





CALENDAR OF MEETINGS	<u>11</u>
ANTI-CORRUPTION REFORM	<u>15</u>
PUBLIC PROCUREMENT REFORM	<u>25</u>
DECENTRALIZATION REFORM	<u>27</u>
LAW ENFORCEMENT REFORM	<u>36</u>
DEREGULATION	<u>37</u>
HEALTHCARE REFORM	<u>40</u>
TAX REFORM	<u>46</u>
PUBLIC ADMINISTRATION REFORM	<u>50</u>
FINANCIAL SECTOR REFORM	<u>53</u>
EDUCATION REFORM	<u>55</u>
ENERGY SECTOR REFORM	<u>59</u>
STATE OWNED ENTERPRISE GOVERNANCE REFORM	<u>64</u>
AGRICULTURAL SECTOR REFORM	<u>66</u>
JUDICIAL REFORM	<u>68</u>
CONSTITUTIONAL REFORM	<u>72</u>
NATIONAL SECURITY AND DEFENSE REFORM	<u>73</u>
DIGITAL UKRAINE	<u>77</u>
INFRASTRUCTURE REFORM	<u>79</u>
GO GLOBAL PROJECT	<u>81</u>
CULTURE REFORM	<u>84</u>
REFORM PACE PERCEPTION	<u>86</u>
APPENDIX	<u>91</u>
NATIONAL REFORMS GOVERNANCE MODEL	<u>98</u>

## Foreword

"In the past two years, Ukraine has made greater progress in implementing reforms than in the first 23 years of its independence." This is not our conclusion; it is the conclusion of our Western partners.

"Ukraine has taken big steps in the last two years, under very difficult circumstances.... It is now crucial to move from passing legislation and setting up institutions to full implementation of these reforms so that Ukrainian citizens can reap the benefits," said the High Representative of the European Union for Foreign Affairs and Security Policy, Federica Mogherini, commenting on a joint report released by the European External Action Service and the European Commission. "Ukraine is carrying out intense and unprecedented reforms across its economy and political system, while its democratic institutions have been further revitalized." We have worked long and hard to receive this commendation.

We embarked on the path of change and transformation in 2014. In 2015, the first shifts in policy were visible, but only to reformers. In 2016, the changes were both noted and commended by our foreign partners. It is of utmost importance that 2017 goes down in history as the year when changes became meaningful for the broad Ukrainian public.

Constitutional amendments related to the judiciary were approved and took effect last year. In addition, several laws were enacted to give comprehensive judicial reform traction. An unprecedented selection process for new Supreme Court judges is underway.

The National Anti-Corruption Bureau and the Specialized Anti-Corruption Prosecutor's Office have commenced their operations. But I do not divide law enforcement agencies into new and old, good and bad. They all contribute to the common cause and there have been notable improvements in the work of the Security Service, the National Police and the public prosecutor's office.

The start of asset disclosures by public officials resulted in the electronic publication of nearly 136,000 detailed declarations in 2016. This new disclosure program is an important step both in combating corruption and in shaping a new political culture of anti-corruption and is gaining momentum.

In 2016, the Ministry of Economic Development and Trade received the most sought-after international award in the field of procurement at the World Procurement Awards 2016 for the development and implementation of the ProZorro electronic system. The award honoured not so much the system itself but the revolutionary anti-corruption changes in Ukraine's public procurement system.

It is my firm conviction that the most powerful way to fight corruption is not to retaliate but rather to remove the ground from which it sprouts, reduce the role of government in the economy, deprive public officials of the opportunity to influence the business processes and introduce electronic forms of governance, management and communication between business and government. Both the implementation of ProZorro and a steady focus on deregulation go to prove that.

The decentralization process resulted in hundreds of merged localities that are financially capable and able to tackle recurrent social and infrastructure problems. We have developed a decentralization technique whereby constitutional amendments are not necessary, and which places emphasis on the financial component of local governance.

In my opinion, one of the most important tasks is bolstering national security and implementing defense reform. We are not only successfully transitioning the armed forces to contract service, but also transforming the entire security and defense sector to operate under NATO standards. Of course, there were failures last year. I am truly upset that we keep losing to the populists when it comes to establishing a land market and that we have failed to launch a privatization process. Our partners appear to be insufficiently punctual in meeting the schedule to provide a visa-free regime so that Ukrainian citizens can travel to the EU. It is very difficult for us, as representatives of the government, to explain this to the public. Ukrainian people have paid an unprecedentedly high price for the European choice, while Ukraine has fully achieved all the visa liberalization related benchmarks.

I am glad that by year-end, the EU and the Netherlands finally agreed on the Association Agreement ratification mechanism. The Association Agreement is of vital importance to us. The European markets are crucial to compensate for the effects of Russia's economic aggression. A mere five years ago, the Russian Federation accounted for nearly a third of our exports. It is roughly estimated that last year, the share of Ukrainian exports to Russia was 10 percent. Moreover, Russia organized a transport blockade and imposed restrictions on the transit of Ukrainian goods to third countries.

But we survived and have learned to never again be so dependent on the Russian market, nor to subject ourselves to malignant imperial ambitions rather than the rules of economics or WTO norms.



**Petro Poroshenko,**  
President of Ukraine

It is worth noting that we did not buy a single cubic meter of natural gas from Russia in 2016 and made it through the winter without it. This was not the only achievement that was part of the energy sector reform. The exorbitant Naftogaz deficit and the government-sponsored closing of loopholes in its budget have become a thing of the past.

Based on current statistics, which are indicative of macro-financial stabilization and revitalization of economic growth, the optimistic conclusion that we can draw is that our economy is through the worst of it. This conclusion is backed by our performance results and the projections of international financial institutions.

My priority for 2017 is to provide the political environment for reforms and economic recovery. I have to disappoint all those in Kyiv and in Moscow who plot pre-term elections and artificial protests. I as the President will use all means legally available to clamp down on any attempt to destabilize the country and derail the hard-won results produced by the government and fought for, in a literal sense, by the Ukrainian people.

By increasing the minimum wage, reporting real salaries and other reforms, we continue to make every effort so that this year the average person can feel that the situation in the country is changing for the better.

This year, we will continue implementing reforms which have already gained traction. These include, above all, judicial and anti-corruption reforms. We will put into effect liberal and anti-corruption changes in the tax administration, which the Verkhovna Rada voted for in December 2016. I also expect the government to come up with the proposals for customs reform.

According to schedule, in the first quarter, the National Reforms Council will review the New Ukrainian School Concept, a strategic document for formulating general secondary education reform policy.

There is no room for further delay in healthcare reform; the delay is painful both figuratively and literally. I am sensing that it will be resisted like no other reform. There is already an anti-reform coalition of the pied pipers of populism double-speaking in defense of supposedly free healthcare, and a well-structured group of those who successfully developed their private clinics and pharmaceutical networks based on public infrastructure.

The opposition to changes grows stronger, and we feel the pressure on all fronts. Every industry has its influential vertical and horizontal networks that reap the benefits of things as they stand. They have ample resources to resist changes by abusing democracy, from mass media to parliamentary groups.

This so-called authoritarian modernization is unacceptable to Ukraine for various reasons. The parliamentary and presidential model of government requires more effort and time to implement reforms. It should also be remembered that liberal economic reforms in Ukraine are implemented amid a pan-European outbreak of left- and right-wing populism. We continue to overcome deleterious global political trends.

And again, let me repeat, "In the past two years, Ukraine has made greater progress in implementing reforms than in the first 23 years of its independence." This is not enough to narrow the gap and reduce the lag. To be the champions, we must follow the Olympic motto: Citius, Altius, Fortius! Faster, Higher, Stronger!

## Foreword

Dear Colleagues,

We all know that reforms in Ukraine have been put off over for decades, and hardly a single aspect of the government does not require massive transformation. The government's primary tasks for 2016 were to halt the crisis, stop the economy from crashing, and embark on a large-scale overhaul of the country. We have made a range of important decisions to provide a path for gradual reforms, and have done a considerable amount of groundwork to prepare for further efforts. A vibrant example of the drastic changes implemented over the year is the recovery of the economy and GDP growth. The real economy has been demonstrating an increasingly optimistic trend towards gradual recovery. During 2016, the government achieved relative macro-financial stability and positive capital investment 16.5% as compared to 2015. However, the institutional and economic effects of systemic changes take time to materialize.

Significant achievements having an unprecedentedly positive influence on Ukrainian society have already become evident. These include, above all, the roll-out of the decentralization reform, which has equipped local communities with considerable financial, administrative, and physical resources and resulted in a UAH 44 billion increase in local budgets.

In addition, national energy policy has been undergoing modernization through the strengthening of its security and energy saving pillars. I am convinced that the foundations the government has been laying to reinforce Ukraine's energy independence will allow our nation and economy greater resistance to external challenges.

I would also like to highlight the important steps that have been taken to overcome corruption and stabilize the economy. For the first time in independent Ukraine's history the legislative and institutional framework to fight corruption has finally been put in place. A number of shady schemes in the gas industry and pharmaceutical market have been eliminated; customs reform has been gaining momentum. Revitalization of the public service (through a transparent competitive selection process), mandatory e-declarations, and ProZorro public e-procurement system constitute an institutional breakthrough that will never let us get caught in the web of corruption again.

Another notable change during 2016 is the gradual application of the EU-Ukraine Deep and Comprehensive Free Trade Area making the EU our largest trading partner. Amid external military aggression and the trade war waged by the Russian Federation against Ukraine in 2014, our reliable economic ties with the EU helped Ukraine keep its production and export capacity afloat.

The National Reforms Council continues to provide a platform for getting political consensus at the planning stage, which has been crucial for implementing major changes successfully.

We are facing new challenges, as 2017 will be a watershed year for laying the cornerstone of sustainable economic development. The government will focus on budget priorities aimed at economic development and fulfilment of the social contract, in particular, improving the quality of life. Predictable business regulation, which is to be kept intact for at least 3-4 years, reform of the judiciary, inviolable rights of private property, fully fledged operation of anti-corruption agencies – these are the underpinnings of our economy's growth and foreign investment.

Another strategic avenue is the improvement of state-owned enterprises management and implementation of efficient privatization policy. In 2017, the government intends to take inventory of 3,500 state-owned enterprises and streamline their operations. The primary task, however, is to entice strategic Western investors. Each of us must realize the significance of this process, since a predictable macroeconomic and political situation and a well-framed legal environment are crucial motivating factors for a foreign investor.

To be able to mobilize investment and lending on a large scale, we must put in place an effective creditor rights protection mechanism, eliminate loan fraud, ensure transparency of Ukrainian business and safeguard it against fiscal fleeing. Our forecast for 2017 is no less than a 10% increase in investment. The Office for Investment Attraction and Investor Assistance has been tasked with attracting an additional USD 1 billion in foreign direct investments.

