reform:

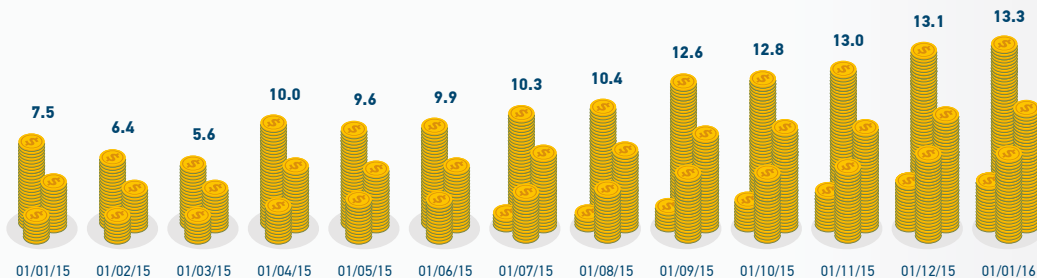
To step up reform progress it is necessary to adopt laws which would:

- **Open the way for pension reform** – a source of long-term financial sector stability and an impetus for stock market development.
- **Strengthen institutional capacity of the National Securities and Stock Market Commission** and transfer supervision over private pension schemes thereto while supervision over insurance companies, credit unions and other non-bank financial institutions should rest with the NBU and provide **extra tools for the clean-up of the stock market.**
  - **Ensure protection of creditor rights and reduction in credit risk concentration, thereby contributing to resumption of lending and reliability of the banking system.**
- **Secure financial consumer protection and regaining of consumer confidence.**
- **Give impetus to non-bank financial sector development**, in particular to the insurance industry.

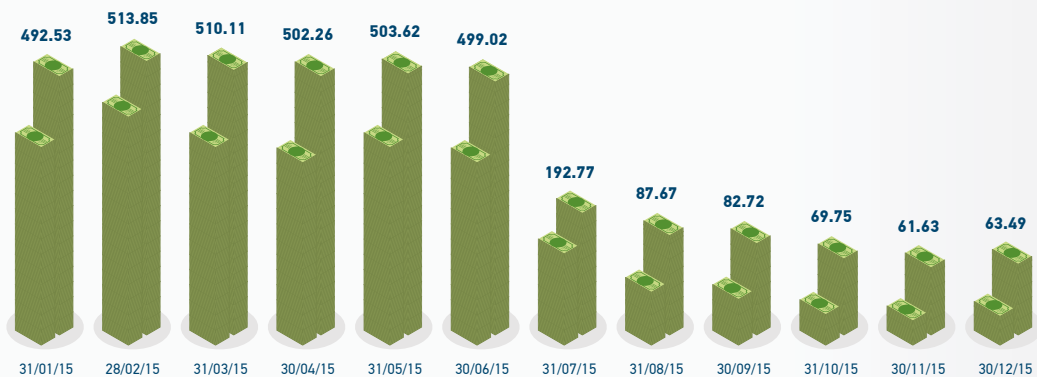


# FINANCIAL SECTOR REFORM

## FOREIGN EXCHANGE RESERVES, in billions of US Dollars



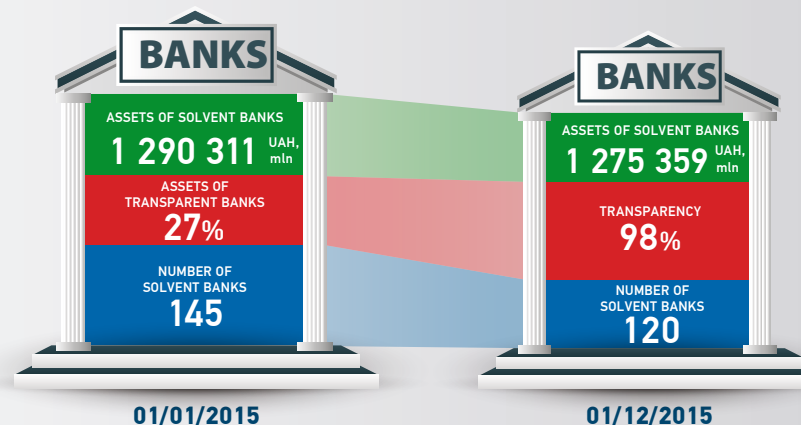
## CAPITALIZATION OF LISTED COMPANIES, in billions of UAH



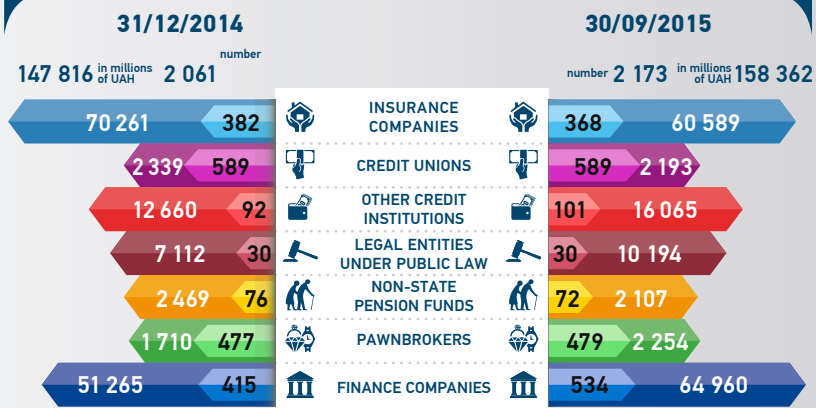
## NUMBER OF STOCK MARKET ABUSE CASES



## CLEANING UP OF THE BANKING SECTOR



## NUMBER OF NON-BANKING FINANCIAL MARKET PARTICIPANTS AND THEIR ASSETS



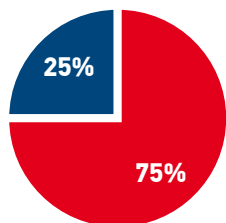


# FINANCIAL SECTOR REFORM

**76%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST

**TNS** Survey conducted by the TNS agency on a monthly basis.

Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

### TASKS

Reform program and methodology for indicators assessment have been developed 100%

Project teams have been created to implement the reform program, action plans developed 100%

Changes to legislation to strengthen the institutional capacity and financial independence of the NBU have been provided 100%

Changes to legislation to strengthen institutional capacity and financial independence NSSMC have been provided 25%

Amendments to legislation regarding the transfer of regulators' functions have been conducted (transfer of functions from the FSR to the NBU and NSSMC) 50%

Changes to legislation to strengthen the institutional capacity of DGF have been provided 100%

Legislation on taxation and services in the financial sector has been amended. 88%

Legislative provisions of the creditors' rights protection (adoption of the law) 50%

Legislative provisions of the rights of financial services consumers (adoption of the law) 50%

The development of derivatives (adoption of the law) 50%

Strengthening control and responsibility for the operations of banks' related party transactions (adoption of the law) 100%

Stimulation of the insurance market (a new edition of the Law «On insurance») 50%

Ensuring resource base of banks extension by adopting the law on term deposits 100%

Improving the protection of minority shareholders through the introduction of the derivative action institution 100%

### OUTCOMES

Consumer price inflation. Regress took place due to substantial depreciation and increase of energy tariffs. In 2016 we expect inflation rate as 12%. 44%

Level of foreign-currency and gold reserves. Increase of the pace of foreign-currency and gold reserves is sufficient but it will depend on performing of IMF program. \$13,3 млрд

Level of cash in the economy. Pace is sufficient. 14%

Level of non-cash payments in local payment system. In 2015 significant steps were made to achieve the target level, effect should be noticeable since 2016. 1.2%

The level of dollarization of loans and deposits. There is no material progress due to macroeconomic conditions. 50%

The level of nominal interest rates on new loans in national currency. Pace is sufficient. 21.2%

The level of capital adequacy. Actual figure is about 8.92%. Change is not calculated due to different methodology. 8,9%

Herfindahl-Hirschman concentration index. Increase of HH Index occurred due to decrease in a number of banks instead of increase of a role of particular banks. 836

Credit-to-deposit ratio. There is no progress due to decrease of source of funding and little volumes of lending. 149%

Penetration rate of insurance. It will be calculated in Q1Y2016 0,8%



# FINANCIAL SECTOR REFORM

OUTCOMES			
Technical reserves of insurers. It will be calculated in Q1Y2016	0,9%	Financial market development. Actual figure 3.2, prev.year 3.5, target 4. Worsening by business of funding opportunities at the domestic market was caused by macroeconomic and foreign policy reasons	3.2
Пенсійні заощадження населення. Буде розрахований у першому кварталі 2016			
Assets of the second tier pension scheme. The start of Pillar II is scheduled tentativly for Y2017.		Stock exchanges regulation. Actual figure 2.5, prev.year 2.4, target 4. Worsening by business of funding opportunities at the domestic market was caused by macroeconomic and foreign policy reasons	2.5
Assets of public JII. It will be calculated in Q1Y2016	0,1%		
Status of Ukraine's financial market acc. to the classification of international index agency FTSE		Economic freedom index. Starting value for ranking 2015. (data for Y2013 and H1Y2014 was used). New ranking has not been published.	
		Legal rights reliability index. Laws were adopted in Y2015 after completion of index calculation, therefore they will be considered in the next year calculation.	8

PERCEPTION
Experts' assessment of the success of regulators. It will be calculated in Q1Y2016
Market participants' assessment of financial market infrastructure. It will be calculated in Q1Y2016
Social assessment of financial market credibility



# EDUCATION REFORM

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
Quality education that fosters critical and creative thinking and prepares socially active citizens able to ensure cultural and sustainable economic development in the framework of globalized competitiveness	Qualitative content and learning methods	Systemic renewal of educational content is conducted
		Alignment of educational programs to meet the needs of the market and incorporation of scientific and technological innovation in education
		Academic autonomy of educational institutions is ensured
	Equal access to qualitative education	Effective network and sufficient infrastructure for educational institutions is provided
		Accessibility of education is ensured (physical access and adaptable educational content, methods and environment)
	Effective management of education system and spending of public funds	Financial and organizational autonomy of educational institutions is ensured
		Division of control and support functions in education management system is conducted; Efficient mechanism of public participation in education is implemented
		Transparent and rational system of finance distribution is organized
	Highly qualified and motivated teachers / academics	Qualitative changes to teacher preparation is ensured
		Teacher's qualification system is demonopolized
		A new generation of academic personnel is formed

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents:

Sustainable development Strategy "Ukraine 2020"; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



## What has been achieved:

Three draft laws developed:

1. Draft Law On Education, which lays down the new principles of education governance and financing and enhances public control over the operation of educational institutions (considered at the extended meeting of a relative committee of the Verkhovna Rada on November 25, 2015, returned for revision);
2. Draft Law On Vocational Education, which provides for broad reform of the vocational training system and opens up opportunities for employers to influence the development of vocational education (*approved by relevant parliamentary committee and included into agenda*)

**Law on Scientific and Scientific-Technical Activity, which provides for the modification of scientific research organization and funding process, adopted.**

3. Draft Law on Scientific and Scientific-Technical Activity, which provides for modification of the scientific research funding process (adopted by the Verkhovna Rada on November 26, 2015 and signed by the President, December 25, 2015).

## International cooperation

On July 15, Ukraine signed and ratified Horizon 2020, providing Ukrainian universities and

**In November 2015, the Organization for Economic Cooperation and Development approved Ukraine's application for participation in PISA 2018, a triennial international survey.**

research institutions access to the European Union's EUR 80 billion research and innovation fund. In November 2015, the Organization for Economic Cooperation and Development (OECD) approved Ukraine's application for participation in PISA 2018.

## Higher education

Academic autonomy of universities expanded substantially, enabling universities to formulate their own curricula and recognize foreign diplomas. Domestic and academic mobility for students and academics established. Control over academic integrity (counteraction of plagiarism in theses) strengthened. The 2015 enrollment campaign followed a new principle: an enrollee had to assign priority to his or her applications, which were selected automatically based on assigned priorities. This helped circumvent informal university enrol-

ment schemes and select the most motivated students. An important step towards financial autonomy of higher education institutions (HEIs) was made by enabling them to open accounts with state-owned banks and command funds deposited thereto to the benefit of an institution. At the same time, transparency of HEIs was ensured through obliging them to publish financial and other statements on their websites. Operation of 80 HEIs, which failed to ensure proper quality of the education process, was terminated

**Transparency of HEIs ensured through obligating them to publish financial and other statements on their websites.**

At the same time, transparency of HEIs was ensured through obliging them to publish financial and other statements on their websites. Operation of 80 HEIs, which failed to ensure proper quality of the education process, was terminated

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## Vocational education

There were 84 industry-oriented research-and-practice centers for innovation technologies accumulating state-of-the-art technologies for labor force training established jointly with social partners. 78 government standards of profession-based and market-oriented vocational and technical training were set up.

## General secondary education

- For the first time ever, independent external assessment was combined with the state final assessment of knowledge of the Ukrainian language (in years to come the range of such combined assessment subjects is to be expanded, two of which are to be merged with an independent external assessment).
- Curricula of elementary and general secondary schools were reviewed for being overloaded with content. School hours to learn English extended. 1,600 sectoral reporting indicators cancelled. Procedure for the attestation of pre-school, secondary education and out-of-school education establishments streamlined.

## Pre-school education

Tax Code was amended to enable a favourable environment for the provision of educational services by private pre-school and secondary education establishments (land tax exemp-

tion). Procedure for the establishment of inclusive groups in kindergartens formulated. New sanitary rules for pre-school education establishments to promote expansion of the kinder-

garten network set in place.

## What has not been achieved:

- Law On Higher Education is not being implemented at proper pace. Twenty (out of forty) regulatory instruments necessary for the implementation of this Law have been adopted, fifteen are undergoing approval or re-approval process. Bureaucratic hurdles hinder reform substantially.
- Although crucial for the education sector, enactment of the Law On Education setting out a new framework for the entire education industry has been delayed due to diverging interests of a large number of stakeholders. The project was widely discussed by educators, the general public and associations of parents. In addition, it was discussed at the extended meeting of the Education and Science Committee, and refined by the Ministry of Education and Science with the participation of experts and civil society representatives.

## What needs to be done to catch up or accelerate reform:

- To adopt the Law of Ukraine On Education.
- Step up enactment of the necessary higher education regulatory framework.
- Develop the concept and Draft Law On General Secondary Education.



# EDUCATION REFORM

## Law On Higher Education (2014). Implementation of the Law (2015)



### HEIs:

1. Formulate own curricula
2. Recognize foreign diplomas
3. Provide the environment for domestic and international academic mobility for all participants of the educational process



### HEIs:

- May deposit funds generated from the provision of fee-based services with state-owned banks and command such funds to the benefit of the institution and its development



### HEIs have been granted:

- the right to elect their management
- a favorable environment for effective student self-government
- an opportunity to produce state-recognized academic certificates and annexes thereto

**AUTONOMY =  
RESPONSIBILITY**

**TRANSPARENCY AND  
ACCOUNTABILITY OF HEIs**

- HEIs are obligated to publish financial and other statements on their websites
- The process of student admission to HEIs through preliminary prioritization of applicants is now automated



### Qualifications for associate professor, professor:

1. academic degree
2. teaching/research experience
3. knowledge of a foreign language (at least at B2 level) or qualification documents in connection with the use of a foreign language

4. documents confirming international experience
  5. research papers in published journals included in the international databases
- (for a professor degree only)*

6. preparation of Doctors of Philosophy (PhD)
7. rank of associate professor or senior researcher (senior research fellow)



### No plagiarism in theses

- The following should be made available on the official website of a university or research institution at which a thesis is defended (in read mode):
  - 30 days before defence – abstract
  - 10 days before defence – thesis and opponents' reviews
- Documents will be publicly available on the website for 3 months following graduation with a Ph.D. or science Ph.D.

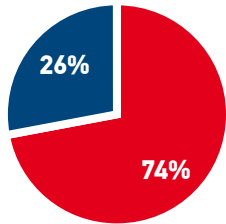
**KEY ACHIEVEMENTS**



# EDUCATION REFORM

**69%**  
Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:  
■ NO CHANGES  
■ CHANGES EXIST

**TNS** Survey conducted by the TNS agency on a monthly basis.

Age of respondents: 18-55  
 Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

TASKS					
Developed Strategy for Higher education reform in Ukraine until 2020	50%	Scientific and methodical council and scientific and methodical commissions at the MoES organized	100%	Mechanism for access to finance and administrative information of local education departments developed (in particular to the system of school budgets allocation at the local level)	0%
Developed draft Laws regarding the educational reform	100%	System of these preparation and submission reformed	60%	Electronic competitions of school textbooks	100%
Ukraine-EU Agreement «Horizon 2020» signed and ratified	100%	New Law «On Education» adopted	50%	New specification of fields and specialities for Higher education institutions	100%
		Developed draft Law «On Scientific and Technique activity»	100%		
National Agency for Quality Assurance in Higher education organized and started its work	25%	Law «On Vocational Education» adopted	70%	External Independent Tests improved	100%
Implementation of National framework of qualifications	30%	New State standards for professional education developed and approved	100%	School curriculums revised (1-4 classes, 5-9 classes)	100%
Concept and Action Plan for national and patriotic education developed and approved	100%	Concept for pedagogical education development revised	50%	Legislative documents on preschool institutions financing developed	0%
Normative-legislative base for inclusive education realization at all Ukraine educational levels developed.	50%	MoES analytical capacity increased	55%	Equalize conditions for operation of pre-school and primary school institutions of different types of ownership	70%

OUTCOMES	
Transparency of administrative and finance activity of Universities and vocational institutions	Informatization and computerization of schools (adoption of a new sanitary, medical norms for computer classes and adoptions requirements to informational (program) supply)
Transparency of administrative and finance activity of local education departments	English-language environment for children and youth created
Increasing the number of Universities, schools, research institutions participating at international education programs (Horizon2020, Erasmus+ and international projects)	Participation in PISA
	De-bureaucratization of education
Increasing of competitiveness of Ukrainian education	<b>PERCEPTION</b>
Network of vocational institutions improved	Public trust to teacher and scholar increased (TNS) 71%
Educational, vocational, and scientific curriculums in higher educational institutions developed and approved	Society estimates education reform as successful 26%
Pre-School education enrolment increased	Increased level of employees' satisfaction of the quality of higher and vocational education and its aim to satisfy the needs of labour market



# ENERGY SECTOR REFORM

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
<p>Building a system with long-term sustainability for the national finances, national security, consumers, businesses and the environment</p>	<p>Energy Markets Liberalized</p>	<p>Equal access to the market for state-owned and private companies is ensured; transparency and competition increased</p>
		<p>Market-based prices is ensured for all energy resources; tariffs for electricity and gas for all customers (incl. households) are on economically feasible level</p>
		<p>Majority of state-owned energy companies are privatized and/or restructured and managed in line with best practices</p>
	<p>Energy Resources Supplies Diversified and Rationally Utilized</p>	<p>Diversification of supply sources for all energy resources is ensured</p>
		<p>Increased production of own energy resources</p>
		<p>National energy consumption is decreased</p>
	<p>Effective Market Regulation, Safety and Environment Protection are Ensured</p>	<p>Independent and enhanced energy regulator is functioning</p>
		<p>Enhanced State Control of Energy Safety and Environment</p>

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents: Sustainable development Strategy “Ukraine 2020”; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



# ENERGY SECTOR REFORM

## What was accomplished:

- In order to establish an efficient, competitive environment in the energy market, taking into account the major provisions of EU law:
  - Law of Ukraine **On Natural Gas Market** of April 9, 2015 No. 329-VIII was adopted, and the majority of subordinate legislation for its implementation has been developed and approved;
  - Draft Law of Ukraine **On Electric Energy Market** was developed; the document was publicly discussed and received a positive opinion from the Energy Community and the EU as regards its conformity with European legislation (Third Energy Package); on November 30, 2015, the draft law was submitted to the Cabinet of Ministers of Ukraine in letter No. KM/1-32-3904; the Roadmap of Subordinate Legislation to be adopted for full-scale implementation of the new market model was approved; the Energy Community Secretariat formed a consultative group working with secondary legislation;
  - The new **Code of Electric Networks** was

*A framework Law of Ukraine On Natural Gas Market adopted. Legal fundamentals of the new, European, transparent and competitive gas market set in motion.*

developed, approved, and submitted to the Ministry of Justice of Ukraine for state registration;

- Draft Law of Ukraine **On the National Committee for State Regulation of Energy and Utilities** was developed, approved by the Cabinet of Ministers of Ukraine, and submitted to the Verkhovna Rada; on December 9, 2015, the Fuel, Energy, Nuclear Policy, and Nuclear Safety Committee of the Verkhovna Rada of Ukraine resolved to recommend the

Parliament to adopt the draft law as the basis in the first reading.

- Ukraine's energy security was improved by **significant diversification of energy supply routes and lower dependence on the traditional gas supplier**
  - **Gas imports from Russia were significantly decreased, currently being significantly lower than "reverse" supplies from Europe;**
  - diversification of energy supply routes furthered effective negotiations with the Russian Federation and enabled a reduction of the gas price from USD 337.1 per 1,000 cubic meters (1Q2015) to USD 227.40 (4Q2015).
- In order to diversify nuclear fuel supplies:
  - **agreements with alternative suppliers** (in particular, Westinghouse) **were signed for supply of modified fuel units and uranium enrichment, giving Ukraine several important advantages, in particular guaranteed fuel supply to all reactors in case of a force majeure, reduction of nuclear fuel supplies from Russian Federation, and respective price reduction;**
    - Draft laws On Termination of the Agreement between the Cabinet of Ministers of Ukraine and Government of the Russian Federation for Cooperation in the Construction of 3<sup>th</sup> and 4<sup>th</sup> Power Units at Khmelnytskyi Nuclear Power Plant were adopted, intended to **engage alternative suppliers** of equipment and works for the nuclear power units' construction.
  - The **electric power generation structure was optimized** by increasing the output share of cheap and environmentally friendly nuclear power from 48% to 57%.
  - Overhead power line **Rivne Nuclear Power**

## Plant – Kyivska Substation

was commissioned, making it possible to increase the capacity of Kyiv power node by 1,000 MW. This, in turn, will reduce the amount of thermal power generation and help avoid excessive use of limited coal supplies.

- The first **Extractive Industries Transparency Initiative** report was published. The publication will be an incentive to improve Ukraine's credit rating, implement international reporting standards, improve the natural resources management system, promote trust in Ukraine among the international community as well and private partners and international financial institutions. Law of Ukraine On Amendment of Selected Legislative Instruments of Ukraine to Ensure Extractive Industries Transparency of June 16, 2015 No. 521-VIII. The new draft Law of Ukraine **On Information Disclosure in Extractive Industries** was published on the Ministry of Energy and Coal Mining website; the adoption of this law would help overcome corruption and implement European standards of extractive industries operation.
- To support domestic hydrocarbon production (and thus reduce imports), the tax code was amended to reinstate **gas production annuities** at the level of first half of 2014 (from 55% for deposits less than 5000 m deep and 28% for deposits deeper than 5000 m to 29% and 14%, respectively).
- Preparation for **privatization of electric and coal production companies** is in progress. Resolution of the Cabinet of Ministers of Ukraine May 12, 2015 No. 271 On Transparent and Competitive Privatization in 2015 was developed and approved. The list of hydrocarbon

*Draft Law of Ukraine On Electricity Market submitted to the Cabinet of Ministers. Once passed, the Law will fundamentally change relationships in the electricity market and pave the way for the development of electricity networks and generation.*

production facilities to be privatized in 2015 was updated and currently includes 26 facilities; privatization preparation has been completed for 7 coal production companies: 3 in Volyn Oblast and 4 in Lviv Oblast, consultants ("Big 4") were engaged for preparation of the "investor package" for potential investors, investment reference information was approved and published on the website of the Ministry of Energy and Coal Industry of Ukraine.

- The draft **Law of Ukraine On the Coal Market** which was developed and published for public discussion, in particular, provides for stimulating the participation of energy-grade coal producers and buyers in commodity exchange trading, as well as market pricing of energy-grade coal based on commodity exchange quotations and terms of direct contracts for sale of coal between producers and consumers.
- Draft Law of Ukraine **On State Support of the Coal Industry** was developed and is currently undergoing public discussion. The draft provides for new principles of pricing in, and state support for, the coal industry to ensure effective restructuring of the sector (mine liquidation and suspension), ensuring self-sustained coal production and reduction of state support to a minimum by 2020 (only for purposes of water disposal, production increase, and environment protection).
- The new **Concept of Targeted State Economic Program for Coal Industry Reforms till 2020** was developed and submitted for approval to the Cabinet of Ministers of Ukraine.



# ENERGY SECTOR REFORM

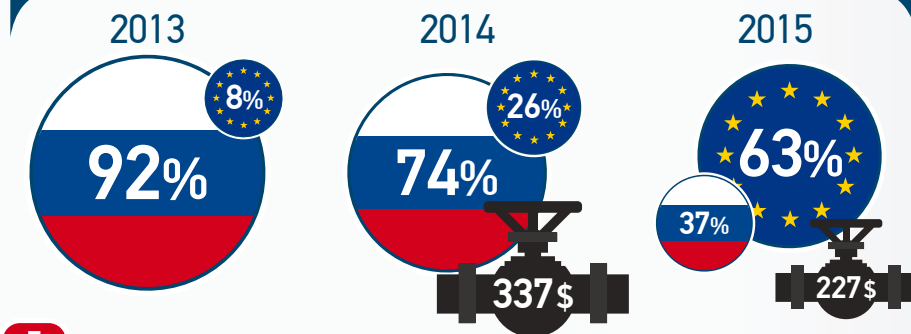
- The new **Concept for Development of the Nuclear Industry of Ukraine** was developed and submitted for approval to the Cabinet of Ministers of Ukraine.
  - In line with Ukraine's obligations to the IMF and the approved time schedules, **gradual increases of natural gas and energy rates** for all consumer groups, including households is in progress. Introduction of economically justified natural gas and electric power rates promotes economization of these resources and use of energy efficient equipment. The system of subsidies on utility payments was simplified to protect the most vulnerable social groups.
  - **A rapid response mechanism for investor issues in the energy sector** was implemented in accordance with the Memorandum of Cooperation between the Ministry of Energy and Coal Industry of Ukraine, American Chamber of Commerce and European Business Association on the mechanism of rapid response to problems related to operation of investors in the energy sector of Ukraine; a high level response group for investor issues in the Ukrainian energy sector meets on a regular basis.
  - A positive resolution of the Council of Ministers of the Energy Community (Tirana, October 19, 2015) was secured, providing more flexible deadlines for Ukraine's emission reduction obligations. In particular, the reduction of sulfur dioxide and dust concentration in emissions was postponed till 2028, and the nitrogen oxide deadline to late 2033. The maximum operation time of thermal power plants that cannot be upgraded was increased to 40,000 hours (instead of 20,000 hours for other member countries).
  - The Energy Community Secretariat received the final revision of the **National Plan for Reduction of Emissions by Large Heating Facilities** (approved by the Ministry of Ecology and Natural Resources and market stakeholders); after a positive response from the Secretariat, the Plan will be brought into force by a respective resolution of the Government.
  - In accordance with the transposition of the Directive 2006/32/EC provisions, the 1<sup>st</sup> National Energy Efficiency Action Plan was adopted with a goal of 9% energy saving by end consumers by 2020 (as compared to the statistical figures of internal energy consumption in 2005-2009). Requirements of the Directive 2010/30/EC were implemented in accordance with the provisions of the Action Plan and as related to energy labeling of electrical equipment (Directive of the Cabinet of Ministers No. 499-r, Resolution of the Cabinet of Ministers of May 27, 2015 No. 340; Resolution of the Cabinet of Ministers of July 17, 2015 No. 514).
  - A mechanism for stimulation of non-industrial end consumers (households, apartment building co-owner associations, and housing committees) to implement energy efficiency and energy saving measures was implemented at the state level:
    - Stage 1: scope of measures and participants of the government program of incentives for energy efficiency measures expanded: stimulation of a wide range of energy-efficient equipment and/or equipment implemented, and the group of participants extended to include ABCAs and housing administrations (Resolution of the Cabinet of Ministers of April 8, 2015 No. 231);
    - Stage II: government program of incentives for implementation of energy efficient measures by households improved as regards implementation of more favorable government support conditions for recipients of subsidies by increasing the reimbursement amount (Resolution of the Cabinet of Ministers of August 12, 2015 No. 614);
    - Stage 3: the duration of the government incentives program extended for year 2016 (Resolution of the Cabinet of Ministers of November 11, 2015 No. 929).
  - "Energy service" mechanism implemented as an incentive to implement energy efficient measures at government-funded institutions (Law of Ukraine of April 9, 2015 No. 327-VIII, Law of Ukraine No. 328-VII of April 9, 2015, Resolution of the Cabinet of Ministers of October 21, 2015 No. 845).
- What we failed to accomplish:**
- Create economic incentives to increase domestic hydrocarbon production (in order to reduce imports) and boost private investments for the energy sector.
  - Have the Verkhovna Rada of Ukraine adopt the government's draft law No. 2352a providing for decreased annuity payments for gas production starting from October 1, 2015.
  - Have the Verkhovna Rada of Ukraine adopt the Laws of Ukraine On the National Committee for State Regulation in Energy and Utilities and "On Electricity Market of Ukraine".
  - Have the Verkhovna Rada of Ukraine adopt the Law of Ukraine On Government Support for the Coal Industry.
  - Have the Cabinet of Ministers of Ukraine approve the Concept for Development of the Coal Industry.
  - Have the Cabinet of Ministers of Ukraine approve the Concept for Development of the Nuclear Industry.
  - Implement a commodity exchange-based form of electronic trade in energy-grade coal to determine its market price.
  - Optimize the procedure of liquidation of mines by funding the process of preparing unprofitable mines for liquidation without removal from the list of operating coal production companies.
  - Establish the Energy Efficiency Fund.
- Measures required to recover or speed up reform progress:**
- Adopt several important draft laws, in particular: On Electricity Market, On the National Committee for State Regulation in Energy and Utilities, On Government Support of the Coal Industry, as well as the Concept for Development of the Coal Industry and Concept for Development of the Nuclear Industry of Ukraine.
  - Ensure adoption of a long-term profit-based progressive system of gas production taxation starting from January 1, 2017.
  - Improve communication and approval of draft laws and regulations by governance agencies.
  - In order to improve the cooperation and coordination in the reform team, increase the role of independent experts.
  - Intensify the energy efficiency improvement reforms.
  - Develop several rules aimed at economical use of energy resources.
  - Improve the financial situation of government companies through further optimization of costs and implementation of priority investment programs.
  - Change the approach to the system of recruiting professional personnel for employment at central government agencies and state-owned companies.



# ENERGY SECTOR REFORM

## IMPLEMENTATION OF MARKET-DRIVEN APPROACH TO OPERATIONS IN THE INDUSTRY YIELDS POSITIVE SHIFTS FOR UKRAINE

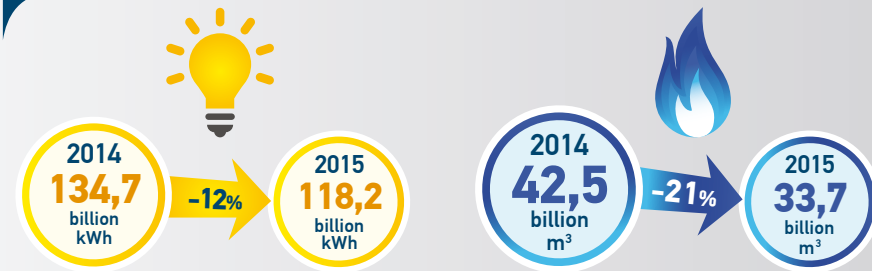
### GAS IMPORTS – NO DEPENDENCE ON RUSSIA REDUCTION IN IMPORT GAS PRICE



**!** European Union regulations stipulate that geopolitics should not determine energy markets. Gas supply is a business. Diversification of gas supplies helped Ukraine eliminate dependency on Russia.