Implementation of these initiatives depends on the political situation. It is my conviction that today Ukraine's major allies are political stability, constructive realism, and national pragmatism – a striving for success. The country is in need of the political balance to harmonise cooperation among the Government, the President, Parliament, and Civil Society. Nation-oriented thinking, social accountability, and timely partner support to reforms and initiatives of the government must be fundamental to our further efforts, so that 2017 becomes the year of development which will set a reliable stage for implementing strategic priorities. The country needs to reinforce synergies among all branches of the state authority and ensure seamless interaction with civil society and the international community.



**Volodymyr Groysman,**  
Prime Minister of Ukraine

## Foreword

Amid war with Ukraine's archenemy, 2016 was still the year of successful reforms.

It was the year when the Ukrainian people grew closer together, while reforms made our nation stronger. Ukraine's reform experience is unique. No country on earth has carried out such fundamental, vital national reforms while being attacked by one of the most powerful militaries in the world.

However, we do not give up, and continue reforming and strengthening our nation.

I am proud that it was the Verkhovna Rada of Ukraine of the 8th Convocation to lay down a legal framework for reforms. The current Parliament has a great responsibility because it is Parliament of a country at war. The current convocation has given the country a pro-Ukrainian, pro-European majority advocating a strong state. I am firmly convinced that it is the responsible efforts of this majority that is driving crucial reforms and the modernisation of our country.

In 2016, we demonstrated positive reform dynamics. In my opinion, the most important changes have included judiciary reform, anti-corruption measures, introducing e-declarations, and expunging the last vestiges of the Soviet era while revitalizing our heritage. The previously launched reforms in education, public procurement, decentralization, law enforcement, healthcare, public administration, finance, energy, state-owned enterprise governance, national security, and e-governance also gained traction last year.

Fundamental reforms amid war make it clear that Ukrainian people are fighting on all fronts to lead free and dignified lives. Our nation's top priority is the preservation of statehood. It is the cornerstone of security and free development of the Ukrainian people. Let this thought guide every Ukrainian.



**Andriy Parubiy,**  
Chairman of the Verkhovna  
Rada of Ukraine

## Foreword

Dear Colleagues,

After having analyzed the results of reforms introduced in recent years, I can conclude that our reforms will be enhanced significantly by leveraging latest technologies.

The mandatory use of the ProZorro e-procurement system has saved the government UAH 9 billion. These savings can then be used for pressing economic and defence needs. Moreover, the integration of ProZorro with the E-data Finance Portal has enabled users to track Treasury payments under awarded contracts and prevent corruption further.

Another good example of IT usage in reforming public procurement is the launch of e-declarations last autumn. Nearly 136,000 officials holding senior positions disclosed their wealth for the first time in our nation's history. It is unlikely that such unprecedented transparency could have been possible without digital technologies.

The administrative service reform is not limited to setting up temporary offices. With the Ministry of Economic Development and Trade's launch of an updated Unified State Portal of Administrative Services pilot project ([www.poslugy.gov.ua](http://www.poslugy.gov.ua)) we are able to provide access to 15 e-services subject to digital signature authorization.

Year-end 2016 saw the government's approval of the roadmap and principles for the first phase of E-health in Ukraine. The pilot of electronic healthcare system is expected in 2017 by Ministry of Healthcare, which will drive primary healthcare finance reform.

Despite the enormous potential of Ukrainian IT professionals and advancing digital services market, Ukraine still lags behind developed nations. Nonetheless, a range of decisions was adopted in 2016 enabling Ukraine to take a firm step forward. In particular, the Draft Law on the Use of Cloud Computing, which paves the way to using cloud solutions and services for our government institutions, passed its first reading. In addition, Verkhovna Rada of Ukraine adopted the resolution to eliminate barriers for export of services, which will simplify the operation and rendering of services by Ukrainian IT professionals to foreign customers.

The first steps have been taken to improve Ukraine's cyber-security posture.

The use of digital technologies may become a unique tool for Ukraine to deepen reform on all fronts. We have all the required components including highly qualified professionals, our own IT solutions, and the reputation of a slowing technology market, all of which are backed by sizeable investments in recent years into Ukrainian IT sector.

I am strongly convinced that political elites have realized that Ukraine's digitalization will create the main competitive advantage in both the domestic and foreign markets.

I thank you all for another challenging and fruitful year of reforms!

Glory to Ukraine!



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

# EBRD input for NRC Report



European Bank  
for Reconstruction and Development

Ukraine has made remarkable progress on the path of reform in the last three years, which has been recognised by its international partners, including the EBRD.

Clean-up of the financial sector, overhaul of the energy sector, elimination of a number of corruption schemes in many sectors from healthcare to law enforcement, cutting of red tape in areas from export-import operations to drug licensing and ecological permits, introduction of the innovative e-procurement system Prozorro and many more successes are testament to Ukraine's effort to build a competitive economy and a fairer society.

The National Reforms Council (NRC) has played a central role in coordinating the reform effort in the country.

The EBRD has been a strong supporter of Ukraine ever since the Bank started operating in the country in 1993. Staying firmly by Ukraine's side, at times of growth and at times of economic freefall, the EBRD to date has invested over €12 billion in the country's economy, including a record €1.2 billion in 2014, a year when investment from other sources ground to a halt.

But the Bank regards its work supporting reforms in Ukraine as equally important with providing financing. In 2014, when reforms became a national priority, the EBRD supported the establishment of the National Reforms Council, and offered to provide assistance and to mobilise the international donor community for the cause.

In 2015, the EBRD started providing technical assistance to the National Reforms Council's Project Management Office (NRC PMO), the council's technical implementation body. In 2016, the Project Management Office was transformed into a support team to continue to assist the

committee with technical support, coordinate efforts with other institutions in the reforms architecture and provide regular reporting on the progress of reforms.

In addition to helping set up and mobilise financing for the National Reforms Council, the Bank has also supported a number of other initiatives in Ukraine, including the Business Ombudsman institution, the e-procurement portal Prozorro and legislation amendments which allow for the clean-up of key sectors. We remain Ukraine's largest institutional investor and a key stakeholder in the policy reform discourse.

## Reform Support Teams

The best laws will come to nothing if their implementation is not secured. Reforms can succeed only if there is a skilled and educated workforce, which is incentivised to support them and has the backing to break with corrupt old schemes in government and state-owned companies.

With this understanding, in October 2016 the Government of Ukraine - with the support of international donors as well as the EBRD and the EU - announced the introduction of dedicated and temporary teams to help with reform delivery and implementation of Ukraine's Public Administration Reform Strategy 2016-2020.

**The Reform Support Teams (RSTs)** are formed of professionals from outside the Ukrainian civil service and work in ministries on a temporary basis to implement priority reforms and transform the ministries themselves. The programme was first rolled out at the Ministries of Finance, Economic Development and Trade, Infrastructure and Agrarian Policy and Food. Following the pilot phase, other ministries and state agencies are expected

to join the programme on the basis of reform strategies.

Francis Malige, EBRD Managing Director for Eastern Europe and the Caucasus, said: "This is a major step forward on Ukraine's reform path. Over the past two years the country has passed many important reforms and laws and now this new initiative will help accelerate implementation. Without the pioneering leadership of the small crew that put together the NRC, this expanded reform architecture would not have seen the light of day. I am grateful to them and proud that the EBRD was an early supporter of this initiative. The support framework will be an effective instrument to transform reform concepts into tangible actions with all stakeholders responsible for its success. There is now a coherent and powerful architecture to drive and implement reform in Ukraine which makes us confident about the further progress of the country."

The Reform Support Teams are part of the effort to create a coherent and efficient framework for reform implementation in Ukraine. The framework also includes a **Reforms Delivery Office** under the Prime Minister, with a focus on ensuring the consistency and efficiency of reform delivery across the Government.

Another piece of the reforms architecture is a high-level international **Strategic Advisory Group for Support of Ukrainian Reforms**, which provides strategic advice to the President and the Prime Minister of Ukraine. The group advises on the effective implementation of reforms, based on first-hand successful experience, offering best practice and linkage to international resources. The team is headed by two former senior statesmen, Leszek Balcerowicz (former Deputy Prime Minister of Poland) and Ivan

Mikloš (former Minister of Finance of the Slovak Republic).

## Donor support

The various strands of the reform architecture are financed by the **Ukraine Stabilisation and Sustainable Growth Multi-Donor Account**, established at the EBRD in November 2014. Contributors to the fund are Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Poland, Sweden, Switzerland, the United Kingdom and the United States. The European Union has earmarked a contribution of €8 million to the account.

Furthermore, a large EU programme aiming at supporting Ukraine in implementing a comprehensive Public Administration Reform (PAR) Strategy for the period 2016-2020 was launched at the end of 2016. This programme foresees a total EU budget contribution of €104 million, including €90 million for budget support and €14 million for complementary technical assistance.

# Reforms praised by global business leaders, highly respected officials and well-known reformers

Reforms Monitoring Progress  
2016

"Ukraine has enormous potential ... They {most people in the US} don't really realize the opportunities here ... It is undervalued but you won't really know this for 5 or 10 years ... I do think that Ukraine has some great potential."

**David Rubenstein,**  
The Carlyle Group CEO,  
September 17, 2016

"I think there is enormous progress that's been made. And, I think, in a lot of ways the real question for 2016 is at what point does the progress become irreversible. That is, have so many changes happened in terms of institutions and attitude, psychology, that it's impossible to go back to Yanukovichism, oligarchic, authoritarian, corrupted government .."

**Geoffrey Pratt,**  
Former Ambassador of  
US in Ukraine,  
July 8, 2016

"... They {New Government} had an impressive start ... I would rate the accomplishments of the Government of Mr. Yatsenyuk very high and at the same time underappreciate in Ukraine... The fact that the fiscal deficit has decreased from 10.5% of GDP in 2014 to 2.5% of GDP in 2015, might be a world record."

**Ivan Miklos,**  
Architect of Slovak Reforms,  
September 23, 2016



"Ukraine is showing welcome signs of recovery, notwithstanding a difficult external environment and a severe economic crisis ... This progress owes much to the authorities' program implementation, including sound macroeconomic policies, bold steps to bring energy tariffs to cost-recovery levels, and measures to rehabilitate the banking system. Monetary policy has been skillfully managed and financial sector reforms have started to yield results."

**Christine Lagarde,**  
Managing Director of IMF,  
September 14, 2016

"... Ukraine has launched Prozorro system – it is a great achievement, and the West knows it. This will reduce corruption ... Great progress has been made in "Naftogaz", although it is necessary to continue the reforms there ... You {Ukraine} have achieved the most difficult thing: you have brought gas prices to the market level. I think this is a very important step of Mr. Groysman's Government it is necessary to stick to this decision."