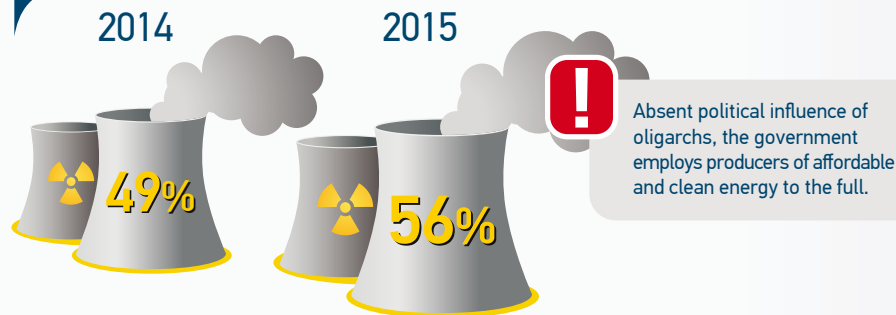
**!** Increase in the number of suppliers enables economically justifiable pricing.

### REDUCTION IN ENERGY CONSUMPTION



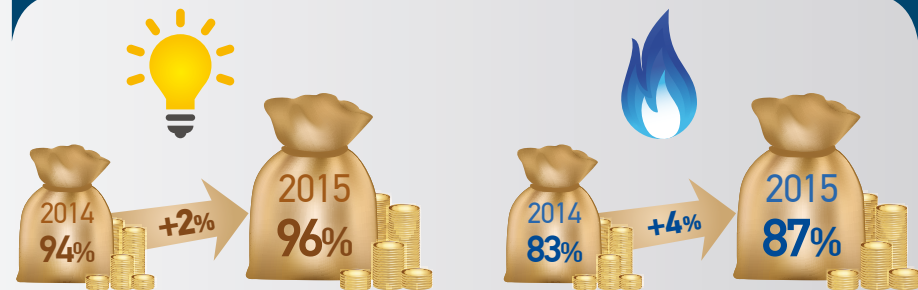
**!** Fair (market) tariffs stimulate consumers to save energy and invest in energy efficiency

### NPPs SHARE IN THE GENERATING MIX INCREASED



**!** Absent political influence of oligarchs, the government employs producers of affordable and clean energy to the full.

### PAYMENTS FOR CONSUMED ENERGY IMPROVED



**!** Financial and industrial groups are losing their political influence while the government uses every bit of leverage to demand payment for energy carriers in full. At the same time, the policy of direct subsidies to low-income households secures payments for energy consumed by the general public.

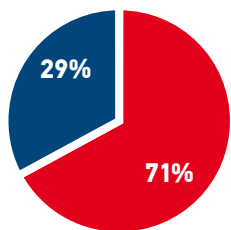


# ENERGY SECTOR REFORM

**57%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST

Survey conducted by the TNS agency on a monthly basis.

**TNS**

Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

TASKS				OUTCOMES		PERCEPTION		
Implemented mechanism to determine the market price of coal energy through electronic exchange trading	40%	Legislative level guarantee of an independent energy regulator according to the requirements of the Third Energy Package	20%	The system of targeted subsidies to vulnerable social groups to pay for gas and electricity is improved	70%	Prices for coal of energy brands are determined by the market	The volume of gas consumption by population, budgetary institutions and organizations and enterprises CTV is reduced by 3.66 bn. cub. m. (to 20 bn. cub. m.)	Citizens understand the economically justified tariffs
Approved by the State the Target economic program of reforming the coal industry for the years 2015-2020	30%	Ensured implementation of normative legal and technological measures to sync the Energy System of Ukraine with the united energy systems of EU countries	40%	Approved the National Action Plan on energy efficiency for the period until 2020 to improve the efficiency of final energy consumption and reduction or substitution of natural gas	100%	State support of coal industry is reduced to a minimum (less than 2 bln UAH per year) and is directed exclusively to funding for mine drainage and conservation	In 2015 provided 76550 credits for thermo-modernization. Including 173 – for apartment blocks	Consumers are satisfied with the quality of gas and electricity supply services
A first phase of a transparent and effective privatization of mines is completed	70%	Accepted secondary legislation for the reform and liberalization of the natural gas market in accordance with the Law «On Natural Gas Market»	85%	A mechanism of energy services (ESCO contracts) to attract private investment for energy efficiency measures in budgetary institutions is implemented	100%	Completed process of privatization of state coal enterprises	Provided 100% control of gas, heat consumption and metering of water	Community is involved in the implementation of energy efficiency programs
Provided organization and infrastructure for an effective system of social support of the coal industry workers and the population of areas with coal and coal-processing enterprises that are under liquidation (conservation)	50%	Provided organization and infrastructure for the reorganization of «Naftogaz of Ukraine» in accordance with the law «On Natural Gas Market»	60%	Created Energy Efficiency Fund as an instrument for guaranteed state support and investment in the implementation of energy efficiency measures in homes and institutions of public sector	20%	Uniform tariffs for all consumers, including the population, for electricity and gas set at economically feasible levels	Energy-intensiveness of GDP in 2020 is reduced by at least 20% compared to 2014.	70% of respondents evaluate the process of arranging and receipt of targeted subsidies to pay for gas and electricity as «simple» and «effective»
Adopted basic legislation for reform of electricity market in accordance with the requirements of the Third Energy Package	70%	The law contains a provision on creation of economic incentives to build the state hydrocarbon production (to reduce imports) and to attract private investment in the energy sector	60%	Conducted gradual elimination of cross-subsidization and alignment of prices for natural gas and electricity for all consumers	40%	The system of targeted subsidies for vulnerable social groups to pay for gas and electricity is functioning	Annual import into Ukraine of natural gas, oil / petroleum, coal and energy fuel for nuclear power does not exceed 30% from the single source / provider	
						Implemented new liberalized market model of gas and electric power based on market relations between all parties, in accordance with the Third Energy Package		



# STATE OWNED ENTERPRISE GOVERNANCE REFORM

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
<p>Operating efficiency of SOEs improved with proper budgetary oversight, Government's ownership policy towards SOEs and other state-owned assets developed, corporate governance of SOEs strengthened, restructuring and reorganization of SOEs completed and privatization process transparency executed</p>	<p><b>TRANSPARENCY &amp; ACCOUNTABILITY</b> SOE sector is transparent and disclosure standards improved</p>	Transparency guidelines & disclosure standards are developed & adopted
		Compulsory external audits are implemented
		Regular reporting requirements on SOE sector are implemented
		SOE sector web-page developed and operational
	<p><b>OWNERSHIP POLICY &amp; CORPORATE GOVERNANCE STANDARDS</b> Strategic objectives and principles of SOEs management and its short- and long-term targets and key principles of corporate governance in SOEs developed based on OECD Guidelines and the best foreign practices</p>	Law on corporate governance and mechanisms of appointing Independent Board members is adopted
		Supervisory Boards in unitary enterprises are established
		Code of Corporate governance is implemented
		Corporatization of SOEs is conducted
		Strategic planning standards improved
		Clear objectives for SOEs are set
		Management system of non-commercial activities of SOEs is implemented
	<p><b>NOMINATION AND REMUNERATION</b> CEOs are nominated with transparent procedure and proper incentives plans that help to align owners and management interests developed to prevent embezzlement</p>	Nomination procedure for CEOs and Board Members implemented
		Remuneration Policy of CEOs and Board members is implemented
		Management selection and remuneration procedure is implemented
	<p><b>PRIVATIZATION &amp; RESTRUCTURING</b> Transparency and credibility of privatization process is increased. SOE portfolio is restructured</p>	Privatization list and changes to law on privatization allowing hiring advisors are approved
		Restructuring of unprofitable and unpromising SOEs is conducted
All loss-making SOEs with no turnaround potential are liquidated		

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents:

Sustainable development Strategy “Ukraine 2020”; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



# STATE OWNED ENTERPRISE GOVERNANCE REFORM

## What has been achieved:

### More stringent information disclosure requirements for state-owned enterprises introduced

- Methodological Recommendations to Ensure Transparent Operation of Business Entities of the Public Sector of Economy approved (Order of the Ministry of Economic Development and Trade # 116 of February 11, 2015). Recommendations stipulate that central and local governments, other authorities managing objects in public ownership, and business entities in the public sector publish annual consolidated financial statements.

### Analytical reports of the Ministry of Economic Development and Trade on the operation of state-owned enterprises prepared

- The first analytical report for the year 2013 and 9 months of 2014 (on top-100 enterprises) published in English and Ukrainian. 2014 analytical report published in English. Q1 and Q2 2015 analytical reports published in Ukrainian.

### Requirements for audit of financial statements by independent auditors and financial planning intensified

- Resolution of the Cabinet of Ministers On Some Issues of Audit of Business Entities of the Public Sector of Economy # 390 of June 4, 2015 adopted. The Resolution sets out criteria for engaging audit firms in auditing state-owned enterprises and determines what public sector entities are subject to audit.
- Of 150 largest state-owned enterprises, 19 have already had their financial statements audited in line with the criteria prescribed by CMU Resolution # 390; accounts of 21 companies for the year 2015 are to be audited.

- Order of the Ministry of Economic Development and Trade to review the methodology for the preparation of financial plans stating the Action Plan to Improve State-Owned Enterprise Performance approved.

### Introduction of supervisory boards and independent directors

- Law of Ukraine No. 3062 to improve corpo-

*Concept of a national holding company developed based on the best international practices and OECD guidelines.*

rate governance in state-owned enterprises (by introducing supervisory boards and independent directors into unitary state-owned and municipal enterprises, mandatory independent audit and more stringent information disclosure requirements) passed through first reading in the Verkhovna Rada. The Law is currently being reviewed by the relevant parliamentary committee and is to be submitted for a second reading.

- Ministry of Economic Development and Trade has been coordinating fulfilment of the Action Plan to Reform Corporate Governance at National Joint Stock Company Naftogaz of Ukraine. 1st phase completed: Ministry of Economic Development placed in charge of managing 100 percent of government-owned shares in Naftogaz of Ukraine under a CMU Resolution, new Charter approved, Supervisory Board set up and appointment procedure concerning its members approved.

### Transparent appointment of state-owned enterprise executives and market pay

- Procedure for the appointment of executives of the largest state-owned enterprises updated by approving amendments to CMU Resolution On Competitive Selection of Chief

Executive Officers of Business Entities of the Public Sector of Economy # 777 of September 3, 2008. The Resolution sets forth the procedure for competitive selection of executives of public sector entities, providing, in particular, for transparency (enabling mass media to attend meetings of the selection board). In addition, the Ministry of Economic Development is to set up an Appointment Committee to select executives of enterprises crucial for the national economy.

- The Committee selected new executives for 9 state-owned enterprises (PJSC Ukgasbank, PJSC Ukgazvydobuvannia, PJSC Ukrnafta,

PJSC State Food and Grain Corporation of Ukraine, PJSC Ukrtransnafta, SOE Boryspil International Airport, SOE Lviv Danylo Halytskyi International Airport, PJSC

*List of 345 SOEs that may undergo privatization in 2015 approved*

Sumykhimprom) (6 already appointed). Competitive selection process is underway for 8 SOEs (SOE Ukrinterenergo, SOE Regional Electric Network, SOE Ukrspirt, SOE Ukrposhta (blocked by the court), SOE NEC Ukrenergo, PJSC Centrenergo, SOE Elektrozazhmash).

- 98 enterprises (of which 42 belong to the Ministry of Economic Development) had their executives replaced, selection underway for 70 enterprises.
- CMU Resolution On Conditions and Rates of Remuneration for Executives of Public and Municipal Enterprises and Associations of State-Owned Enterprises # 859 providing for market rate of pay for executives of state-owned enterprises adopted and published (in line with the principles of European Commission).

### Setting clear profiles and special obligations of state-owned companies

- State enterprises were divided into three groups (purely commercial, commercial and strategic and purely strategic). Clear operational profiles are necessary to better determine the efficiency of the management performance and improve accountability. It is often the case that business entities perform commercial and non-commercial (social and economic) functions. In such cases their financial statements must be disclosed and contain exhaustive information about the scope of vital social activities.
- Draft law on setting clear objectives for 100 largest state-owned enterprises prepared to be sent for review by government authorities.
- Methodology for collection, oversight and management of state-owned enterprise special obligations developed. It stipulates that the Ministry of Economic Development and Trade acting on behalf of the government sets commercial, strategic and/or special objectives for individual types of enterprises and oversees their achievement.

### Developing the procedure for delineation of commercial and non-commercial activities of state-owned enterprises

- Preliminary analysis of special obligations of the government (commercial and non-commercial operations, regulated pricing) to define market and non-market activities performed.
- Methodology for delineation of SOEs' commercial and non-commercial operations developed and submitted to independent auditors and international experts for review, and to government agencies for approval. Comments and observations collected.



# STATE OWNED ENTERPRISE GOVERNANCE REFORM

## **Analysis of the existing portfolio of state-owned enterprises to set out their restructuring strategy**

- Resolution of the Cabinet of Ministers On Approval of the Procedure for Transformation of State-Owned Unitary Commercial Enterprise into Joint Stock Company # 761 to improve corporate governance and management of state-owned enterprises, increase transparency of their operations and enhance standards for disclosure of information about their financial and business activities approved.
- List of 10 enterprises to be transformed into joint stock companies and a relevant transformation schedule approved. List of additional 23 enterprises is being prepared for the Cabinet's approval.
- CMU instruction and resolution on the development of restructuring plans for 13 state-owned enterprises facing major fiscal risks adopted. Five plans obtained, analyzed and returned for refinement.
- It is planned to hand over all non-operating state-owned enterprises (more than 1,300) to the State Property Fund of Ukraine for liquidation. A structural unit is to be set up within the State Property Fund to that effect.

## **Setting up a national holding company to manage 20-30 largest state-owned enterprises**

- The national holding company will help address the sectoral ministries' conflicts of interest arising due to concentration of SOEs control and regulatory functions, make state-owned enterprises less susceptible to political influence and improve their governance through the engagement of professional managers.
- The Ministry of Economic Development elaborated the concept of a national holding company based on international best practices and OECD guidelines.

- In addition, draft resolution of the Cabinet of Ministers on the establishment of a holding company setting out a preliminary list of state-owned enterprises to be governed thereby was developed and sent to other ministries for review.

## **Privatization of non-strategic state-owned enterprises**

- Resolution of the Cabinet of Ministers On Transparent and Competitive Privatization in 2015 # 271 of May 12, 2015. Ongoing state ownership of some enterprises seems economically unfeasible in order to optimize the public sector and attract private investment.
- Several draft laws to exclude state-owned distilleries and seaports from the list of SOEs not subject to privatization introduced to the Verkhovna Rada. To improve management quality, restructure state-owned distilleries and seaports, concentrate specialized assets, and attract investors and business partners.
- The Cabinet of Ministers approved the list of state-owned enterprises not subject to privatization (913 SOEs) and introduced it to the Verkhovna Rada for approval (Draft Law # 1567) to provide for a competitive sale of assets and protect de-listed enterprises from extra-privatization liquidation and property disposition procedures, in particular via bankruptcy proceedings.
- By its Resolution # 1028-p of September 23, 2015 the Cabinet of Ministers approved the list of investment-attractive enterprises for sale, privatization of which may involve advisors (PJSC Centrenerg, PJSC Odesa Portside Plant, JSC Kharkivoblenergo, OJSC Zaporizhzhyaoblenergo, PJSC Mykolaivoblenergo, PJSC Khemlnytskyoblenergo, OJSC Ternopiloblenergo, SOE Dnipropetrovsk Scientific and Production Complex Electrovozbudubannia, PJSC Sumykhimprom) in order to maximize budget revenue and carry out transparent pri-

vatization of the most important entities.

## **Inspection of financial and business activities of Top-20 state-owned enterprises initiated**

- Inspection of 9 SOEs got underway, 6 SOEs have been scheduled for inspection in early 2016. Four SOEs have already been inspected to increase transparency, uncover corruption schemes and obtain reliable information to make respective management and personnel decisions.