**Leszek Balcerowicz,**  
Architect of Polish Reforms,  
September 26, 2016

"In order to achieve macroeconomics stability {Ukraine} has done many things; the exchange rate has stabilized, inflation is relatively low at about 8% and is expected to stay on this level; budget deficit is less than 3%, which is good, and the servicing of debt has been postponed... The decrease of the social contribution tax from 45% to 22% is a fundamental change..."

**Anders Aslund,**  
Senior Fellow at the  
Atlantic Council,  
September 23, 2016

**Sources:**

- 1.Leszek Balcerowicz: Interview to Epravda; Sep 26, 2016
- 2.Ivan Miklos: Interview to Novoie Vremya; #35 from Sep 23, 2016
- 3.Anders Aslund: Interview to Novoie Vremya; #35 from Sep 23, 2016

**Sources:**

- 1.David M. Rubenstein: 13th Yalta European Strategy Annual Meeting; Sep 17, 2016
- 2.Christine Lagarde: IMF Official Press Release; Sep 14, 2016
- 3.Geoffrey Pratt: Interview to Novoie Vremya; Jul 8, 2016

# Calendar of Meetings

**24**  
December

**12** **12**  
 0  
 0  
 0

**NATIONAL REFORMS COUNCIL MEETING No. 1**  
**National reforms governance model**

**Main decisions:**

- ▶ Approved Draft Ukraine 2020 Strategy for Sustainable Development;
- ▶ Upheld the establishment of the Project Management Office for development and implementation of reforms;
- ▶ Approved the Report on Implementation of EU-Ukraine Association Agreement by Ukraine of the one part, and European Union and European Atomic Energy Community and their Member States, of the other part;
- ▶ Developed a joint action plan for the implementation of anti-corruption reform;
- ▶ Drafted amendments to the Constitution of Ukraine to restrict judicial immunity and expand the list of grounds for the removal of judges, and to the procedural codes to optimize judicial case load and ensure the right to a fair trial;
- ▶ Approved the Draft Law On Civil Service and carry out functional analysis of central executive agencies aimed at their further reform.

**2**  
February

**11** **11**  
 0  
 0  
 0

**NATIONAL REFORMS COUNCIL MEETING No. 2 (part one)**  
**EU-Ukraine Association Agreement. Judicial reform. Law enforcement reform issues**

**Main decisions:**

- ▶ Concerning a set of measures to implement EU-Ukraine Association Agreement (accomplishment of plans related to anti-corruption laws;
- ▶ Provided for ratification of EU-Ukraine Agreement on the Status of the European Union Advisory Mission for Civilian Security Sector Reform Ukraine;
- ▶ Prepared an EU-Ukraine Association Agreement implementation plan within the authority of the ministries, etc.;
- ▶ Developed a uniform draft law with respect to reform of the judiciary;
- ▶ Upheld the initiative to introduce the Draft Law On National Police and Draft Law On Law Enforcement Agencies into the Verkhovna Rada

**4**  
March

**14** **13**  
 0  
 0  
 1

**NATIONAL REFORMS COUNCIL MEETING No. 3**  
**Deregulation. Digital Ukraine initiative status**

**Main decisions:**

- ▶ Listed constitutional reform, electoral law reform and public procurement reform among priority reforms;
- ▶ Reformed the anti-monopoly law;
- ▶ Considered the Draft Law of Ukraine On Civil Service and introduce it into Parliament;
- ▶ Upheld a refined Draft Action Plan on Legislative Support to Ukraine's Reform Agenda 2015-2017, and Draft Action Plan on Deregulation of Business and Simplification of the Regulatory Environment developed by the Ministry of Economic Development and Trade;
- ▶ Implemented electronic subthreshold procurements in all Ministries;
- ▶ Promoted the Draft Law On Access to Information in the Form of Open Data and Draft Law on Electronic Applications and Petitions

**17**  
February

**23** **23**  
 0  
 0  
 0

**NATIONAL REFORMS COUNCIL MEETING No. 2 (part two)**  
**Reform progress coordination. Resolutions related to IMF program. State-owned enterprise governance reform**

**Main decisions:**

- ▶ Set up the Reform Task Forces (RTF) and hold their constituent meetings;
- ▶ Developed and approve a set of key performance indicators to monitor the progress of reforms (Balanced Scorecard);
- ▶ Prepared a plan for reforming budget revenue management by the State Fiscal Service;
- ▶ Provided for approval of State-Owned Enterprise Sector Restructuring Strategy, amendments to the Law of Ukraine On the National Bank of Ukraine to improve NBU autonomy, amendments to certain legislative acts of Ukraine concerning liability of bank-related parties, and amendments to legislation enabling the establishment of the Anti-Corruption Bureau enjoying broad investigative powers;
- ▶ Developed a draft law setting nomination requirements for candidates for possible appointment to state-owned enterprises at board or senior executive level, and lift restrictions on the maximum remuneration of senior executives of state-owned enterprises

**30**  
March

**10** **8**  
 1  
 0  
 1

**NATIONAL REFORMS COUNCIL MEETING No. 4**  
**Energy sector reform. Agricultural sector reform. International Conference on Support for Ukraine**

**Main decisions:**

- ▶ Held the International Conference on Support for Ukraine and uphold its concepts;
- ▶ Compiled a list of critical issues of European integration;
- ▶ Held a separate discussion over Ukraine's agricultural land market;
- ▶ Set in motion the transparent privatization process by passing the Law On the List of State-Owned Property not Subject to Privatization;
- ▶ Published the Consolidated Financial Statements of NJSC Naftogaz of Ukraine 2014



# Calendar of Meetings

Reforms Monitoring Progress  
2016

**16**  
April

**NATIONAL REFORMS COUNCIL MEETING No. 5**  
**Healthcare reform.**  
**Program to promote Ukraine's interests on the international stage**

12 10  
0   
1   
1

**Main decisions:**  
▶ Approved the concept of the Program to promote Ukraine's interests on the international stage;  
▶ Made the register of reference prices of pharmaceuticals open to the public;  
▶ Presented a refined healthcare reform concept;  
▶ Refined and approved draft amendments to Law of Ukraine On Public Prosecutor's Office

**15**  
May

**NATIONAL REFORMS COUNCIL MEETING No. 6**  
**Comprehensive Financial Sector Development Program 2020.**  
**Public procurement reform.**  
**Implementation of EU-Ukraine Association Agreement**

17 13  
0   
0   
4

**Main decisions:**  
▶ Approved Ukraine's Comprehensive Financial Sector Development Program 2020 and second a number of related NBU motions;  
▶ Approved Public Procurement Reform Plan;  
▶ Submitted the Draft Law On Lowering Barriers in Public Procurement and Draft Law On E-Procurement to the President of Ukraine for his consideration;  
▶ Drafted proposals and implementation plan for e-procurement online appeal system;  
▶ Drafted the Public Administration Reform Strategy 2015-2020;  
▶ Provided for government approval of the action plan to meet EU visa liberalization technical requirements

**3**  
June

**NATIONAL REFORMS COUNCIL MEETING No. 7**  
**Go Global: the national foreign languages learning and promotion program. De-monopolization and promotion of competition.**  
**EU-Ukraine Visa Liberalization**

14 13  
0   
0   
1

**Main decisions:**  
▶ Developed an action plan for the implementation of the Law of Ukraine On State Assistance to Business Entities;  
▶ Presented the results of a comprehensive survey of the energy sector pertinent to spheres falling within the authority of the Antimonopoly Committee.  
▶ Agreed with EU party a list of specific measures aimed at implementation of recommendations contained in the EU technical report and ensure their fulfilment;  
▶ Developed and presented a primary identification model;  
▶ Seconded a motion to declare 2016 as the Year of the English Language in Ukraine;  
▶ Drafted the raft of deregulation legislation and have it introduced into Parliament;  
▶ The Public Administration Reform Strategy was approved and submitted to the Cabinet of Ministers of Ukraine

**23**  
June

**NATIONAL REFORMS COUNCIL MEETING No. 8**  
**Constitutional Commission activities. Progress and prospects for decentralization reform**

11 9  
0   
0   
2

**Main decisions:**  
▶ Introduced the Draft Amendments to the Constitution of Ukraine into the Verkhovna Rada of Ukraine;  
▶ Approved the roadmap for decentralization reform;  
▶ Developed a uniform decentralization reform communication support plan;  
▶ Developed and approved national standards for administrative, social welfare, healthcare and education services;  
▶ Aligned 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

**23**  
July

**NATIONAL REFORMS COUNCIL MEETING No. 9**  
**Railway reform.**  
**Fundamentals of economic reform**

17 13  
1   
0   
3

**Main decisions:**  
▶ Provided for approval of the Strategy for Public Administration Reform in Ukraine 2016-2020;  
▶ Approved basic economic reform principles;  
▶ Approved Ukrainian Railways reform concept;  
▶ Provided for introduction of draft laws on administration of taxes and levies, cancellation of excessive licensing procedures, and the decentralization of government services into Parliament.  
▶ Drafted amendments to the Rules of Procedure of the Cabinet of Ministers of Ukraine concerning prompt review and approval of deregulation initiatives by respective Ministries;  
▶ Facilitated the establishment of the Economic Development Council in Odesa Oblast

**3**  
September

**NATIONAL REFORMS COUNCIL MEETING No. 10**  
**Tax reform**

1 1  
0   
0   
0





**Main decisions:**  
▶ Set up a task group to refine the tax reform concept composed of representatives of the Ministry of Finance and other Ministries, the Committee of the Verkhovna Rada of Ukraine for Tax and Customs Policy, the People's Deputies of Ukraine, experts and civil society representatives.  
Approved key parameters and unifying concept of tax reform

Implementation status: Total resolutions carried Implemented Failed In progress Repealed

# Calendar of Meetings

Reforms Monitoring Progress  
2016

**18**  
September





20  16  
1  1  
0  0  
3  3

## NATIONAL REFORMS COUNCIL MEETING No. 11 Anti-corruption reform

### Main decisions:

- ▶ Introduced the Draft Law On Abolition of Remanding on Bail for Corruption Offences into Parliament;
- ▶ Provided for the approval of the personal composition of National Anti-Corruption Policy Council;
- ▶ Promoted the raft of legislation on recovery of stolen assets, procedures for seizing property to eliminate corruption risks and use of special forfeiture mechanism;
- ▶ Presented a detailed time plan for the selection of Chief and staff of Specialized Anti-Corruption Public Prosecution Office;
- ▶ Recommended that the Parliament adopts draft laws concerning Ukraine's fulfilment of Visa Liberalization Action Plan, in particular with respect to political party financing