## **Privatization of non-strategic state-owned enterprises**

- In February 2016, Verkhovna Rada has past Draft Law # 2319zh in first reading.
- Draft Law On Amendments to Some Laws of Ukraine (to Clarify Certain Provisions) # 2319zh envisages the introduction of transparent privatization procedures, non-admittance of buyers registered in a country recognized by the Verkhovna Rada of Ukraine as an aggressor state or state against which sanctions are imposed to privatization process, and abolishment of the requirement to offer 5-10 percent stakes in joint stock companies for sale through stock exchanges.

## **What has not been achieved:**

## **Analysis of the existing portfolio of state-owned enterprises to set out their restructuring strategy**

- In January 2016, prepared and submitted for approval detailed restructuring plans in respect of 5 enterprises. (structural beacon set by the IMF).

## **What needs to be done to catch up or accelerate reform:**

- Hold a number of meetings with factions of

the Verkhovna Rada to explain the proposed amendments to draft laws.

- Redraft and refine restructuring plans in line with the IMF requirements.



# STATE OWNED ENTERPRISE GOVERNANCE REFORM



## STRATEGY

Strategy for Improving the Efficiency of State-Owned Enterprises approved



## CORPORATE GOVERNANCE

Draft Law On Supervisory Boards of Unitary State-Owned Enterprises passed through first reading

New procedure for competitive selection of SOEs' chief executives through Appointment Committees introduced

Market-level compensation for SOEs' chief executives introduced

Concept and model of a National Holding Company developed

Training for 50 General Directors of the largest SOEs with Kyiv School of Economics



## PRIVATIZATION

Draft laws concerning shortening the list of state-owned companies not subject to privatization introduced to the Verkhovna Rada

Methodology for the engagement of advisors to the privatization process introduced to the Verkhovna Rada

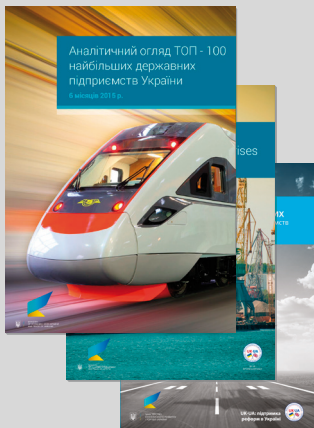
Initiative on abolishment of the requirement to sell 5-10 percent stake before privatization and prohibition of participation of capital from the Aggressor State in the privatization process introduced to the Verkhovna Rada



## AUDIT AND TRANSPARENCY

Financial statements of 780 SOEs published

International audit firms to audit financial statements of 150 largest SOEs



Reports on Ukraine's TOP-100 State-Owned Enterprises for 2013, 2014 and first half of 2015 published

### KEY ACHIEVEMENTS

**129**  
Ministry of Agrarian Policy and Food



**24**  
Ministry of Infrastructure

**92**  
Ministry of Economic Development and Trade

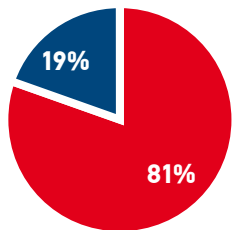
**32**  
Ministry of Energy and Coal Industry



# STATE OWNED ENTERPRISE GOVERNANCE REFORM

**83%**  
Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:  
■ NO CHANGES  
■ CHANGES EXIST

**TNS** Survey conducted by the TNS agency on a monthly basis.

Age of respondents: 18-55  
 Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

TASKS			
CMU Decree «On approval of the Strategy on improving the effectiveness of the entities in the public sector»	100%	Nomination Committee structure and procedure approved – MEDT Decree “On approval of principles of Nomination Committee”	100%
Guidelines on strategic planning and management are drafted	100%	Legislation on corporatization process of SOEs except fiscal enterprises changed. CMU Decree “On adoption of transformation process of state unitary commercial enterprise into joint stock company	100%
Preparation of the First Annual Report on SOE functioning	100%	Legislation on appointment of independent members for the Board of directors of especially important enterprises from the professional sphere (Association of professional directors) changed	70%
Communication Strategy on SOE Reform prepared	100%	Legislation on mandatory audit of financial accounts of SOEs changed – CMU Decree “On certain issues of conducting audit of SOE financial accounts”	100%
Appointment of management for SOEs of especially important enterprises through contest, based on business competence and appropriate motivation system	100%	Legislation on privatization process with involvement of advisors and preparation for sale of the privatization objects in accordance with best international practices changed – Law of Ukraine “On privatization of state property”	20%
		Necessary amendments to the Law of Ukraine “On the list of SOEs banned from privatization” (excluded more than 500 enterprises)	25%
		CMU Decree “On transparent and competitive privatization in 2015”	100%

OUTCOMES
Key financial information of the most important SOEs is now available at the web-site (TOP-100) – 4 analytical reports published
Number of CEOs of the most important SOEs (TOP-50) selected by the transparent procedure of the Nomination Committee and concluded contracts – 9 CEOs selected for 7 SOE's (procedure in progress)
Number of Supervisory boards which consist of independent directors among TOP-100 SOEs
21 SOE's agreed to conduct audits of financial accounts (according to Regulation 390)
In 2015 102 objects were privatized with total cost of UAH 145M (In 2014 – 100 objects with the total sum UAH 443M, in 2013 – 203 with the total cost UAH 1B 476M)

PERCEPTION
Business society trusts SOEs due to SOE Reform
Public society evaluates SOE reform



# AGRICULTURAL SECTOR REFORM

PURPOSE	STRATEGIC GOALS	OPERATIONAL GOALS
Competitive agricultural sector and developed rural areas	An enabling agricultural business environment established	An effective regulatory and legal framework compliant with EU standards set out
		Land reform implemented
		Conditions to increase the added-value in the agricultural sector established
		Meaningful taxation ensured
		Exports facilitated
	Effective regulation and governance put in place	Effective regulator introduced to the agricultural sector
		Agricultural science and education developed
		Environment and natural resources protected
		Ukraine's food security improved
	Rural areas developed	

Reform passport – a brief review of the reform, of its targets and expected results, based on the key strategic documents: Sustainable development Strategy “Ukraine 2020”; the Coalition agreement; the Program of the Ukrainian Government; the Association Agreement between the EU and Ukraine (including DCFTA); Ukraine – IMF Memorandum.



# AGRICULTURAL SECTOR REFORM

## What has been achieved:

- A procedure was instituted to appoint managers of publicly owned companies on an open and competitive basis only;
- The project for debt financing of current assets for

**Development of the Single Comprehensive Strategy for Agriculture and Rural Development in Ukraine 2015–2020 with support from the European Commission and more than 170 international and Ukrainian experts completed.**

farmers using agrarian receipts was successfully implemented in 4 oblasts (Poltava, Vinnytsia, Cherkasy, and Kharkiv);

- An Information Center started operating at the Ministry headquarters, with the purpose to provide the public with comprehensive information about the activities of the Ministry and its structural units, as well as consulting on several issues concerning registration of agricultural companies, procedure of business activities, foreign market penetration, green tourism, and other matters.
- Preferential VAT regime for agricultural companies was retained in 2015;
- Resolution of the Cabinet of Ministers No. 1 of January 14, 2015 was adopted, canceling the requirement for licensing of imported plant protection agents in 2015.
- Resolution of the Cabinet of Ministers No. 42 of January 28, 2015 was adopted:
  - The number of regulated items requiring a quarantine certificate was reduced;
  - Waiting period for issue of the quarantine and phytosanitary certificates was decreased from 5 days to 24 hours;
  - Procedure for registration of plant protection agents was improved;
- Law of Ukraine No. 191 of February 12, 2015:
  - Reduction of the list of material terms of a lease agreement;
  - No alienation of leased land possible without the owner's approval;
  - Minimum lease time for agricultural land set at 7 years;
  - Lease payment in monetary form;
  - Voluntary preparation of crop rotation design documents;
  - Excessive regulation of organic production eliminated;
  - 14 types of permits cancelled;
- Law of Ukraine No.222 of March 02, 2015:
  - License for trade in pesticides cancelled;
  - License for fumigation cancelled;

- License for trade in breeding resources cancelled;
- License for commercial fishing cancelled;
- License for land appraisal and land bidding activities cancelled.
- Law of Ukraine No. 247 of March 05, 2015:
  - Notaries allowed to register leases of agricultural land;
  - Documents may now be submitted in electronic form;
  - It became possible to simultaneously file documents for title to and lease of land.
- Law of Ukraine No. 87 of January 13, 2015:
  - Government support for small and medium-sized

**Licenses for trade in pesticides, fumigation, trade in breeding resources, commercial fishing, and appraisal and land auctions cancelled**

- agricultural manufacturers by removal of the minimum capacity required for animal farms and complexes to qualify for partial reimbursement of construction and renovation costs by the government;
- Law of Ukraine No.№287 of April 7, 2015:
  - Ukrainian law harmonized with EU legislation as regards the treatment of animal by-products;
- Law of Ukraine No.388 of May 12, 2015:
  - Privatization of land occupied by the melioration utility facilities prohibited.
- Law of Ukraine No.557 of June 30, 2015:
  - lease limit for lease contracts awarded through competitive bidding cancelled;
- Law of Ukraine No.617 of July 15, 2015:
  - waiting time for issue of a phytosanitary certificate reduced to 24 hours after the loading of the vehicle;
  - administrative burden in the area of plant quarantine decreased.
- Resolution of the Cabinet of Ministers of Ukraine No. 468 of July 08, 2015:
  - several outdated resolutions of the Council of Ministers of the Soviet Ukraine in agriculture cancelled.
- Law of Ukraine No. 834-VIII of November 26 On State Registration of Material Rights to Real Property and Encumbrances Thereon:
  - executive agencies of village, settlement, and city councils, as well as Kyiv and Sevastopol city state

administrations, district administrations, and state administrations of urban districts in Kyiv and Sevastopol, as well as other certified entities, are permitted to register title to and lease of land.

- Law of Ukraine No. 767-VII of November 10, 2015:
  - prohibition of agricultural land alienation extended till 2017.
- Resolution of the Cabinet of Ministers No. 897 of November 4, 2015:
  - Committee formation, bidding, and other procedures for state financial support in the agricultural sector through lower credit interest rates improved.
- Resolution of the Cabinet of Ministers No.916 of October 13, 2015:
  - requirement for veterinary documents for fodder-grade grain (form No. 2) cancelled.
- Resolution of the Cabinet of Ministers No.№992 of November 26, 2015:
  - new procedure for special operation of water bioresources approved.
  - Law of Ukraine №867-VIII of December 8, 2015.
    - Veterinary documents for animal fodder are to be received on a voluntary basis or when required by an importing country.
- Quarantine permit (for import or transit) cancelled.
- License for handling of especially hazardous substances and waste no longer required if such waste is transferred to a licensed party within one year.
- License for fishing within Ukrainian jurisdiction

**Moratorium on alienation of agricultural land extended until January 1, 2017**

- cancelled, along with cancellation and simplification of 5 more types of permits and procedures in the fishing sector.
- List of agricultural chemicals permitted for import to the customs territory of Ukraine, production, trade, and use without state registration, approved.
- Regulation of animal breeding significantly simplified, in particular by cancellation or simplification of 7 permits and procedures.
- Agricultural producers permitted to use ground water without special permit for subsurface resources.
- Law of Ukraine №864-VIII of December 8, 2015.
  - Procedures for registration of plant varieties, as

well as for certification and confirmation of seed conformity, improved and harmonized with the EU legislation.

- Draft Law of Ukraine on farming companies (No. 2028a of June 04, 2015, passed in the first reading)
  - procedure for incorporation of farming companies simplified, and the requirement for special training or work experience cancelled;
  - legal status of land plots for farming companies defined.
- Draft Law of Ukraine on animal by-products (2150a of June 23, 2015, passed in the first reading)
  - Ukrainian law concerning the treatment of animal-derived waste improved and harmonized with the EU legislation.
- Law of Ukraine №868-VIII of December 8, 2015.
  - Certification of food products, services, and management systems with the state certification system was deemed voluntary.
  - The provisions of the Decree of the Cabinet of Ministers of Ukraine On Standardization and Certification do not apply to mandatory certification of food products.

## What we failed to accomplish:

- Secure registration of the Government resolution providing for privatization of 86 state-owned agricultural companies this year, with 15 additional companies included on the list. Only 11 state-owned companies were transferred to the State Property Fund. Resolutions of the Verkhovna Rada or the Cabinet of Ministers are still pending for around 50 companies.

- The Verkhovna Rada did not pass the draft law No. 1159 for transfer of state-owned agricultural land into municipal property.

## Measures currently required to recover or speed up reform progress:

- Acquire funding that will help implement the reform program and properly compensate the teams implementing the reforms



# AGRICULTURAL SECTOR REFORM

## TRADE POLICY. FOREIGN MARKETS

01

Agricultural products supplied to more than **190** countries

02

**238** enterprises received permits to supply their products to the EU

03

Markets of **9** countries opened up for more than **80** meat and dairy enterprises

04

Export product range extended

05

Diversification of markets to overcome the effects of the Russian embargo. Russia's share in Ukraine's exports reduced to **2%**

## IMPROVEMENT OF THE BUSINESS ENVIRONMENT. COUNTERACTION OF CORRUPTION



Deregulation: **56** permits eliminated or streamlined, more than **50** legislative amendments introduced



**471** state-owned enterprises are ready to be denationalized and privatized. **11** state-owned enterprises handed over to the State Property Fund



Transparent government support. Financial decentralization underway: transparent tenders at the regional level



Equal conditions for access to government support enabled



Corruption in the agricultural sector reduced

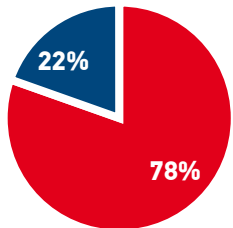


# AGRICULTURAL SECTOR REFORM

**81%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:  
■ NO CHANGES  
■ CHANGES EXIST

**TNS** Survey conducted by the TNS agency on a monthly basis.

Age of respondents: 18-55  
 Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

### TASKS

Development of a single and comprehensive agricultural strategy until 2020	100%	Reform in the field of food safety and quality. (Strategy)	100%	Determining the legal status and regulate the procedure of disposal of the collective land property and of the land whose owners have died.	30%
Deregulation of business activities in agricultural sector.	100%	Legislative regulation of transfer to communal ownership the land of state property outside the settlements, except for the land that has objects of state property on it.	30%	The transition from crop rotation control to the soil quality control.	100%
Privatization of state enterprises.	100%	Exclusion from the law of Ukraine norms that allow to acquire the right of agro-land lease on non-competitive basis; Promoting unity and self-organization of land owners (shares) to land consolidation.	0%	Development, approval and adoption of the concept of state support to farmers, small and medium agricultural producers.	70%
Promotion of domestic agricultural and food products to foreign markets.	100%	Implementation of cooperation programs with the IMF, World Bank, EBRD, EIB and other international financial institutions. (Program)	100%	Development, approval and adoption of a new tax system.	70%
Ensuring legislative regulation and practical implementation of financial instruments in agricultural market (agricultural receipts, futures and forward contracts, including those signed on the global commodity and stock markets).	100%	Simplification of procedures for registration of land lease, particularly by encouraging parties to notarize the land lease agreements;	100%	Development, approval and adoption of the Strategy to reform rural areas.	70%
		Strengthening the responsibility of the land lease parties, in case of failure to comply with agreement.	100%	Development, approval and adoption of the Strategy to reform fish industry.	100%
		Legislative securing of a minimum term to lease agricultural land.	100%	Development, approval and adoption of the Strategy to reform forestry.	70%
		Setting mandatory payment of the agricultural land rent exclusively in monetary form.	100%	Development of the Concept to reform agricultural science.	70%

### OUTCOMES

- Increase in foreign direct investment into the industry
- Increased agricultural exports (in monetary terms)
- Increase of employment in rural areas

### PERCEPTION

- Society determines the attractiveness of doing business and living in the countryside
- Society determines a significant increase in the quality and safety of Ukrainian food production
- An independent poll shows approval of reforms by market actors