**5**  
October



11  9  
1  1  
0  0  
1  1

## NATIONAL REFORMS COUNCIL MEETING No. 12 Education and science reform

### Main decisions:

- ▶ Conducted public hearing on education and science reform with all stakeholders involved;
- ▶ Recommended that the Verkhovna Rada of Ukraine sets the day for consideration of draft laws on education and science reform;
- ▶ Recommended that the Parliament considers Draft Law On Occupational Education and Draft Law On Scientific and Research Activities;
- ▶ Provided for funding of Ukraine's participation in PISA 2018;
- ▶ Set up an inter-agency task group for the development of education standards based on the occupational standards;
- ▶ Provided for approval of new sanitation standards and norms for pre-school education institutions

**19**  
October





11  8  
2  2  
0  0  
1  1

## NATIONAL REFORMS COUNCIL MEETING No. 13 Implementation of EU-Ukraine Association Agreement. EU-Ukraine Association Agreement ratification progress. Progress in the implementation of EU-Ukraine Action Plan on Visa Liberalization

### Main decisions:

- ▶ Proposed legislative amendments concerning simplification of state-owned property privatization procedure;
- ▶ Developed an IT system to monitor implementation of EU-Ukraine Association Agreement and EU-Ukraine Association Agenda;
- ▶ Developed an action plan for the implementation of communications strategy to convince the Dutch public of the benefits of EU-Ukraine Association Agreement;
- ▶ Considered amendments to the Rules of Procedure of the Verkhovna Rada of Ukraine to provide for the assessment of compliance of draft acts with EU law and international commitments to European integration;
- ▶ Developed a Law Enforcement Reform Plan;
- ▶ Recommended that the Parliament reviews Draft Labour Code of Ukraine in its first reading

**9**  
November





12  6  
0  0  
0  0  
6  6

## NATIONAL REFORMS COUNCIL MEETING No. 14 Judicial reform

### Main decisions:

- ▶ Upheld Draft Amendments to the Constitution of Ukraine On Justice as approved by the Constitutional Commission and recommend that the President of Ukraine introduces them into the Verkhovna Rada of Ukraine;
- ▶ Recommended that the government provide for the implementation of the Justice Sector Reform Strategy Action Plan 2015-2020;
- ▶ Ensured proper qualification assessment of judges;
- ▶ Prepared a project for structural optimization of the judiciary;
- ▶ Refined the Draft Law of Ukraine on Amendments to the Law of Ukraine On the Bar

**4**  
December





7  4  
2  2  
0  0  
1  1

## NATIONAL REFORMS COUNCIL MEETING No. 15 Natural resource and financial markets regulators reform

### Main decisions:

- ▶ Facilitated the consideration and passage of Draft Law On National Commission for State Regulation of Energy and Public Utilities and Draft Law On Amendments to Certain Legislative Acts of Ukraine Concerning Consolidation of Financial Services Markets Regulation Functions;
- ▶ Forged a unified stance on reform of the fundamentals of state regulation of electronic communications and on transparency in funding the activities of a respective regulator;
- ▶ Provided for refinement of the Draft Law On Amendments to Certain Legislative Acts of Ukraine to Strengthen Institutional Capacity of the National Securities and Stock Market Commission;
- ▶ Took additional steps to improve drawdown and efficient use of loans made by international financial institutions;
- ▶ Approved the Single and Comprehensive Strategy for Agriculture and Rural Development in Ukraine 2015-2020

**8**  
December

4  4  
0  0  
0  0  
0  0

## NATIONAL REFORMS COUNCIL MEETING No. 16 Tax reform

### Main decisions:

- ▶ Upheld a compromise version of the tax reform and recommended that the Cabinet of Ministers and the relevant committee of the Verkhovna Rada refine associated draft laws;
- ▶ Recommended that the government take action to prevent monopoly in the payment transactions registers and related maintenance services market, and to create an enabling environment for the use of contemporary and state-of-the-art mobile devices to register payment transactions

# Calendar of Meetings

**14**  
December

**NATIONAL REFORMS COUNCIL MEETING No. 17**  
**State-owned enterprise governance reform**

**Main decisions:**

- ▶ Recommended that the Parliament expedite decisions with respect to unblocking the privatization process;
- ▶ Recommended that the government and the Verkhovna Rada take action to promptly compile an optimal list of state-owned property not subject to privatization

2 2  
 0  
 0  
 0

**25**  
May

**NATIONAL REFORMS COUNCIL MEETING No. 19**  
**Government's Priority Action Plan 2016**

**Main decisions:**

- ▶ Recommended that the government approve the refined Draft Government's Priority Action Plan 2016;
- ▶ Recommended that the government approve the refined Draft Facilitated the regulatory response to the delegation of power to supervise employment and compensation of employees to local governments;
- ▶ Recommended that the government approve the refined Draft Ensured development of an effective mechanism to address the problem of housing for military personnel

8 5  
 3  
 0  
 0

**29**  
September

**NATIONAL REFORMS COUNCIL MEETING No. 21**  
**Attraction of investments to Ukraine. Deregulation. Establishment of the Cultural Fund of Ukraine**

**Main decisions:**

- ▶ Seconded a motion to establish the National Investment Council;
- ▶ Upheld the Better Business Regulation Delivery Concept and Concept for Further Merger of Licensing System and Administrative Service System;
- ▶ Upheld the proposed establishment of the Financial Investigation Service as the body combating financial crime in order to consolidate respective powers;
- ▶ Recommended that the Parliament pass amendments to the Law of Ukraine On the List of State-Owned Property not Subject to Privatization to improve agricultural, transport and fuel and energy enterprise governance efficiency;
- ▶ Compiled a list of deregulation draft laws for government consideration and approval;
- ▶ Refined the Draft Law On the Cultural Fund of Ukraine mindful of motions submitted during discussion of the conceptual framework of its operation

8 5  
 3  
 0  
 0

2016

**19**  
April

**NATIONAL REFORMS COUNCIL MEETING No. 18**  
**Priority reform actions. De-offshorization. Judicial reform implementation progress**

**Main decisions:**

- ▶ Refined draft priority action plan for reform of the country over the following 100 days, the 2016 reform action plan, and the list of top priority and other draft laws to be passed in 2016 as part of cooperation with the IMF and EU, and as part of implementing other reforms in Ukraine;
- ▶ Developed a draft plan of actions to combat tax base erosion and profit shifting mindful of OECD initiatives;
- ▶ Recommended that the Parliament pass the Draft Law On Amendments to the Constitution of Ukraine (On Justice) and the Draft Law On Amendments to Some Laws of Ukraine with respect to Improvement of Certain Legislative Provisions on the Judiciary and the Status of Judges;
- ▶ Submitted the Draft Law On Amendments to Procedural Legislation, the Draft Law On Amendments to Law of Ukraine On Advocacy and Legal Practice and draft laws necessary for constitutional amendments on justice to the President of Ukraine for his consideration

15 7  
 6  
 0  
 2

**7**  
June

**NATIONAL REFORMS COUNCIL MEETING No. 20**  
**Energy Efficiency and Energy Saving**

**Main decisions:**

- ▶ Recommended that the government speed up consideration of the concept and action plan for the establishment of the Energy Efficiency Fund;
- ▶ Recommended that the Parliament pass the Draft Law On Electricity Market of Ukraine, and that the National Commission for State Regulation of Energy and Public Utilities and the government develop a roadmap for its implementation;
- ▶ Addressed optimization of subsidies in public utilities and their monetization;
- ▶ Recommended that the Ministry of Energy and Coal Industry and the National Commission for State Regulation of Energy and Public Utilities take action to increase energy efficiency of fuel and energy, in particular speed up the implementation of projects aimed at the construction of pumped storage plants, the rehabilitation of existing nuclear power plants, and the reduction of transmission and distribution costs

10 6  
 4  
 0  
 0

**25**  
October

**NATIONAL REFORMS COUNCIL MEETING No. 22**  
**Tax reform. Implementation of OECD BEPS recommendations as a necessary precondition for liberalization of foreign exchange regulatory framework**

**Main decisions:**

- ▶ Upheld fundamental provisions of the Draft Law On Amendments to Tax Code of Ukraine mindful of submitted motions;
- ▶ Recommended that the government and the relevant committee of the Verkhovna Rada of Ukraine analyze the situation as to evading taxes by large and medium-sized companies through separation of certain functions to qualify for the application of a simplified taxation system, and take necessary action to make the use of respective schemes impossible;
- ▶ Recommended that the NBU, the government, and the Verkhovna Rada Committee on Taxation and Customs Policy conduct public hearing on draft laws developed in pursuance of the Decree of the President of Ukraine On Combating Tax Base Erosion and Profit Shifting

8 5  
 1  
 2  
 0



## Renewal of Government and anti-corruption reform

### What has been achieved

#### Renewal of government:

- Information on 936 individuals was entered into the [Unified State Register of persons subject to the provisions of the Law of Ukraine "On Cleansing of Government"](#) (as of 12/26/2016).

- Revised [draft amendments to the Law "On Cleansing of Government" \(No. 2695\)](#) were included in the parliamentary agenda on **16.06.2016**, however their adoption is still pending. Also there has been registered a draft law amending the Law of Ukraine "On Cleansing of Government" (regarding improvement of the legal provisions) **No. 5563 of 20.12.2016**, supported by the Ministry of Justice of Ukraine.

- Following the plan of conducting an audit in accordance with the Law of Ukraine "On Cleansing of Government", approved by CMU Res. No. 1025-r of 16.10.2014, an audit of public officials and officers (except for elected positions) has been started in all government agencies and local governments, following the requirements of the legislation.

#### Anti-corruption reform:

- [The National Anti-Corruption Bureau \(NABU\)](#). 2016 has become the first year of NABU's effective operation and the time to face its first serious challenges. Recruitment (in December 2015, when the Bureau registered its first criminal proceedings in the

Unified Register of Pretrial Investigations, the staff of the agency included only about 60 detectives) and building of the organizational processes from scratch took place simultaneously.

Under the supervision of the Special Anti-Corruption Prosecutor's Office (SAPO) the Bureau detectives carried out investigations in 264 criminal proceedings (as of late January 2017). The court has handed down convictions in 12 proceedings. More than UAH 100 million was returned to the state budget.

As of January 2017, the size of damage caused to the interests of the state, investigated by the detectives of the Bureau, reached UAH 82.9 billion. For their protection during investigations, there were seized: cash (UAH 601.94 mln, USD 80.16 mln, EUR 7.41 mln), 114 land plots, 66 apartments, 54 non-residential premises, 27 houses, 69 vehicles and 2 airplanes, 228 agricultural units, 1 property complex, and securities worth USD 75.5 mln.