# JUDICIAL REFORM

## What was accomplished:

- The Judicial Reform Council developed and approved the **Justice Sector Reform Strategy 2015 – 2020** (hereinafter - “the **Strategy**”), as well as the detailed Action Plan for implementation of its provisions
- The Strategy was approved by the Decree of the President of Ukraine on May 20, 2015; the Cabinet of Ministers was proposed to deter-

*The Judicial Reform Council drafted the bills aimed at reforming the system of execution of judgments, which were passed by the Verkhovna Rada of Ukraine in the first reading*

- mine the mechanism for implementation of the Action Plan and provide information on implementation progress on regular basis
- The adopted Law of Ukraine “**On Ensuring the Right to a Fair Trial**” provides for:
    - A mechanism for cleansing the judicial house, in particular by qualification evaluation of all judges to verify their competence, integrity and professional ethics
    - Implementation of the **judge’s dossier** accumulating official information about the judge’s professional activities
    - New transparent rules for the formation of the High Council of Justice and the High Qualification Commission of Judges of Ukraine
    - Improvement of the judges’ selection process and strengthening professional requirements
    - Exclusively competitive procedures for ap-

*The Judicial Reform Council drafted the amendments to the Civil Procedural Code, Commercial Procedural Code and Administrative Justice Code; public and expert discussions of such amendments are in progress*

- pointment and transfer of judges
- Implementation of effective mechanisms for disciplinary proceedings against judges
- Recovering the role of the Supreme Court of Ukraine as the supreme judicial body in the court system
- Selection and competitive appointment of the members of the High Council of Justice and the High Qualification Commission of Judges of Ukraine conducted in accordance with the new rules based on the principles of the rule

- of law, transparency and political neutrality
- The Judicial Reform Council drafted the amendments to the Civil Procedural Code, Commercial Procedural Code and Administrative Justice Code; public and expert discussions of such amendments are in progress
- The Judicial Reform Council drafted the bills aimed at reforming the system of execution of judgments, which were passed by the Verkhovna Rada of Ukraine in the first reading
- The Judicial Reform Council drafted and the President of Ukraine submitted to the Verkhovna Rada of Ukraine draft laws on electronic writ proceedings and on the system of automatic seizure of funds in civil and commercial proceedings
- The Council of Judges of Ukraine developed and approved the Regulation on the procedure for maintenance of a judge’s dossier
- The State Judicial Administration is preparing the judges’ dossiers
- The High Qualification Commission of Judges adopted a Regu-

- lation on the **procedure and methodology for qualification evaluation of judges** and a Regulation on the procedure of examination during the judge’s qualification evaluation
- The Council of Judges of Ukraine approved the Regulation on the procedure and methodology for qualification evaluation of judges and a Regulation on the procedure of examination during the judge’s qualification evaluation
- The draft Law on amending some laws of Ukraine for improvement of legislative provisions on justice (in particular, concerning the qualification evaluation of judges) was developed and submitted to the Verkhovna Rada
- The Judicial Reform Council is finalizing the draft Law “On amending the Law of Ukraine “**On the Bar**”, which is going through public and expert discussions

## What we failed to accomplish:

- The mechanism for implementation of the Action Plan pursuant to the provisions of the

*The Judicial Reform Council is finalizing the draft Law “On amending the Law of Ukraine “On the Bar”, which is going through public and expert discussions*

- Justice Sector Reform Strategy 2015–2020
- The High Qualification Commission of Judges of Ukraine was unable to commence the evaluation of the Supreme Court and high specialized court judges due to the Council of Judges’ failure to approve the Regulation on the procedure and methodology for qualification evaluation of judges on time

## Measures currently required to recover or speed up reform progress:

- After the Law of Ukraine “On Judiciary and Status of Judges” is amended, the High Qualification Commission of Judges is to **initiate the qualification evaluation of judges** of the Supreme Court of Ukraine and high specialized courts
- The Cabinet of Ministers of Ukraine is to take measures to ensure proper performance of the Action Plan for implementation of the provisions of the Justice Sector Reform Strategy 2015-2020 by its subordinated agencies
- The Judicial Reform Council is to prepare the project for **structural optimization** of the judicial system
- The Judicial Reform Council is to complete the public and expert discussions of amendments to the Civil Procedural Code, Commercial Procedural Code and Administrative Justice Code
- The Judicial Reform Council is to complete the draft of the Law “On amending the Law of Ukraine “**On the Bar**” as well as complete public and expert discussions of the indicated draft



# JUDICIAL REFORM



## JUDICIAL REFORM



### Amendments to the Constitution of Ukraine on justice

- Ensuring depoliticization and independence of the judiciary
- Ensuring mechanisms for renewal of the judiciary (evaluation of judges, reorganization of the courts where required)
- Ensuring prosecution functions in line with European standards

**PLACED ON THE PARLIAMENTARY AGENDA, POSITIVE CONCLUSION OF THE CONSTITUTIONAL COURT OF UKRAINE**



#### Civil Procedure Code, Commercial Procedure Code, Administrative Procedure Code

- Ensuring the efficiency of justice, legal certainty and finality of judgements
- Ensuring equal application of the law
- Introducing electronic litigation

**DEVELOPED, PUBLIC CONSULTATION UNDERWAY**



#### Draft laws on electronic writ proceedings and automated seizure of funds

- Setting up an electronic writ proceedings system and automated bank account seizure system
- Reducing the caseload on the judiciary
- Providing of prompt seizure of funds in bank accounts

**INTRODUCED TO PARLIAMENT**



#### Amendments to legislation relating to the Bar

- Setting up a unified, self-regulated professional Bar
- Empowering members of the Bar and increasing their responsibility
- Setting high professional and ethical standards

**REFINEMENT AND PUBLIC CONSULTATION UNDERWAY**



#### Amendments to the system of execution of judgements

- Improving the efficiency of judgement enforcement agencies and officers
- Introducing the concept of private enforcement officers
- Setting up an open Unified Register of Debtors

**PASSED THROUGH FIRST READING**

## Renewal of the Judiciary



#### High Council of Justice and High Qualification Commission of Judges as the bodies responsible for judicial careers and renewal of the judiciary

**FORMED, PERFORMING WELL**



#### Prospective legislation for renewal of the judiciary

- Regulation of the evaluation of judges
- Regulation of judge dossiers' maintenance
- Regulation of qualification examinations

**DEVELOPED, APPROVED**



#### Judge dossiers

- Dossiers of judges of Supreme Court and high specialized courts put together
- Creation of dossiers on judges of courts of appeal and courts of first instance underway

**IN PROGRESS**

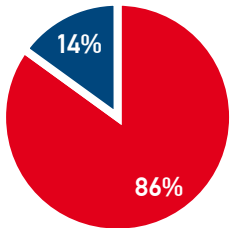


# JUDICIAL REFORM

## 70%

Progress in Tasks completion for 2015

### REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST



Age of respondents: 18-55  
 Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

## TASKS

Drafting and adoption of Justice Sector Reform Strategy 2015 – 2020 and its Action Plan 100%

Drafting and adoption of the Bill "On Ensuring the Right to a Fair Trial" 100%

New principles of formation and empowering agencies responsible for formation and renewal of the judiciary (High Council of Justice and High Qualification Commission of Judges) 100%

Regulation of the procedures of qualification evaluation of judges 90%

Renewal of the judicial staff 0%

Amendments to the procedural laws 65%

Implementation of e-justice 50%

Renewal of the legislation of the system of execution of judgments 80%

Amendments to the legislation on the Bar 45%

## OUTCOMES

Providing free legal aid in at least 10% of civil cases

Providing free legal aid in at least 20% of administrative cases

Improvement of Ukraine ranking in the World Economic Forum (WEF) Global Competitiveness Report rating

Improvement of Ukraine ranking in Governance Indicators rating (Rule of Law Index (World Bank Institute))

Покращення оцінки України в рейтингу World Justice Project (Rule of Law Index)

Improvement of Ukraine ranking in the World Justice Project rating (Rule of Law Index)

Improvement of Ukraine ranking in the WB Doing Business Index rating

## PERCEPTION

Results of surveys to determine the level of user satisfaction (conducted by industry actors or external observers) indicates increase of public confidence in the administration of justice in general and in the effectiveness of legal aid, advocacy, judicial decisions' enforcers, notaries and alternative dispute resolution systems in particular

Results of surveys to determine the level of user satisfaction (conducted within the performance management system of the Prosecutor's office or external observers) indicates increase public confidence in the Prosecutor's Office in particular and / or criminal justice in general

The Ukrainian population's level of trust in the judicial system (TNS) 15%

### SCORECARD

IN TIME RISK ZONE OUT OF TIMING



# CONSTITUTIONAL REFORM

## What was accomplished:

- **The Constitutional Commission** which was established by the Decree of the President of Ukraine developed amendments to the Constitution of Ukraine in the following areas: decentralization, justice and human rights

*Draft amendments to the Constitution of Ukraine concerning decentralization of power passed through first reading in the Verkhovna Rada*

- **Draft amendments to the Constitution of Ukraine on Decentralization:**
  - approved by the Constitutional Commission
  - received a **positive Opinion from the Venice Commission**
  - received a positive conclusion of the Constitutional Court of Ukraine (conformity with articles 157 and 158 of the Constitution of Ukraine)
  - passed by the Verkhovna Rada of Ukraine in the first reading
- **Draft amendments to the Constitution of Ukraine on Justice:**
  - received a positive preliminary opinion from the Venice Commission
  - improved in accordance with the recommendations of the Venice Commission as well as public and expert discussions
  - received a **positive Final Opinion from the Venice Commission**
  - approved by the Constitutional Commission
  - endorsed by the National Reform Council
  - **submitted by the President of Ukraine to the Verkhovna Rada of Ukraine on November 25, 2015**
  - on December 22, 2015, the Verkhovna Rada of Ukraine included the draft law on the

agenda of the 3<sup>rd</sup> parliamentary session and submitted it to the Constitutional Court for evaluation of its conformity with articles 157 and 158 of the Constitution of Ukraine

- the Venice Commission adopted the Memorandum on the Compatibility of the Draft Law of Ukraine on Amending the Constitution of Ukraine (on Justice) with the Final Opinion of the Venice Commission;
- on 22<sup>nd</sup> of January the Constitutional Court issued a positive conclusion on the Draft Law of Ukraine on Amending the Constitution of Ukraine (on Justice), which stated that it conforms with articles 157 and 158 of the Constitution of Ukraine

- The amendments to the Constitution of Ukraine as regards decentralization and justice fully **conform with European standards**

- **Draft amendments to the Constitution of Ukraine on Human Rights:**
  - developed by the Human Rights Task Group
  - public and expert discussions of the draft amendments to the Constitution of Ukraine on human rights are in progress.

- The draft amendments to the Constitution of Ukraine on decentralization and draft amendments to the Constitution of Ukraine on justice went through large-scale **public and expert discussions**, in particular at the regional level

- **The Venice Commission gave its positive Final Opinion regarding the draft amendments to the Constitution of Ukraine (on Justice)**, with a comment

*On January, 2016 the Constitutional Court issued a positive conclusion on the Draft Law of Ukraine on Amending the Constitution of Ukraine (on Justice), which stated that it conforms with articles 157 and 158 of the Constitution of Ukraine*

that *“the latest version of the constitutional amendments is very positive and well-drafted, and deserves to be fully supported”*.

## What we failed to accomplish:

Everything is going according to the plan.

## Measures currently required to recover or speed up reform progress:

- The Verkhovna Rada of Ukraine is to approve the Draft Law of Ukraine on Amending the Constitution of Ukraine (on Justice) not later than January 2016 and finally adopt it not later than March 2016;
- The Verkhovna Rada of Ukraine is to adopt the Draft Law of Ukraine on Amending the Constitution of Ukraine (on Decentralization);

*The Venice Commission rendered a positive opinion on Draft Amendments to the Constitution of Ukraine On Justice. In the view of the Venice Commission, the latest version of constitutional amendments is very positive and well-drafted, and deserves to be fully supported.*

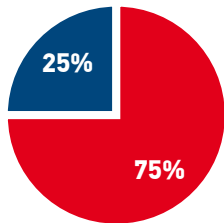


# CONSTITUTIONAL REFORM

**68%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST



Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

## TASKS

(As to Decentralization) Inclusive and transparent dialog of all stakeholders (civil society, authorities) on the amendments to the Constitution ensured	100%	(As to Judiciary) Amendments to the Constitution are adopted in first reading	0%
(As to Decentralization) Venice Commission positive opinion has been received, Constitutional Court positive conclusion has been received	100%	(As to Human Rights) Inclusive and transparent dialog of all stakeholders (civil society, authorities) on the amendments to the Constitution ensured	85%
(As to Decentralization) Amendments to the Constitution are adopted	50%	(As to Human Rights) Venice Commission positive opinion has been received, Constitutional Court positive conclusion has been received	10%
(As to Judiciary) Inclusive and transparent dialog of all stakeholders (civil society, authorities) on the amendments to the Constitution ensured	100%		
(As to Judiciary) Venice Commission positive opinion has been received, Constitutional Court positive conclusion has been received	100%		

## OUTCOMES

Redistribution of GDP through a central budget
Democracy Index according to The Economist Intelligence Unit

## PERCEPTION

The level of trust to the Parliament (TNS)	10%
The level of trust to CMU (TNS)	12%
The level of trust to the President	
The level of trust to the CCU/SCU	
The level of trust to local authorities (TNS)	28%
The level of trust to political parties	



# NATIONAL SECURITY AND DEFENCE REFORM

Last year saw not only efforts to establish a modern national security system and a powerful defence sector, but also the formulation of a strategic vision for the sphere. For the first time in independent Ukraine's history, the National Security Strategy 2015 identified the need to maintain annual defence and security spending of at least 5% of GDP, of which 3% of GDP is to be spent on defence in line with the Military Doctrine 2015. Laws on the State Budget of Ukraine for 2015 and 2016 were consistent with this goal.

Mindful of the long-term nature of the Russian hybrid aggression against Ukraine and disruption of the world order and the system of international security if put in a broader perspective, 2015 also saw updates of security and defence strategic planning documents. During the course of 2015 the following steps were taken to enable national security and defence reform in line with the Ukraine 2020 Strategy for Sustainable Development approved by Decree of the President of Ukraine # 5 of January 12, 2015:

## 1. The system of strategic documents of the Security and Defense planning entirely updated:

- new National Security Strategy of Ukraine approved by Decree of the President of Ukraine # 287 of May 26, 2015;
- new Military Doctrine of Ukraine approved by Decree of the President of Ukraine # 555 of September 24, 2015;
- Security and Defence Sector Development Concept drafted (on December 23, 2015 the Cabinet of Ministers of Ukraine approved the Draft Decree of the President of Ukraine On Resolution of the National Security and Defence Council On Security and Defence Sector Development Concept, and submitted to the President of Ukraine for consideration);
- refinement of Strategic Defence Bulletin with support from NATO underway;
- State Target Defence Program for Development of Weapons and Military Equipment of the Armed Forces of Ukraine until 2020 drafted and submitted to the Cabinet of Ministers of Ukraine for review on November 4, 2015;
- Program for Improving Defence Capacity of the State and Meeting the Immediate Needs of the Armed Forces of Ukraine approved (CMU Resolution dated July 22, 2015);
- Program for Improving Defence Capacity and Security of the State and Meeting the Immediate Needs of the National Guard of Ukraine for 2015 approved (CMU Resolution dated November 11, 2015);
- Program for Improving Defence Capacity and Security of the State in Terms of Building an Improved Maritime Picture approved (CMU Resolution dated October 7, 2015).

- State Target Defence Program for Optimization and Restructuring of the Armed Forces of Ukraine for 2015-2017 drafted and submitted to the Cabinet of Ministers of Ukraine for review on June 9, 2015;
- Concept of the State Target Program for Development of the National Guard of Ukraine to 2024 drafted;
- Military Medical Doctrine of Ukraine drafted (approved at CMU meeting held on December 23, 2015);
- National Cyber Security Strategy drafted;
- Law Enforcement Agencies Reform Plan drafted, which had a major role to play in receiving a positive opinion from the European Commission on Ukraine's Report on Completion of the 2nd Phase of Implementation of the Visa Liberalization Action Plan.

## 2. Improvement of legislative support to national security policy underway:

- Law of Ukraine On National Guard of Ukraine (as amended) adopted;
- Law of Ukraine On Legal Regime of Martial Law (as amended) adopted;
- Law of Ukraine On Amendments to Law of Ukraine On the Armed Forces of Ukraine and Law of Ukraine On Defence of Ukraine (Concerning Engagement of the Armed Forces of Ukraine in Civil-Military Cooperation) adopted;
- Law of Ukraine On Amendments to Some Laws of Ukraine Concerning National Security (to Law of Ukraine On Defence of Ukraine to Clarify Certain Definitions, Functions and Tasks of the Ministry of Defence of Ukraine and the General Staff), as well as Concerning the Establishment of Separate Branches within the Armed Forces of Ukraine, adopted;
- Law of Ukraine On State Service of Special Communication and Information Protection amended;
- Law of Ukraine On National Police of Ukraine, Law of Ukraine On State Bureau of Investigations and Law of Ukraine On Amendments to Criminal Procedure Code of Ukraine Concerning Division of Jurisdiction adopted;
- Draft Law of Ukraine On National Security, initiating the process of codification of Ukrainian national defence and security legislation, as well as Draft Law of Ukraine On Fundamentals of National Security of Ukraine (as amended), Draft Law of Ukraine On Planning in Defence and Security Sector of Ukraine, Draft Law of Ukraine On Civil Democratic Control in Defence and Security Sector and Draft Law of Ukraine On Amendments to Law of Ukraine On Defence of Ukraine and Law of Ukraine On Mobilization Training and Mobilization developed;
- Draft Law of Ukraine On Electronic Communications approved (at the government session);
- Draft Law of Ukraine On Amendments to Certain

Legislative Acts of Ukraine Concerning Engineering and Transport Support to Defence of Ukraine in Peacetime and During the Special Period developed and undergoing approval;

3. Mechanism to **coordinate the operation of components of defence and security sector** improved. War Cabinet under the National Security and Defence Council of Ukraine and Situational Center of Ukraine under whose guidance the network of situational centers of Ukraine's security and defence sector agencies undergoes active formation.

## 4. Practical cooperation with the North Atlantic Alliance and efforts to introduce NATO standards to Ukraine's defence and security sector intensified:

- 5 agreements on NATO standards (STANAG) signed;
- Agreement for Cooperation within NATO-Ukraine Logistics and Standardization Trust Fund between the Ministry of Defence of Ukraine and NATO drafted;
- Roadmap for Standardization Reforms in Defence Industry for 2015-2018 developed;
- 12 military standards developed based on 11 NATO standards;
- Roadmap on Strategic Communications Partnership between National Security and Defence Council of Ukraine and NATO International Secretariat (between Secretary of the National Security and Defence Council of Ukraine and NATO Secretary General) signed on September 22, 2015;
- five Trust Funds established, experts from NATO Member States engaged in the development of security and defence sector.

Fruitful cooperation with RAND Corporation, one of the world's premier security and defense consulting firms, established. Draft defence reform approval process is underway.

5. **Reform of law enforcement system**, forming an integral part of the national security policy, is underway. Civil Ministry of Internal Affairs, National Police and National Anti-Corruption Bureau set up; establishment of the National Bureau of Investigation and National Agency for Prevention of Corruption is underway; reforms of prosecution authorities, border guard service and emergency prevention and response system continue.

6. Reform of **intelligence agencies** set in motion: the United Intelligence Committee under the President of Ukraine established, National Intelligence Program to 2020 developed, military intelligence service undergoes restructuring. Development of the imagery transmission system to meet the needs of intelligence agencies, Armed Forces of Ukraine and security and defence sector agencies is nearing completion.

7. Development of **security and defence sector agencies strategic communications system** set in motion. The system envisages coordinated

and proper use of communications such as public diplomacy, public relations, military communications, information and psychological operations, and efforts aimed at promoting the interests of the state.

## 8. Systemic measures are underway to provide information and cyber security:

- State Center for Cyber Security and Counteraction to Cyber Threats set up;
- modernization of the state system of government communications set in motion;
- National Center for Operation and Maintenance of Telecommunications Networks of Ukraine is being set up;
- the project of setting up the National System of Confidential Communications of Special Purpose Telecommunications Network and National Network of Protected Mobile Government and Military Communications launched;
- more than 50 national standards for cryptographic protection of information harmonized with European and international standards;
- broadcasting of Ukrainian television and radio channels on temporarily occupied territories in Eastern Ukraine is being restored;
- state-run enterprise Ukrspetsvziazok set up (CMU Resolution dated July 8, 2015);
- Action Plan for Implementation of Certain European Laws on Telecommunications adopted (CMU Resolution dated April 15, 2015);
- 2015 Priority Action Plan to Set Up a National Network of Mobile Communications for Government Authorities adopted (CMU Resolution dated May 20, 2015);
- Action Plan for Implementation of 4G Mobile Communication System adopted (CMU Resolution dated November 11, 2015).

9. The National Security Strategy 2015 identified the need to maintain **Ukraine's defence and security spending** of at least 5% of GDP annually, of which 3% of GDP is to be spent on defence in line with the Military Doctrine 2015. Laws on the State Budget of Ukraine for 2015 and 2016 are consistent with this goal.

## What has not been achieved:

- Slow progress in reviewing the fundamentals of territorial defence of Ukraine envisaging active involvement of military forces.

## What needs to be done now to catch up on or accelerate the reform:

- Speed up reform of the Armed Forces and underpin public confidence.
- Step up the pace of institutional reform of the Ministry of Defence and the General Staff of the Armed Forces of Ukraine.

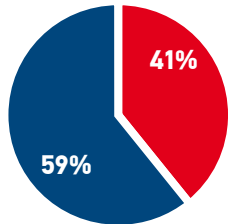


# NATIONAL SECURITY AND DEFENCE REFORM

**63%**

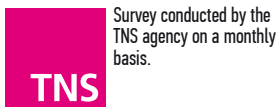
Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:

- NO CHANGES
- CHANGES EXIST



Age of respondents: 18-55  
Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

## TASKS

Development and adoption of the revised National Security Strategy of Ukraine	100%	Development and adoption of draft law «On civil democratic control of defence and security sector of Ukraine»	50%	Development and adoption of draft amendments to the Law of Ukraine «On counter-intelligence activities»	75%	Development and adoption of draft amendments to the Law of Ukraine «On State protection»	75%	The development of a separate procedure for application of the Law of Ukraine «On Government cleansing» for employees of intelligence agencies of Ukraine	100%
Development and adoption of the revised Military Doctrine of Ukraine (Ukraine Military Security Strategy)	100%	Development and adoption of the Information Security Concept	50%	Development and adoption of draft amendments to the Law of Ukraine «On operational investigative activity»	100%	Development and adoption of draft amendments to the Law of Ukraine «On state secret»	75%	Amendments to the Law of Ukraine «On Government cleansing» to establish a separate mechanism of action for power cleansing in counterintelligence agencies in Ukraine	0%
Development and adoption of Security and Defence Sector Concept of Ukraine	50%	Development and adoption of the Cyber Security Concept	75%	Development and adoption of draft amendments to the Law «On Security Service of Ukraine»	50%	Development and adoption of draft amendments to the Law of Ukraine «On diplomatic service»	0%	The adoption of the Cabinet of Ministers of Ukraine Resolution «On Approval of the Action Plan for the National Confidential mobile network of Ukraine»	100%
Development of public and state target programs of components of the security and defence of Ukraine	50%	Amendments to the Law of Ukraine «On Defence of Ukraine» and «On mobilization readiness and mobilization»	50%	Development and adoption of draft amendments to the Law of Ukraine «On the Foreign Intelligence Service of Ukraine»	100%	Development and adoption of the draft law «On safety of critical information»	50%	The adoption of the Decree of the President of Ukraine «On Approval of the Annual National Program of Ukraine's cooperation with NATO for 2015»	100%
Development and adoption of the draft law «On planning in defence and security sector of Ukraine»	50%	Development and adoption of the «National Intelligence Program» till 2020	75%	Development and adoption of draft amendments to the Law of Ukraine «On the State Border Service of Ukraine»	100%	Development and adoption of the Military-Medical Doctrine	50%	Adoption authority and composition of Interagency committee under the Cabinet of the Ministers of Ukraine on Defence Industrial Complex	100%
Development and adoption of the bill on amendments to the Law of Ukraine «On Ukraine's National Security Principals»	25%	Development and adoption of draft amendments to the Law of Ukraine «On intelligence activities»	85%	Development and adoption of draft amendments to the Law of Ukraine «On the National Guard of Ukraine»	50%	Development and adoption of the Maritime Doctrine	50%	The adoption of the Decree of the President of Ukraine «On the decision of the National Security and Defence of Ukraine «On Ukraine's Strategic Defence Bulletin (revised)»	50%

## SCORECARD

■ IN TIME ■ RISK ZONE ■ OUT OF TIMING



# NATIONAL SECURITY AND DEFENCE REFORM

TASKS				OUTCOMES		PERCEPTION							
Preparation of the legal framework and practical implementation of the NATO Trust Funds to promote Ukraine's defence	100%	NSDC administration reform in accordance with its responsibilities for strategic planning and forecasting to ensure national security	100%	Military commissariat number optimization . Military commissariats personnel upgrade by officers - combatants.	80%	Creation of an effective personnel reserve for acquisition of managerial positions in the Ministry of Defence and the Armed Forces of Ukraine, ensuring priority for ATD participants	100%	Optimization of the financial activities system of the State Concern «Ukroboronprom» to ensure the return of most of the funds from the sale of contracts for the production or supply of arms by the manufacturer to ensure their efficient operation and development	0%	Setting the level of spending on defence and law enforcement up to 5% of GDP each year	100%	Increasing the prestige of the military profession in society	0%
The development and adoption of a legal act to withdraw the State Special Transportation Service from the jurisdiction of the Ministry of Infrastructure and to include it to the Armed Forces of Ukraine	50%	The network of situation of security and defence sector agencies established	90%	State Unified Register for mandatory military service establishment	80%	Organization of military specialists' preparation in training centres in amounts that meet the needs of military units in combat trained personnel and ensure the establishment of military-trained reserve resource. Creating recruiting centres for volunteers	100%	The privatization of non-core assets of the Ministry of Defence and directing funds to the development fund	0%	Setting defence spending at least 3% of GDP annually	100%	Public trust in the Armed Forces of Ukraine	49%
The adoption of the Law of Ukraine «On Amendments to Laws of Ukraine «On Defence «	50%	Optimization of organizational structure and functions of the Ministry of Defence and the General Staff of the Armed Forces of Ukraine in accordance with the provisions of the Defence Ministry and the General Staff of the Armed Forces, eliminating duplication	100%	Increasing the allowance by increasing military salaries and the salary for military rank	50%	Adoption of the new military-administrative division of Ukraine and a new plan of deployment of the Armed Forces of Ukraine and the National Guard of Ukraine	50%	Development and adoption of draft law «On public-private partnership in the field of national security and defence»	0%	Creating a system of financial planning for the Armed Forces with the horizon 3-5 years	100%	The society estimates the reform of national defence and security as successful	59%
The adoption of the new Law of Ukraine «On legal regime of martial law»	100%	Armed Forces of Ukraine intelligence service structural and technical support renewal	100%	Amendments to the Law of Ukraine «On Military Duty and Military Service» and Regulation «On territorial defence of Ukraine» to accumulate human capacity of the Armed Forces of Ukraine by trained military personnel, who have gained experience in the tasks of antiterrorist operation	100%	On the basis of cantonments, formation of a system of autonomous military bases with the necessary infrastructure for location of military units and with the fund of service housing and social infrastructure for military personnel and their families.	50%	In order to form an effective system of territorial defence, liquidation of the Defence Promotion Society of Ukraine and the establishment on its material base of military-patriotic organization - Ukrainian military organization that would become the basis for the formation and training of forces for territorial defence. The adoption of the Law of Ukraine «On Ukrainian military organization»	0%	Discontinued military-technical cooperation with Russia	100%	The number of professional military officers is 5,6 for 1000 of citizens	0%
The development of concept of the reform of military education, including military training departments of civilian institutions. Organization of cooperation with NATO military educational institutions.	80%	Creation of Special Operations Forces, including: the Special Operations Forces Command, the definition of their objectives, organizational structure, system support and training	50%	Start a program for financing housing for military personnel	75%					Established military cooperation with NATO			
Development of the concept of import substitution in the military-industrial complex	25%	Ukraine's non block status abolishment and legal confirmation of NATO membership aspiration	100%	Amendments to the Law of Ukraine «On Personal Data Protection» to ensure the integration of public electronic information resources, databases and data banks	0%					The transition to NATO standards			



## COOPERATION WITH NATO

(Introducing NATO standards and best practices to Ukraine's defence and security sector)



### REFORM

- Draft Project for cooperation between MoD and NATO on reforming logistics system and standardization drafted
- Defence sector standardization system reform road map for 2015-2018 developed.

### PARTNERSHIP



- Cooperation with Rand Corporation established



- Roadmap on Strategic Communications Partnership between National Security and Defence Council and NATO International Secretariat signed

- 5 agreements on NATO standards (STANAG) signed
- 12 military standards developed



### COMMUNICATIONS

### STANDARDS



KEY ACHIEVEMENTS



# UKRAINE PROMOTION PROGRAM

## *What has been done to improve market access for Ukrainian exporters:*

- **June 2015** – protocol with Kazakhstan signed within the framework of its WTO accession. Conditions of access of Ukrainian goods to Kazakh markets improved. In addition, Kazakhstan lifted restrictions on a number of Ukrainian dairy producers (work is underway concerning others).
- **July 2015** – negotiations for a Free Trade Agreement between Canada and Ukraine completed. Preparation for signing and subsequent ratification of the agreement is underway. Substantial liberalization of access to Canadian market and increase in exports of Ukrainian products looks a real prospect.
- **July 2015** – eligibility of U.S. Generalized System of Preferences (GSP) in Ukraine restored. The opportunity is afforded for a duty-free treatment for about 3,500 products from Ukraine.
- **September 2015** – another three Ukrainian export products reverted back to the scope of GSP Program by US authorities.
- **October 2015** – **Development of the Na-**

## *The Verkhovna Rada of Ukraine ratified the WTO Agreement On Trade Facilitation*

tional Export Strategy and Action Plan for its Implementation for 2016-2020 aimed at highlighting the situation, challenges, prospective markets and basic steps to create an enabling environment for Ukrainian exporters is underway on the initiative of the Ministry of Economic Development and Trade of Ukraine. The Export Promotion Council at the Ministry of Economic Development and Trade established. The Council had its first meeting on October 15, 2015. Members of the Council

include both the representatives of the Ministry of Economic Development and Trade and the business community (Ukrainian exporting enterprises, international companies, and national sectoral associations).

- **November 2015** – Verkhovna Rada of Ukraine ratified the WTO Agreement on Trade Facilitation, which is a vital step to provide for an enabling foreign trade environment, support exporters and improve Ukraine's trade without barriers rating in international rankings.

## *What has been done within the field of trade protection:*

- Ukraine's Government presented its position concerning protection of Ukrainian manufacturer interests in trade investigations held in USA, Mexico, Egypt, EU, Pakistan, India, Turkey, and states of the Eurasian Economic Union.
- Access to EU markets on preferential conditions for certain Ukrainian products, which had been subject to trade restrictions, opened up.

- The World Trade Organization became a platform for robust efforts to create Ukraine's positive image as a

reliable trade partner and protect the national interests in line with the international trade law.

- On October 21, 2015 Ukraine filed its first request to the WTO for consultations with the Russian Federation concerning certain measures imposed by the Russian Federation on the importation of railway equipment (railcars and rolling stock, railway switches, etc.) and parts thereof.
- Ukraine joined international trade dispute

settlement proceedings on 11 cases as third party.

- Ukrainian export diversification to seek balance and become less dependent on a single trading partner (the Russian Federation) gained traction.