Almost one in five proceedings investigated by the Bureau concerned the abuse at enterprises in which the state held 50% or more of the shares. Thanks to the efforts of the Bureau's detectives, it became possible to expose corruption schemes in PJSC *Ukrzalydobuvannya*, JSC *Ukrzaliznytsia*, Odesa Near-Port Plant, the State Food and Grain Corporation; and the Bureau prevented embezzlement of UAH 480 million, provided to Ukraine under the Kyoto Protocol. On average due to the Bureau's involvement, nearly UAH 600 million in stolen public funds has been recovered. Thus, the Bureau fulfills one of its key purposes: it does not only eliminate corruption abuses, but also

prevents the emergence of new corruption schemes to replace the old ones.

The Bureau detectives pay serious attention to the activities of judges (at all levels) and prosecutors.

Special attention is also focused on the e-declarations. Although, the National Agency for Prevention of Corruption is responsible for the audit of e-declarations in line with the Law "On Prevention of Corruption", the Bureau, in turn, responds to calls regarding the facts contained in e-declarations that may indicate that the declarers committed corruption offenses. In particular, the Bureau detectives launched 25 criminal proceedings based on the facts of entry of false information to e-declarations or illicit enrichment. It is noteworthy that more than half of these proceedings relate to representatives of the judiciary.

In the second week of December 2016, a competitive selection of NABU senior detectives came close to completion. The number of applicants per one vacancy has reached more than 28 people (1160 persons submitted applications). On December 22, the selection panel began interviewing the candidates. The competition to fill the detective positions was even higher: 63 candidates for one position. Therefore, the Bureau can hire the best personnel through an open competitive selection. On the other hand, the door in the new law enforcement agency is open for those who have not worked previously in the system, which reinforces public expectations that new quality law enforcement agencies are emerging in the country. The NABU example shows that it is possible.

Since combating corruption requires the efforts of all citizens, the Bureau strengthens the communications component of its work. In the third quarter of 2016, a PSA about the fight against corruption was launched on national television channels. Also, a series of communication activities have been conducted among 18-25 year olds.

In October-December 2016, the Bureau held a series of negotiations, resulting in agreements on special cooperative arrangements with international partners. In particular, there has been a series of successful meetings with the leadership of the European Anti-Fraud Office (it provides continued support to the initiatives that are designed to reduce corruption and fraud in Ukraine, in particular, with the support of OLAF, this year Ukraine for the first time took part in the international seminar for the representatives of the agencies fighting corruption and fraud); cooperation agreements have been reached with the Corruption Prevention and Fighting Bureau (KNAB) of the Republic of Latvia; agreements with the Federal Criminal Police Office of Germany on exchange of information, experience, and advice. In general, the international partners gave a positive assessment of the Bureau's work.

- [Special Anti-Corruption Prosecutor's Office \(SAPO\)](#), since December 2015, SAPO has been conducting procedural oversight over all cases opened by the National Anti-Corruption Bureau. As of 28/12/2016, SAPO's prosecutors carried out procedural guidance in 280 criminal proceedings. 71 persons in 26 proceedings received notices of suspicion.



## Renewal of Government and anti-corruption reform

Reforms Monitoring Progress  
2016

As a result of the procedural guidance, SAPO forwarded 47 criminal proceedings to the court (including 16 proceedings in Q4) in 2016. At the same time, in 32 criminal proceedings the prosecutors sent indictments to the court and in 10 proceedings the prosecutors sent the indictment along with a plea bargain signed by the parties and in 5 cases prosecutors requested exemption from criminal liability.

SAPO evaluates the results of the courts in terms of consideration of corruption cases in 2016 as unsatisfactory: only in 9 proceedings the courts approved the plea bargain and closed 1 criminal proceeding. None of the 18 criminal proceedings submitted to the court during the 1H 2016 has been considered.

As a result of the open competition to select candidates for the SAPO prosecutor positions, on 27.10.2016 the selection panel recommended 15 persons to the SAPO Head. At the same time, two of them are the candidates from outside the system: a detective from the National Anti-Corruption Bureau of Ukraine and a chief of the legal department from a private company. After holding the necessary background checks all recommended persons were appointed as SAPO prosecutors.

By the end of the year, SAPO employed 38 prosecutors together with the senior management, including 35 persons responsible for procedural guidance. 7 prosecutorial positions were still vacant and the selection competition should be announced in the first months of 2017.

• **High Anti-Corruption Court.** The Law of Ukraine "On the Judiciary and the Status of Judges" issued on 02.06.2016 No. 1402-VIII provides for the establishment of the High Anti-Corruption Court as the court of first instance considering certain categories of cases, such as those investigated by the National Anti-Corruption Bureau and overseen by SAPO. The judgments of the High Anti-Corruption Court may be reviewed only by the Supreme Court of Ukraine.

Establishment and competitive selection of the judges of the High Anti-Corruption Court shall be announced within twelve months from the date of enactment of a separate law which will determine specific requirements to the judges of the Court.

By the end of 2016, the Parliament had not received a corresponding draft law. According to the Minister of Justice of Ukraine, the MPs from different factions in cooperation with the Ministry of Justice and civil sector have already developed a concept of the Anti-Corruption Court and the text of the bill should be ready in the first quarter of 2017.

The idea of creating a specialized anti-corruption court was also supported by the NABU Director, US and EU ambassadors to Ukraine.

• **The State Bureau for Investigations (SBI)** was established pursuant to the CMU Res. No. 127 of 29.02.2016 as a central law-enforcement executive body, whose activities are directed and coordinated by the CMU.

CMU Res. No. 125-r of 29.02.2016

approved the composition of the selection panel holding the competition to fill the positions of SBI Director, deputy directors, and directors of regional branches and heads of the departments in the SBI headquarter. The Panel began the work and was taking measures for the purpose of holding the competition to fill these positions and speed up the actual launch of the State Bureau for Investigations. On April 25, the rules of procedure of the Selection Panel were approved.

The requirements of the competition to fill the positions of SBI Director, First Deputy Director, and deputy directors were published on the official website of the CMU. According to the announcement, the application packages from the candidates willing to participate in the competition were received from 10.05.2016 to 08.06.2016. 81 candidates' applications were received in total.

According to the procedure rules, the Selection Panel held the following stages of the competition in 2016: testing candidates' knowledge of the legislation (professional test); general aptitude test; interviews with the candidates and making the decision by the Selection Panel to admit candidates for participation in the next stages of the competition.

According to the Minutes No. 30 drafted after the Selection Panel's meeting on December 5, 2016, 19 candidates were admitted to participate in the next stages of the competition based on the results of the interviews.

The next stage of the competition in accordance with Selection Panel's rules of

procedure will be a special audit envisaged in the Law of Ukraine "On Prevention of Corruption" and checks provided for by the Law of Ukraine "On Cleansing of Government."

• **The National Agency for Prevention of Corruption (NAPC).** On August 15, 2016 the National Agency for Prevention of Corruption announced about the beginning of its work in accordance with the decision, published on its official website. The decision was adopted pursuant to the State Program for Implementation of the Anti-Corruption Strategy.

NCPA is a collegial body consisting of five Members who coordinate the work of the structural units according to the division of responsibilities. Currently, four of the five NCPA members were selected:

- Natalia Korchak, Head of NAPC - prevention of political corruption;
- Ruslan Radetskyi, Deputy Head of NAPC - financial control and monitoring of lifestyle;
- Oleksandr Skopych, NAPC Member - organization of measures to prevent and expose corruption;
- Ruslan Ryaboshapka, NAPC Member - anti-corruption policy and enforcement of the laws regarding the conflict of interest and other corruption prevention restrictions;

NAPC includes 311 positions, where 213 staff members were appointed as of December 15, 2016, representing 68.5% of the total. The appointment took place both by transferring staff from other central



## Renewal of Government and anti-corruption reform

executive authorities and based on competitive procedures, which resulted in appointing 92 persons to the NACP headquarter's positions.

57 meetings of NACP were held during 2016 (the first one took place on March 28, 2016), which resulted in 279 decisions, approving the following:

- reporting form for the political parties covering the information about property, income, expenses, and financial obligations;
- the procedure of drafting reports on administrative violations and issuing orders by NACP;
- the list of positions featuring high and increased level of corruption risks;
- the procedure of holding anti-corruption audit of legal acts by NACP;
- the procedure for submission of political parties reports on property, income, expenses and financial obligations;
- the procedure of holding inspections by the NACP;
- provision regarding the analysis of political parties reports on property, income, expenses and financial obligations;
- NACP inspections plan for 2017;
- methodology for assessment of corruption risks in governmental institutions.

At the end of 2016, there were implemented the requirements of the Law of Ukraine "On

Political Parties in Ukraine" in terms of the provision of government funding for the chartered activities of political parties in the amount of UAH 167.6 million (financing was received by 5 political parties). Government funding was received by: "People's Front" Party – UAH 50.3 million; "Petro Poroshenko Block" – UAH 49.5 million; "Samopomich" Association – UAH 44.5 million; "The Radical Party of Oleh Lyashko" – UAH 16.9 million; "Motherland" (Batkivshchyna) Political Party – UAH 6.5 million.

Political parties sent 195, 200, and 254 reports for Q1-Q3 respectively, which were published on the official website of the Agency. NACP also completed the analysis of these reports. 17 administrative violation reports were drawn up for late submission, and following the results of the court consideration two persons were fined.

NACP adopted the Guidelines on prevention and settlement of the conflict of interest in the activities of persons authorized to perform functions at the central or local government and persons with a similar status and the Guidelines on transferring of companies and/or corporate rights to prevent conflicts of interest aiming at prevention and settlement of conflict of interest and other corruption prevention restrictions.

In order to implement integrity standards, within the framework of the joint project of NACP and UNDP Ukraine a series of seminars (14) on "The Conflict of interest: things you need to know!" were held for civil servants of executive bodies, regional and district administrations, council members and local government officials.

By the end of the year more than 240

inspections were initiated and conducted as part of the work to comply with the provisions of the legislation on ethical behavior, receiving gifts and following the restrictions set by the Law of Ukraine "On Prevention of Corruption". Two orders regarding the violations of the Law and 5 reports on administrative offenses were drafted based on the results of inspections regarding conflict of interest.

- [The National Agency for Identification, Tracing, and Management of Assets Derived from Corruption and Other Crimes](#). In late 2015, the Verkhovna Rada of Ukraine adopted the Law of Ukraine "The National Agency for Identification, Tracing, and Management of Assets Derived from Corruption and Other Crimes", establishment of which is one of the key performance indicators for the second phase of the Action Plan to liberalize the EU visa regime for Ukraine.