## *What has been done within the field of bilateral trade and economic cooperation:*

- **Promotional videos** developed as part of Ukraine's preparation for international forums: "Open for U" – investment and business potential of Ukraine; "Grow Ukraine" – agricultural potential; Reform video – progress of reforms; Energy & Energy Efficiency, Experience Ukraine – tourism potential; Transport Ukraine – transport potential.
- "Open for U" brochures and leaflets developed, translated into French, German, Chinese and Russian and distributed among Ukrainian embassies abroad.
- A brochure on the Free Trade Agreement between Canada and Ukraine: "New horizons for Ukrainian business" prepared.
- **Export Promotion Office** set up under the Ministry of Economic Development and Trade of Ukraine.
- **October 9 saw** Kazakh-Ukrainian business forum attended by about 300 representative of business circles including over 50 Ukrainian companies held in Astana as part of Ukrainian President Poroshenko's visit to the Republic of Kazakhstan.
- **October 16 saw the** meeting of the Working Group on Exports to the Republic of Belarus held as part of the MEDT Export Promotion Council's efforts. The meeting was aimed at tackling all problematic issues to be raised

*Export Promotion Council established at the Ministry of Economic Development and Trade. Members of the Council include both the representatives of the Ministry of Economic Development and Trade and businesses (Ukrainian exporting enterprises, international companies, and national sectoral associations)*

before Belarus and reaching common ground as to the negotiations with Belarusian representatives. Subsequent to the meeting, MEDT has actively embarked on import surcharge, individual licensing regime and other important export issues.

- **October 22 saw** Ukrainian delegation participate in the Ukrainian-German business forum, the biggest ever event in bilateral relations between Ukraine and Germany. During the forum, an Agreement was signed between the Government of Ukraine and the Government of the Federal Republic of Germany on the Establishment of a German-Ukrainian Chamber of Commerce and Industry to facilitate interaction between business circles of the two countries, promote mutual trade and seek new ways to introduce Ukrainian goods into European and German markets.
- **October 26 saw** U.S. Secretary of Commerce Penny Pritzker and representatives of the American business community visit Ukraine. During a roundtable meeting with members of the Government further areas of trade and investment cooperation were identified and the implementation status of economic reforms was discussed following up on the efforts initiated in July 2015 at the U.S.-Ukraine Business Forum.
- **October 27 saw** the VIII joint meeting of the Ukrainian-Italian Council for Economic, Industrial and Financial cooperation. The meeting resulted in the signing of the Memorandum of Understanding between the Ministry of Eco-



# UKRAINE PROMOTION PROGRAM

conomic Development and Trade of Ukraine and the Ministry of Economic Development of the Republic of Italy on SME cooperation.

- **October 30** saw a joint meeting of the High Level Working Group on Bilateral Trade with the Republic of Belarus. The meeting tackled a broad range of issues impeding mutual trade growth, in particular import surcharges, individual licensing regime, etc. Follow-up efforts to solve these problems also were on the meeting agenda.
- **December 10** saw the meeting of the Council of Exporters chaired by the Prime Minister and attended by more than 200 largest national exporters.
- **The October–December period** saw 8 meetings of the Council of Exporters addressing the meat and dairy industries, exports to the PRC, Iran, France, EU and Russia.
- **December 15–19, 2015** saw the WTO’s 10th Ministerial Conference held in Nairobi, Kenya, at which Ukraine’s trade interests were consulted. The Meeting culminated in the adoption of the “Nairobi Package”, a range of Ministerial Decisions for a series of agricultural trade initiatives. Key decisions especially relevant for Ukraine include those pertaining to:
  - export competition, envisaging a commitment to eliminate export subsidies for agricultural products starting 2020;
  - a special agricultural trade safeguard mechanism for developing countries;
  - public stockholding for food security purposes.

## **What has been done in the communications sector:**

- A uniform type calendar of more than 400 political, security, economic, business and cultural events where Ukraine’s voice should be heard prepared. Pool of speakers and a com-

mon set of messages and visual images were set up. Database of Ukraine’s influencers (politicians, journalists, civic activists, leaders of the Ukrainian diaspora, etc.) compiled.

- The embedded journalism program to facilitate international media access to the ATO zone launched on May 12, 2015.
- International public opinion poll as to the perception of Ukraine’s European perspective conducted in key focus nations.
- Environment for over 90-day stay of international journalists in Ukraine enabled, visa application procedure streamlined.
- A photo exhibition “50 Inventions Bestowed by Ukraine to the World” went on display. Brochures were prepared and actively distributed at business forums and international meetings attended by senior government officials.
- UATV channel, Ukraine’s multimedia overseas broadcasting platform, launched on October 1, 2015. Broadcasting frequencies obtained from UTR and BTB TV channels.
- UN Hundred Crimea Challenge brochures prepared and disseminated within the scope of the UNGA.
- Country of Dignity brochures prepared in English (USA + France, and UNESCO).
- Materials in English on military subjects prepared. 2 films dubbed in English (Airport and Raid); exhibitions “Presence” (evidence of Russian aggression in Ukraine) and the “Power of Unsubdued” (progress to date of the Ukrainian Army) organized; English version of the [www.ukraineunderattack.org](http://www.ukraineunderattack.org) website launched.
- Work is underway to disseminate news and information digests from Ukraine in English, French, German, Spanish, and Italian based on a database of more than 8000 contacts, including those of global media and thought leaders.
- English-language weekly e-mail bulletins on

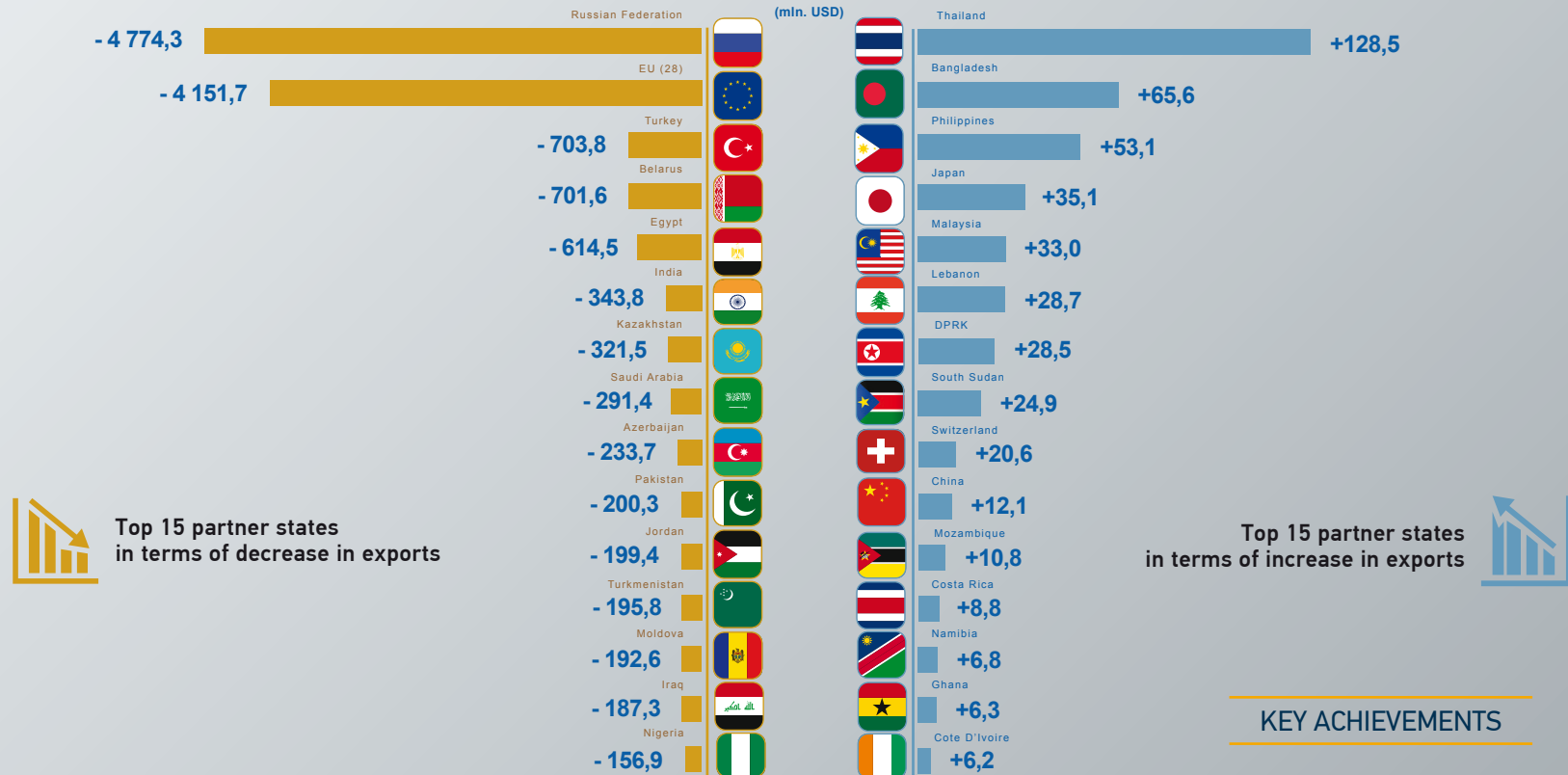
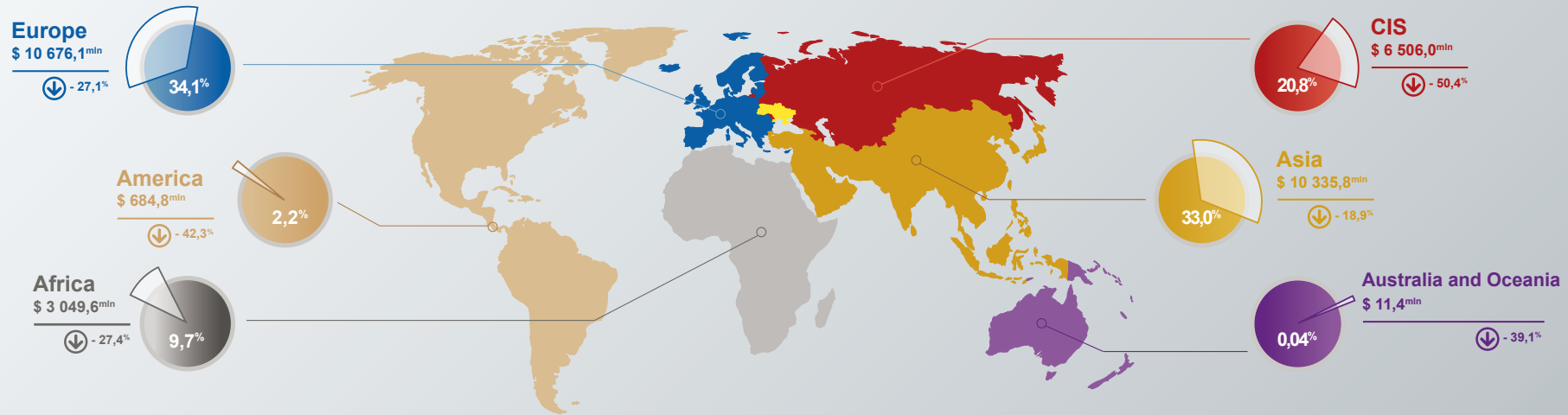
the progress of reforms in Ukraine created and disseminated by Ukrainian Reform Media Support Center.

- National and international advisers on strategic communications appointed to key government agencies, from the Presidential Administration to military, economic, infrastructural, energy, and several social agencies of the government, within the scope of “Public Communication Reform” Project.
- Media trainings and public communication training courses held for a number of high-level officials representing Ukraine at the international stage.
- Centralized support is provided to high-ranking officials with international media contacts during the course of their international visits (in the form of op-eds, presentations, theses of speeches and media meetings).
- Press tours for meetings with high-ranking officials from Austria and France to Ukraine organized and held.
- An exhibition “Famous Ukrainians” put on display in Boryspil Airport to familiarize tourists with Ukraine’s cultural heritage.
- International “MH17. Ukraine Remembers” social media campaign to commemorate the anniversary of the MH17 tragedy held.
- 18 international interviews and 7 op-eds arranged for Ukraine’s high-ranking officials as part of StratCom OVP.



# UKRAINE PROMOTION PROGRAM

## EXPORT DYNAMICS IN THE CONTINENTAL CONTEXT



Top 15 partner states in terms of decrease in exports

Top 15 partner states in terms of increase in exports

### KEY ACHIEVEMENTS

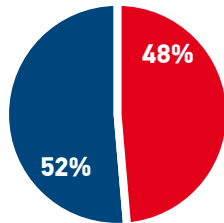


# UKRAINE PROMOTION PROGRAM

**92%**

Progress in Tasks completion for 2015

## REFORM PERCEPTION



THE CITIZENS THINK THAT:  
■ NO CHANGES  
■ CHANGES EXIST



Age of respondents: 18-55  
 Question asked: How would you evaluate the reforms progress?

Blue segment: people, who answered that the changes really exist

Red color represents those who doesn't see any changes

## TASKS

Provisions and Implementation Plan of the Ukraine Promotion Program have been developed	100%	Long-term residence of international journalists in Ukraine is enabled (over 90 days) and simplifying of the procedure of getting visas for international journalists	100%	Example of support of the presentation of Ukrainian films with wide scale presentations on international platforms	100%
Draft State Target Ukraine Promotion Program has been developed and the country's brand for 2016-2018 has been created	60%	Program of embedment providing foreign journalists an accesses to ATO area has been implemented	100%	Series of photo exhibitions about Ukraine have been conducted on international platforms	100%
Educational trainings for the representatives of MFA of Ukraine abroad have been conducted for improvement of professional skills in international communications	100%	High-quality Ukrainian 3 languages-speaking tele-product UA TV has been created	100%	International sociological research in the crucial countries of focus on the perception of the European perspective for Ukraine had been held	100%
Preconditions for the implementation of promotion projects have been prepared.	75%	Advisors on international communications in CEA have been appointed	50%	Increased Ukraine's presence in prominent international conferences with national stand that unites national manufacturers	100%
		Series of conferences about Ukraine have been conducted abroad without implication of governmental funding	100%	Ukraine's presence in prominent international conferences with the report had been increased	100%
		Public diplomacy mechanism of Ukraine was created	100%	Fully implemented a massive campaign to support the release of the Ukrainian political prisoners	100%

## OUTCOMES

Voting for resolutions on Ukraine in UNGA, UNSC, the European Parliament, PACE	50%
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## PERCEPTION

Program has received the highest assessment on the flow of reforms and governmental actions in different areas - 4.0 of 10.0
Country Brand Index
Society assesses the increase of positive image of the country as successful
Research about international public perception of Ukraine had been conducted (USA, Canada, Australia, Great Britain, Germany and other)
According to the results of a nationwide survey, 90% Ukraine citizens would feel pride for their state
International sociological survey in crucial countries of focus demonstrates the knowledge of the capital and major cities of Ukraine, the names of prominent figures of culture, arts, sports

## Accomplishments:

- **Open data (providing access and automatic processing capability for government agencies' transparent public data):** 2 open data laws, developed at the Administration of the President of Ukraine with participation of the Reforms Support Council, entered into force. In pursuance of the Law, the Government created the Open Data Portal and adopted the resolution On Approval of the Resolution on Data Sets to be Published as Open Data, specifying the requirements for data sets and the list of open data sets for publication.
- Compliance with the provisions of the law will improve Ukraine's position in the budget transparency index prepared by the International Budget Partnership (in 2015, Ukraine ranked 56<sup>th</sup>, Poland ranked 22<sup>nd</sup>, and Romania 9<sup>th</sup>; Ukraine's rank has been deteriorating: from 35<sup>th</sup> place in 2012 and 19<sup>th</sup> place in 2010; the next reevaluation is in 2017) and the government data transparency index prepared by Open Knowledge (in 2015, Ukraine ranked 54<sup>th</sup> and Romania 13<sup>th</sup>; Ukraine had not participated in the ranking before).
- **Electronic procurements** (ensuring public procurement transparency, minimizing human inter-

## 2 Open Data Laws Adopted

ference with procurement procedures to eliminate corruption; save at least 10% on public procurement through improved process efficiency and automation): the community initiative supported by the Administration of the President of Ukraine resulted in establishment of the public procurement portal. The State Affairs Administration became one of the first agencies to be connected to this portal. By the end of the year, the system was used by over 2200 public contracting agencies from all over the country, and at least **35 thousand** bidding procedures totaling more than **UAH 6 billion** were announced. The average savings exceeded the goal by **10%, amounting to 12-18%**. The portal development is in progress (with functionality expansions and new government agencies being connected).