On February 18, the Parliament adopted Amendments to the Law "The National Agency for Identification, Tracing, and Management of Assets Derived from Corruption and Other Crimes" (Law No. 1021-VIII of 18.02.2016). The Law gave broader rights to the Agency to manage those assets that have been seized or confiscated because of their illegal origin. The Agency also received the right to sell seized property if its prolonged storage leads to depreciation of assets. The Register of assets that are seized in criminal proceedings will be open. The Parliament, in the second hearing also approved the Law "On Special Confiscation and Seizure" in the wording required by the European Union (Law No. 1019-VIII of 18.02.2016).

CMU Res. No. 104 issued on February 24, 2016 established the the National Agency for Identification, Tracing, and Management of Assets Derived from Corruption and Other Crimes as a central executive body with special status supervised by the CMU.

In accordance with Article 3 of the above Law, the Head of the Agency is appointed by the CMU for five years based on the results of open competition.

Anton Yanchuk was appointed as the Head of the National Agency for Identification, Tracing, and Management of Assets Derived from Corruption and Other Crimes for five years by the CMU Res. No 924-r issued on December 7, 2016.

- [A new system of submitting property declarations of civil servants in electronic format](#). On August 14, the National Agency for Prevention of Corruption (NACP) decided to launch the system of electronic declarations, which started working on August 15, 2016. At the same time, on August 18, 2016 NACP decided to terminate the operation of the system until improvements are made to complete the development of a comprehensive information security system and obtain the certificate of conformity.

The National Agency approached UNDP Ukraine with a proposal of a complete transfer of software and relevant technical documentation to the Agency.

After receiving the documents, on August 25, 2016 the NACP signed a contract with the State Research Institute for Special Communications and Information Protection regarding adjustment of documentation and



## Renewal of Government and anti-corruption reform

software for building a comprehensive information security system for electronic declaration.

After completion of the evaluation, on August 31, 2016 the State Special Communications Service of Ukraine issued a Certificate of Conformity of the comprehensive information security system for "The Unified State Register of declarations of persons authorized to perform government functions at the central and local level."

On September 1, 2016, the system of electronic declarations was commissioned for permanent (industrial) use. The deadline for filing e-declarations for the year 2015 for persons holding responsible positions was due October 30, 2016.

By the end of 2016, the Register received 135 949 electronic documents:

- **Annual declarations for 2015** - 107 050 including:
  - MPs – 418,
  - persons holding public service positions of category A and B – 65 542,
  - officials of local self-government – 1 053,
  - judges – 7 019,
  - prosecutors – 10 198,
  - investigators – 11 078,
  - CMU officials – 78;
- **reports on changes in the property situation** – 746;

- **declarations from the candidates to fill public positions** – 2 276;

- **corrected** – 20 334.

Other subjects of the declaration process should submit 2016 e-declarations before April 1, 2017.

The Register of declarations is constantly being improved and technical flaws are eliminated.

The National Agency creates a legal framework which should regulate the activities of financial control. The following has been already approved and registered with the Ministry of Justice:

- The procedure of formation, keeping and publication (provision) of information from the Unified State Register of declarations of the persons authorized to perform the functions at the central or local government level;
- The format of the declarations for the persons authorized to perform the functions at the central or local government level;
- The reporting form on significant changes in the property status of the subject of declaration;
- The procedure for reporting about foreign currency accounts opened in foreign banks;
- The procedure of verifying the fact of submission of declarations and reporting about failure or late submission.

The procedure for lifestyle monitoring and the procedure for performing control and complete verification of a declaration have been developed and went to the public consultations (posted on the official website of the National Agency).

Contracting work is underway regarding NAPC access to databases of government agencies, authorities of the Autonomous Republic of Crimea and local self-governments.

By the end of December 2016, memoranda of cooperation had been signed with the Ministry of Justice, SFI, SFS, Statefinmonitoring, the Transportation Safety Agency, the State Commission for Securities and Stock Market, the Pension Fund of Ukraine, the Ministry of Transport.

- **A joint government and civic initiative "Together Against Corruption"**. On December 9, on the International Anti-Corruption Day, Kyiv hosted a large-scale anti-corruption forum. The organizers of the forum "The International Anti-Corruption Day in Ukraine 2016" were leading reformist organizations and the main idea of the event was "anti-corruption networking" - active cooperation of the authorities and the public in combating corruption.

One of the main topics of the forum was a joint government and civic initiative "Together against Corruption". The meaning of the initiative lies in the synergy of anti-corruption efforts. More than 120 experts from various public organizations had active cooperation with the representatives of ministries and government agencies developed 83 anti-corruption measures, which were approved at the CMU meeting (Decree No. 803 of October 5).

The initiative is a consolidated plan of anti-corruption measures of the ministries, elaborated by the specialists of the ministries and CMU Secretariat together with relevant experts from the public (RPR, TI Ukraine and other) and the Project Office of the National Reforms Council. The initiative aimed to fulfill three main objectives: 1) joining the efforts of the CMU and civil society to fight corruption in Ukraine; 2) introduce a comprehensive and systemic approach to the implementation of anti-corruption reform; 3) ensuring effective communications with the public and restoring confidence in the government.

Summarized interim results of the Implementation Plan and "Anti-Corruption Awards" ceremony are scheduled for spring 2017.

The initiative is only the beginning of a regular process of anti-corruption work in the ministries and other central executive authorities. The NAPC will be responsible for that in the future.

- **Perception of corruption in the society**. According to a survey conducted by TNS in December 2016, the least corrupt, according to respondents, are the patrol police and the establishments of secondary and primary education (these establishments retained their leading role throughout the year). The most corrupt were the customs, courts, prosecutors, old police, and tax inspection. Absence of corruption in the new police is often reported by EU supporters and participants of the Maidan Revolution. The representatives of the western regions of Ukraine and active participants of Maidan are more certain about corruption prevailing in the fiscal/customs service and the courts, while Kyivans report about corruption in local



## Renewal of Government and anti-corruption reform

government. End-of-year results show a significant positive trend demonstrated by the educational institutions at all levels, health sector institutions as well as the military and local authorities.

More than a half of the respondents believe that the priority is the fight against corruption in courts and law enforcement agencies (61% and 51%, respectively).

The share of respondents who personally faced corruption during the year has not changed significantly, and equals 29%. However, the evaluation of corruption experience of encirclement decreased by 12% (from 66% to 54%).

More than half of respondents (55%) who faced corruption stated that they realized that the situation would not be resolved without a bribe.

Most respondents indicated that if in the future they had to face a situation of corruption they would not give bribes and 37% indicated that they would try to resolve the matter officially; one in ten would report bribery to the police. But 11% of respondents would still give bribes to quickly resolve their issues.

The vast majority (85%) of respondents believe that an active fight against corruption is not happening in Ukraine.

Among the measures taken by the government to combat corruption, 15% of respondents mentioned opening criminal cases against corrupt officials, 11% said that the state was prosecuting those who give bribes, 7% mentioned that the state made punishment for corrupt officials harder and

inevitable. More than half of respondents (55%) did not notice any of that.

About a quarter of respondents believe that in 10 years corruption in the country will be defeated. 30% believe that it will take more than 10 years. 42% do not believe that corruption in Ukraine can be defeated at all. Mostly, this opinion is shared by women (48%), the respondents who favor Ukraine's joining the Customs Union (60%), those who are indifferent towards the idea of the referendum on foreign policy orientation (63%), opponents of the Maidan protest (63%) and those who are indifferent towards it (61 %).

Therefore, positive communications should be aimed at informing the public about real accomplishments in anti-corruption reform, building confidence in government institutions and faith in future success.

The indicator characterizing the potential of the society in the fight against corruption fell somewhat – 45% of respondents (in July – 50%) were willing to personally report if they witness cases of corruption. In this context it is relevant to amend legislation to protect whistleblowers.

Corruption whistleblowers evoke positive emotions from the majority of respondents: 50% consider them as persons fighting for their rights and 37% believe that they deserve support. Only 2% believe such a person is a "rat."

The main reason for proactive counteracting to corruption is a desire to have a better future for the kids and to establish justice and prosecute the perpetrators.

- **Anti-corruption communications.** Special anti-corruption communications working group, which was created under the auspices of the Anti-Corruption Reform Task Force of the Ministry of Justice of Ukraine, has developed a framework strategy for anti-corruption communications. The framework strategy outlined the key issues in the field of anti-corruption communications and corruption perception of in the society by defining the objectives of anti-corruption communications, providing recommendations to improve communication policies in the anti-corruption work, and included a list of indicators to measure the effectiveness of anti-corruption communications.

To implement the ideas outlined in the framework strategy and to ensure effective communications support the reform, a concept of a specialized anti-corruption communications platform has been developed. A communication platform called "DeCorruption" was publically launched as a part of the joint project between the Project Office of the National Reforms Council and Transparency International Ukraine with donor support by Pact (UNITER). Also a pilot communication campaign was launched called "Corruption should be noticed," which took into account the recommendations of the framework strategy for anti-corruption communications. Later, such campaigns should be implemented on a regular basis using the "DeCorruption" platform. Overall, the Platform will provide for a wide range of regular communications among the stakeholders involved in the anti-corruption reform and it will become an equal access platform with a high level of professionalism.

### What has not been achieved

- A long-term process for establishing the State Bureau for Investigations.
- The Parliament has not passed Bill No. 4812, which was intended to give the National Anti-corruption Bureau the right to autonomously receive information from communications channels – this right is essential to ensure the institutional independence of the Bureau.

### What need to be done to accelerate reform

- Continue recruiting detectives and forming NABU HQ and regional offices. Complete the selection of anti-corruption prosecutors.
- Adopt legislative changes to improve NABU's efficiency and institutional independence, including those relating to the limited access to court decisions regarding investigations by the NABU detectives, the right to independent wire-tapping and limiting the immunity of Ukrainian MPs, etc.
- Prepare and submit to the Parliament a draft law on the establishment and effective functioning of the High Anti-Corruption Court of Ukraine.



## Renewal of Government and anti-corruption reform

- Ensure observance of a transparent and open procedure of forming the commission, which should conduct an audit of NABU in 2017 and prevent political pressure against it.
- Select the fifth member of the National Agency for Prevention of Corruption. Ensure proper operation of the electronic declarations system, access to databases of state agencies and control of timely filing, accuracy and completeness of filling, arithmetic and logical control.
- Ensure the development and adoption of effective anti-corruption programs in the central executive authorities with the involvement of civil society.
- Elect the senior management of the State Bureau for Investigations.
- Provide support and monitor the implementation of the anti-corruption action plan in a joint government and civic initiative "Together against Corruption".
- Adopt the Draft Law "On the Business Ombudsman Institution" (No. 4591).
- Amend the laws protecting persons who report about corruption and other dangerous offenses (whistleblowers). In particular, it should cover protection of whistleblowers at the stage of reporting about corruption, creation of a secure channel for receiving reports on corruption, financial rewards for whistleblowers, recognition of audio and video records documenting the facts of corruption, provided by the whistleblower in the process of disclosure of information, the evidence in the case, etc.
- Ensure effective functioning of the "DeCorruption" communication platform.





# Government revitalization and anti-corruption reform

## NABU and SAPO performance results, January 2017

# 264

criminal cases initiated

# 158

notices of suspicion served

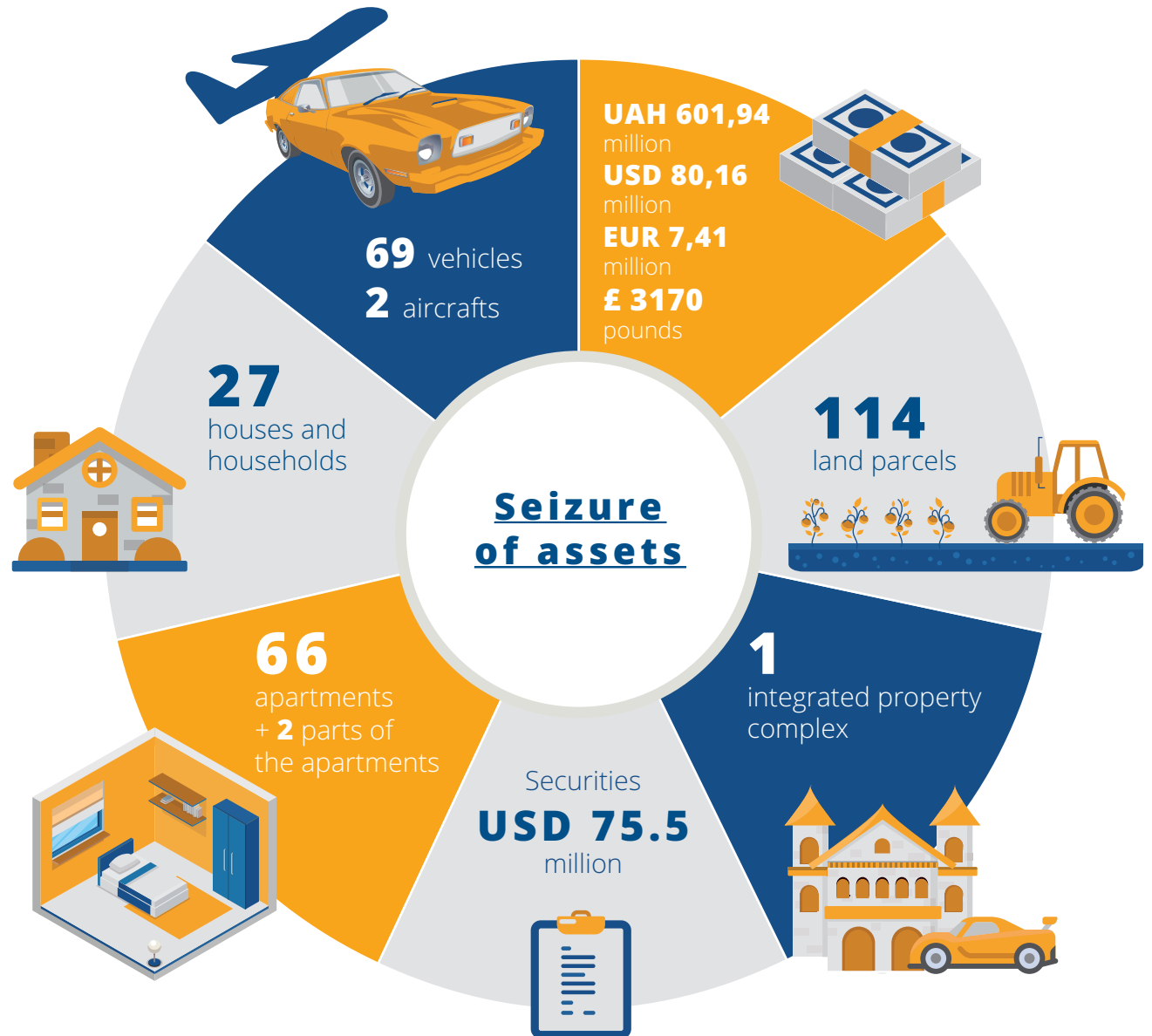
# 50

cases filed in court

including

# 12

on indictment



What is meant here is seizure of assets rather than their confiscation and transfer of title to the state. The latter matters fall within the remit of the court.



# Government revitalization and anti-corruption reform



## FIELDS OF ACTIVITY OF NATIONAL AGENCY ON CORRUPTION PREVENTION — NACP



### E-ASSET DECLARATION FOR PUBLIC OFFICIALS

- verification of public officials e-asset declarations
- public officials lifestyle monitoring
- access to the property registers data
- documenting administrative offences against financial control regulations



### POLITICAL CORRUPTION PREVENTION

- supervision over political parties financial reports
- state funding of political parties
- documenting administrative offences in this field



### SETTLEMENT AND PREVENTION OF CONFLICT OF INTERESTS

- settlement and prevention of conflict of interests
- supervision over compliance with legislative limitations regarding acceptance of presents and holding of more than one office
- documenting administrative offences in this field
- development of mandatory regulations in this field



### CORRUPTION PREVENTION AND COOPERATION WITH WHISTLEBLOWERS

- cooperation with whistleblowers exposing corruption and their protection
- coordination of state anti-corruption programs and typical anti-corruption programs of legal entities
- corruption risks analysis
- checkup of state institutions in order to prevent corruption



### ANTI-CORRUPTION POLICY

- development of anti-corruption strategy and implementation of anti-corruption policy
- research on the state of corruption
- organization of information campaigns in order to strengthen negative attitude of the society towards corruption
- anti-corruption examination



### ACCESSIBLE ONLINE REGISTERS RUN BY NACP



Unified State Register of public officials E-Asset Declarations

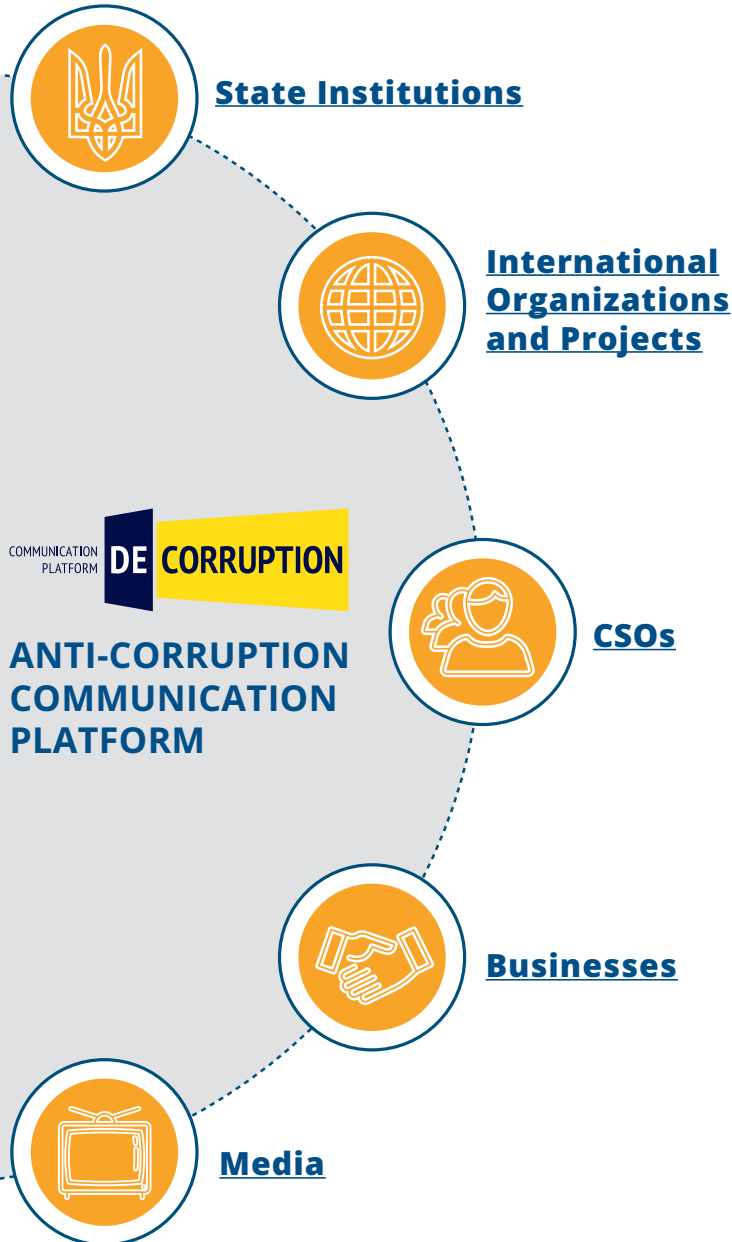


Unified State Register of Corruption Offenders





# De-Corruption communication platform



## SUPPORTS IMPLEMENTATION OF THE ANTICORRUPTION REFORM VISION

- SUPPORTS DEVELOPMENT OF A/C POLICY AND IMPLEMENTATION OF A/C STRATEGY**
  - Mobilization of resources, including international donors and civil society, in order to identify problems/obstacles in a/c reform implementation
  - Development of a/c policy through discussions with stakeholders
  - A/c reform progress monitoring with regard to the implementation of a/c reform objectives and international obligations
- SUPPORTS DEVELOPMENT OF VARIOUS COMMUNICATIONS TOOLS AND INITIATIVES**
  - Comprehensive studies
  - Joint a/c communications campaigns
  - Joint investigations
  - Public access databases
  - Joint specialized media projects / publications
  - Joint activities – conferences, round tables, seminars, etc
- SUPPORTS MORE COMPREHENSIVE, BALANCED AND BETTER-COORDINATED A/C COMMUNICATIONS**
  - Provides better coverage
  - Instills belief in reform success through a balanced coverage of achievements and criticism
  - Successful combination of communications initiatives
- PROVIDES EQUAL ACCESS AND SUPPORTS CIVIL SOCIETY DEVELOPMENT**
  - Equal access to communications channels / target audiences
  - Equal access to resources, including donor financing
  - Equal access to efficient tools to counter corruption
  - Equal access to joint a/c communications campaigns
- TRAINS, SPREADS EXPERIENCE AND BEST PRACTICES IN THE FIELD OF A/C COMMUNICATIONS**
  - News, analytical articles, studies
  - A/c resource libraries
  - On-line training courses, trainings, seminars on efficient a/c communications, experience sharing sessions
  - Extension services in the field of efficient a/c communications
  - Outsource of resources to the state sector to conduct efficient a/c campaigns



## Statistics relating to e-declarations filed



**107 050**  
annual declarations  
for 2015\*



**746**  
reports on changes in  
the property situation



**418**  
MPs



**65 542**  
persons holding public  
service positions of  
category A and B



**1 053**  
officials of local  
self-government



**7 019**  
judges



**10 198**  
prosecutors



**11 078**  
investigators



**78**  
CMU officials



**2 276**  
declarations from the  
candidates to fill  
public positions



**20 334**  
corrected

\*as at year-end 2016



## Public procurement reform

### ■ What has been achieved

#### ProZorro: regulatory framework and technical functionality

- In pursuance of the Law of Ukraine On Public Procurement, April 1, 2016 saw the launch of ProZorro 2.0 offering, among other things, above threshold procurement functionality. The same day ProZorro use became mandatory for central executive authorities and monopoly enterprises. Public procurement entities were obligated to use ProZorro starting August 1, 2016;
- The Law of Ukraine On Specific Aspects of Procurement of Goods, Works and Services to Securely Provide for Defence Needs was enacted which allowed for considerable improvement in public procurement efficiency and savings for the Armed Forces during the special period;
- 18 authorized platforms provide access to the system. Platform testing and accreditation is underway;
- ProZorro is now capable of integration with the Unified State Register of Legal Entities, Sole Proprietors and Public Associations.