- **Electronic applications and electronic petitions** (implementation of new tools, electronic application and electronic petition, development of electronic democracy, and ensuring feedback from the community):
- the Law implementing electronic applications and petitions developed at the Administration of the President of Ukraine was adopted and entered into force;
- a system of electronic petitions to the President with the electronic citizen identification functionality was

launched (the system operates without downtime; feedback on the technical part of system operation has been received, and errors have been fixed; answers to petitions reaching the required limit are published on time; statistical data have been analyzed, and abuse (involving a bot net and voter bribery) has been detected and made impossible by implementing identification).

- Over **16 thousand petitions** were created in the electronic petitions system, **35** of which received the required number of votes; answers to **30** petitions were published.
- **Cloud technologies** (the capabilities that were created for the public sector to use state-of-the-art IT technologies will reduce the state budget expenditures and enable quick implementation of e-systems and improvement of public service quality): public discussion of cloud technologies for the government sector involving experts and service providers were held; a draft law was published for public discussion, with Ukrainian and European cloud technology experts and providers engaged in the discussion.
- **Electronic services** (ensuring accessibility of electronic services for citizens and businesses, along with service quality improvement): The Administration of the President of Ukraine initiates its own projects and supports initiatives originating from the non-governmental sector intended to improve the quality of public services and efficiency of government agencies. Such projects include the electronic procurement system and electronic services portal (developed by volunteers with participation of the ICT Competence Center).
- **Cryptographic reforms** (enabling the use of global cryptographic algorithms in Ukraine; cross-border trade development; improvement of the level of cooperation with the EU, WTO, and UN): there are positive developments in the area of harmonization and permission to use global cryptographic algorithms (AES). Dialogue with the Ministry of Justice and the State Special Communications Administration for expansion of the list of cryptographic algorithms that may be used in reliable EDS tools continues. The Manifesto of reform for electronic identification and trust services, initiated by the Ukrainian and international businesses, NGOs and public authorities, was supported. It sets out the challenges and needs of the present and creates an action plan for building trust in Ukraine European trust service and the European system of electronic identification.
- Law On Electronic Commerce was signed, bringing business relations to a new level.
- Initiatives for development of **Open Government Systems** were supported.
- The initiative for development of **Electronic Auctions** at Odesa Oblast State Administration was supported.

- According to the network readiness index (prepared as a part of the international IT report by the World Economic Forum and INSEAD), Ukraine was ranked **71<sup>st</sup>** out of 143 countries (in 2014 Ukraine was on the 81<sup>st</sup> place out of 148, in 2013 – 73<sup>rd</sup> out of 144).
- As compared to other medium to low income countries, Ukraine shows better results in infrastructure availability, Internet and mobile service rates, level of general and special education, and the use of mobile telephones and computers.
- However, even in comparison with the same group of countries, Ukraine is falling behind by political and regulatory governance (presence of IT laws, legislative agency effectiveness, intellectual property rights, and piracy) and public use of information and communication technologies (Ukraine is on the 136<sup>th</sup> place out of 143 countries by the role of ICT in the government strategy, 106<sup>th</sup> by public online services, and 115<sup>th</sup> by successful implementation of ICT for government agencies).
- Ukraine improved its position according to the Global Innovation Index (prepared in collaboration by Cornell University, INSEAD, and the World Intellectual Property Organization) to 36.5, and is ranked **64<sup>th</sup>** (in 2014, it was ranked 63<sup>rd</sup> with 36.3 points, and held the 71<sup>st</sup> place in 2013); according to the information and communication technologies infrastructure index, Ukraine is ranked 89<sup>th</sup> (which is lower than in 2014): Ukraine ranked 112<sup>th</sup> by the government online services index, this indicator being identified as a weakness; another weak area is found in the use of information and communication technologies for creation of business models (insignificant improvement as compared to 2014 is observed).
- The broadband Internet penetration index of Ukraine (number of subscribers per 100 population) in 2014, as assessed by the World Bank in 2015, was **8.42**, which is 0.41 less than one year ago. In technologically developed countries, this indicator increased: in Israel, from 25.90 to 26.18; growth is observed in nearly all European countries, however, in Estonia this figure dropped from 28.04 to 27.37.
- The decrease is caused by the loss of subscribers in the occupied territories (whereas the figure is calculated for the entire population of Ukraine, including the occupied territories).
- At the same time, the following factors observed in Ukraine demonstrate the actual increase of this indicator, excluding the occupied territories:
  - growth of the number of operators and telecommunication providers by 14% in 2014 (according to the National Committee for State Regulation of Communication and Information Technologies)
  - The number of private broadband Internet subscribers according to IKS-Con-

- sulting increased by 0.2 million subscribers, or 3%, in 2014, reaching 6.81 million users.
- According to IKS-Consulting, broadband Internet penetration by household was 41% in 4th quarter 2014, and a growth trend is observed;
- According to the National Committee for State Regulation of Communication and Information Technologies with a reference to InMind Factrum Group, the proportion of regular Internet users aged 15 and more in September 2014 amounted to 57.1% of the population of Ukraine aged 15 and more, the general Internet penetration level in Ukraine being 63.1%.
- This ranking by the World Bank does not account for mobile Internet penetration, which, according to the National Committee for State Regulation of Communication and Information Technologies, is 142.4%.

## What we Failed to Accomplish:

- Extend the list of encryption algorithms for implementation in reliable EDS tools.
- Increase the formal value of the broadband Internet penetration index.

## Measures currently required to recover or speed up reform progress:

- Strategic goal: Improvement of political and regulatory governance and state regulation of information and communication technologies (implementation of online services and successful implementation of information and communication technologies for government agencies).
- Tactical measures:
  - Finalizing and submitting to the Verkhovna Rada the draft law enabling the government sector to use cloud technologies.
  - Launching the electronic system for processing of applications to the President of Ukraine.
  - Editing the draft law On Electronic Trust Services to achieve conformity with EU Regulation 910/2014 (as regards the change in the public key architecture and technical details).

*Law On Electronic Applications and Petitions adopted, the system of electronic petitions to the President of Ukraine launched*

## AIM OF THE INITIATIVE

Provision of digital services to businesses and the public, building up effective governance through implementation of the building blocks of state-of-the-art IT technologies in the public sector

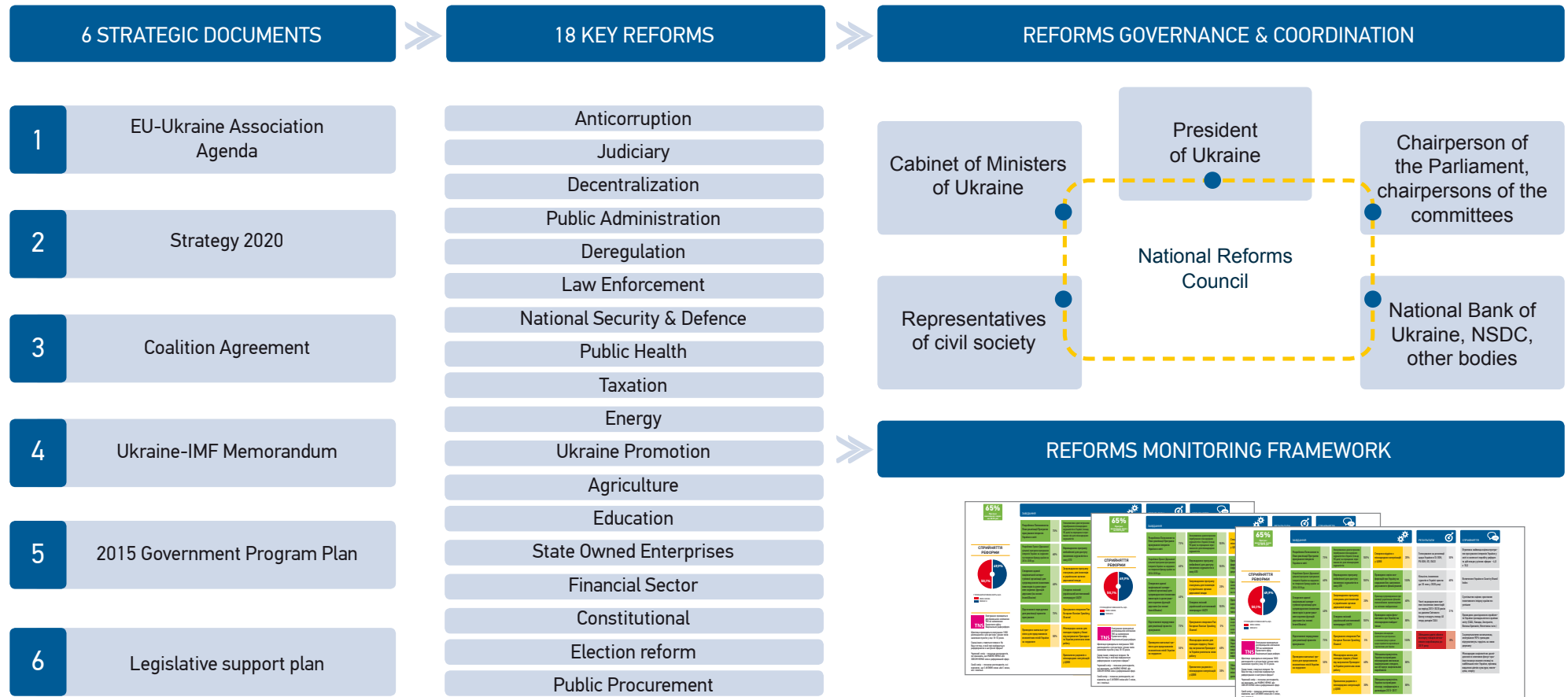


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# APPENDIX

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# UKRAINE HAS A BROAD REFORM AGENDA AND THE NECESSARY TOOLS TO EFFECTIVELY DRIVE CHANGE



The purpose of **Reforms Monitoring Framework** is to identify barriers to progress. This is done through the 18 scorecards specifically developed for each of the priority reforms. Five strategic documents form the content backbone for the scorecards. These documents are the EU-Ukraine Association Agenda, Strategic Vision 2020, Coalition

Agreement, Ukraine-IMF Memorandum and 2015 Government Plan. Commitments undertaken by the President/Parliament/Government under these documents are both comprehensive and legally binding. These commitments were used by Reforms Task Forces to prepare the scorecards.

# REFORMS MONITORING FRAMEWORK METHODOLOGY

A reform scorecard represents a set of 20-30 indicators, divided into 4 groups to ensure complex evaluation.



This group measures the availability and quality of planning tools. Its purpose is to ensure that the work is performed according to the plan while the real results are not yet accessible. The indicators are determined on a quarterly basis in accordance with the schedule for the quarter and measured on a monthly basis. Those indicators ensures that work plans have not only been fulfilled formally, but were embodied in specific management decisions. Process indicators are determined once at the beginning of the year and are measured on a quarterly basis. Example: Deregulation reform. The number of canceled regulations; the number of liquidated regulatory bodies among those subject to liquidation, etc.

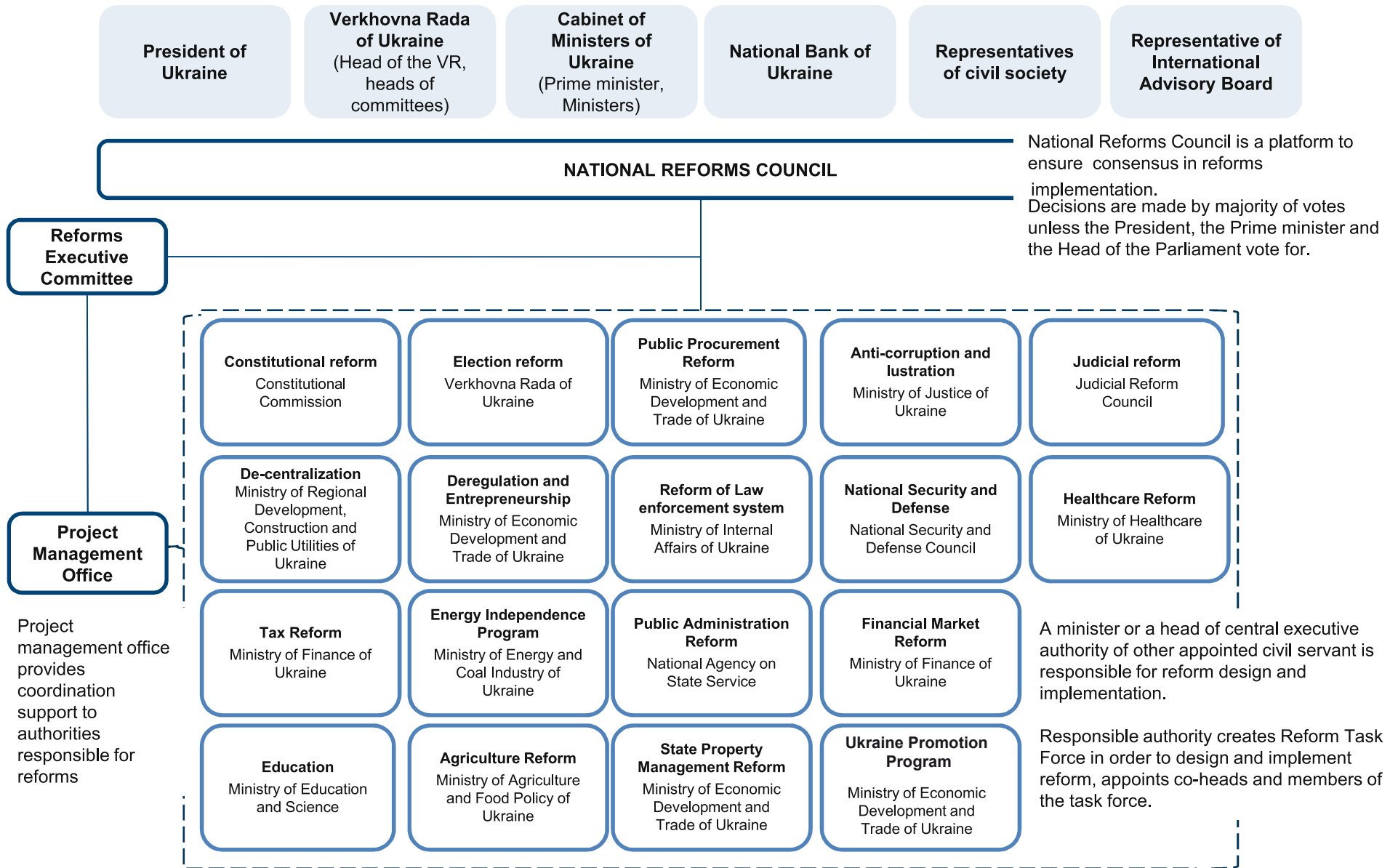


This group consist of impact indicators, allow monitors to understand how Ukraine has changed as the result of particular reforms. Object indicators are determined once at the beginning of the reform and are measured annually. Example: Changes in the position of Ukraine in global rankings such as Ease of Doing Business, the Global Competitiveness Index, etc.



The purpose of these indicators is to understand how society perceives the success of the reforms. Perception indicators are determined once at the beginning of the reform's implementation and are measured on a quarterly basis (through sociological surveys) or monthly (through expert interviews). Example: Evaluation obtained in the course of sociological research on a representative sample of citizens (eg, public confidence in the militia, the courts, the army; national pride of the country, etc.).

# NATIONAL REFORMS GOVERNANCE MODEL



## KEY LAWS





The views herein expressed are solely those of the author and contributors and do not necessarily reflect the official position of the OSCE Project Co-ordinator in Ukraine.

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