#### Training and support

- MEDT and the ProZorro team jointly with the EU-funded Harmonization of Public Procurement System in Ukraine with EU Standards Project set up a Prometheus-based online training course on public procurement. Preparations to launch a similar training course for business entities and potential suppliers are nearing completion;

- ProZorro's Training Department established 4 training courses – 3 for customers and 1 for participants;
- State-Owned Enterprise Zovnishtorgvydav of Ukraine (renamed to SOE ProZorro) delivered two TOT (training of trainers) sessions to regional activists. 36 trainers known as "ProZorro Agents" operate across Ukraine;
- Generator of sample specifications for most in-demand goods and services is now available at [infobox.prozorro.org](http://infobox.prozorro.org). The stocking of sample specifications library is underway;
- A new explanation portal, allowing to consult MEDT's Public Procurement Regulation Department online, set up;
- A public procurement training and professional development centre set up jointly with the Kyiv School of Economics.

#### Risk management, analytics, and monitoring

- ProZorro helped save UAH 9 billion (against year-end KPI target of UAH 5 million). Nearly 400 tenders worth almost UAH billion put into the system;
- ProZorro integrated with e-data portal, thereby allowing its users to track Treasury payments under awarded contracts (007 service);
- DoZorro monitoring web portal for business entities, social activists, mass media, and regulators set up;
- Creation of ProZorro's automated risk management system to identify low competition tenders and analyse respective reasons got underway.

#### Reform popularization and attraction of bidders

- "Online System Beats the Bribee" advertising campaign developed and implemented in five regions of Ukraine as part of anti-corruption initiatives triggered by the US Embassy. Outdoor advocacy advertising opportunities exploited in 17 regions of Ukraine;
- Transparency and Accountability in Public Administration and Services (TAPAS) Program to channel extra funds to strengthen technologies, deliver training, and promote the ProZorro system launched jointly with USAID.

#### Central Procurement Organizations

- Pilot project to set up Central Procurement Organizations launched. Secretariat of the Cabinet of Ministers of Ukraine, ministries, and other central executive authorities will participate in centralized procurement pilot. It is expected that upon successful completion of the pilot project the CPO experience would be cascaded down to the regional level.

#### International cooperation and recognition

- Ukraine accession to WTO GPA made the public procurement markets of 46 countries worth USD 1.7 trillion accessible to Ukrainian business. A dedicated GPAinUA office was set up to support Ukrainian exporters in entering public procurement markets of foreign countries;
- The Ministry of Economic Development and Trade of Ukraine received the most sought after international award in the field of procurement "World Procurement Awards 2016" for the development and implementation of an electronic system

with a unique architecture – ProZorro;

- ProZorro won first place at the third annual Open Government Awards 2016;
- Ukraine won the right to host the Procurement, Integrity, Management and Openness (PRIMO) Forum 2017 – a major international forum on public procurement. The decision was taken during the PRIMO 2016 conference in Astana, Kazakhstan.

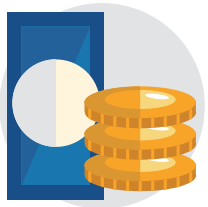
### ■ What needs to be done

Amend Law of Ukraine On Public Procurement (respective amendments are currently being developed by MEDT's Public Procurement Regulation Department).



# Public procurement reform

## ProZorro system statistics\*



### Amount saved

**2015**

**UAH 57.75 million**

**2016**

**UAH 9 billion**



### Number of procuring entities

**2015**

**985**

**2016**

**20 thousand**



### Number of tenders entered into the system

**2015**

**6.32 thousand**

**2016**

**420 thousand**



### Target amount

**2015**

**UAH 435 million**

**2016**

**UAH 200 billion**

\*According to public Bi-module data as at December 2016 year over year



## Decentralization reform

### What has been achieved

#### 1. Legislative support to reform:

► Partial delegation of powers from central executive authorities to local governments ensured

The following laws of Ukraine have become effective or are being implemented:

- Law of Ukraine On Amendments to the Law of Ukraine On Voluntary Merger of Territorial Communities Concerning Special Aspects of State Registration of Local Government Authorities as Legal Entities No. 925-VIII;
- Law of Ukraine On Amendments to the Law of Ukraine On State Registration of Titles to Immovable Property and Encumbrances Thereon and to Some Other Legislative Acts of Ukraine Concerning Decentralization of Powers to Perform State Registration of Titles to Immovable Property and Encumbrances Thereon No. 834-VIII;
- Law of Ukraine On Amendments to the Law of Ukraine On State Registration of Legal Entities and Sole Proprietors and to Some Other Legislative Acts of Ukraine Concerning Decentralization of Powers to Perform State Registration of Legal Entities, Sole Proprietors and Public Associations No. 835-VIII, amending Law of Ukraine On State Registration of Legal Entities and Sole Proprietors;
- Law of Ukraine On Amendments to Some Legislative Acts of Ukraine Concerning

Decentralization of Architectural and Construction Control and Improvement of Urban Planning Legislation No. 320-VIII, empowering local governments in urban development regulation, and architectural and construction supervision and control.

► The following laws of Ukraine tackling local government development issues have been enacted or have come into effect:

- Law of Ukraine On Amendments to the Budget Code of Ukraine with Respect to Crediting of Certain Administrative Fees to Local Budgets № 1509-VIII;
  - Law of Ukraine On Amendments to Article 59 of the Law of Ukraine On Local Self-Government in Ukraine Concerning Roll-Call Voting No. 842-VII.
- The Cabinet of Ministers of Ukraine adopted, among others, the following regulations addressing reform:
- Resolution On Certain Issues of Transferring Subventions from the State Budget to Local Budgets for the Formation of Merged Territorial Community Infrastructure (Concerning the Subvention Transfer Procedure and Subvention Allocation Terms 2016) No. 200 of March 16, 2016;
  - Order On Certain Issues of Implementation of the Concept of Reform of Local Self-Government and Territorial Organisation of Power in Ukraine (with respect to Updating the Action Plan for the Implementation of the Concept of Reform of Local Self-Government and Territorial Organisation of Power in Ukraine) No. 688-p of September 22, 2016;

- Order On Recognizing Merged Territorial Communities of Zakarpattia Oblast as Capable No. 620-p of August 31, 2016;
  - Order On Updating Long-Term Perspective Plans for the Formation of Community Territories in Zaporizhzhya and Kirovohrad Oblasts No. 718-p of October 5, 2016;
  - Order On Updating Long-Term Perspective Plan for the Formation of Community Territories in Kharkiv Oblast No. 992-p of December 21, 2016;
  - Order On Amending the Methodology for the Formation of Capable Territorial Communities No. 601 of September 8, 2016;
  - Order On Certain Issues of Financing First Elections of Village, Settlement and City Council Deputies as well as Mayors and Heads of Merged Territorial Communities No. 696-p of September 22, 2016;
  - Resolution On Amendments to Certain Resolutions of the Cabinet of Ministers of Ukraine No. 79 of January 20, 2016 with respect to, inter alia, Regulations On Education Precincts (Supportive General Education Institutions and Their Branches) as amended, approved by Resolution No. 777 of August 27, 2010;
  - Resolution On Approval of the Procedure for Setting Up Hospital Precincts No. 932 of November 30, 2016, to provide the public with timely access to quality secondary health care services, optimize resources of healthcare institutions, etc.
- The Ministry of Regional Development, Construction, Housing and Utilities of Ukraine issued the following orders,

including those adjusted, in pursuance of the enacted laws and regulations:

- On the Operation of Commission for the Consideration of Project Proposals Submitted by Executive Committees of City, Settlement and Village Councils of Merged Territorial Communities with respect to Projects Eligible for Financing out of Subventions from the State Budget to Local Budgets for the Formation of Merged Territorial Community Infrastructure No. 73 of March 28, 2016;
- On Approval of Methodological Recommendations for the Execution and Implementation of Pro Forma and Policy Papers on Socio-Economic Development of Merged Territorial Communities No. 75 of March 30, 2016;
- On Approval of the Project Proposal Form with respect to Projects Eligible for Financing out of Subventions from the State Budget to Local Budgets for the Formation of Merged Territorial Community Infrastructure No. 82 of April 5, 2016, registered with the Ministry of Justice of Ukraine under No. 577/28707 on April 18, 2016;
- On Approval of Amendments to Regulations on the Competition for Local Governance Best Practices No. 92 of April 12, 2016, registered with the Ministry of Justice of Ukraine under No. 676/28806 of April 12, 2016;
- On Approval of the Local Governance Best Practices Contest 2016 No. 142 of June 8, 2016;
- On Determining the Winners of the 2016 Competition for Local Governance Best Practices No. 320 of December 7, 2016.



## Decentralization reform

► There are the following draft laws currently before the Verkhovna Rada of Ukraine which, if enacted, will facilitate implementation of the decentralization initiatives and local government reform:

- On Amendments to Certain Legislative Acts of Ukraine Concerning Special Aspects of Voluntary Merger of Territorial Communities Located within Adjacent Rayon Areas (registration No. 5520) (envisaging amendments to the Law On Voluntary Merger of Territorial Communities and the Land Code of Ukraine concerning changes in rayon boundaries in the event of merger of territorial communities of the neighbouring councils, whose jurisdictional boundaries are located in different but adjacent rayons within the same oblast);
- On Amendments to Certain Legislative Acts of Ukraine (Concerning Voluntary Annexation of Territorial Communities) (registration No. 4772 of September 20, 2016, passed through first reading) (envisaging a simplified procedure for annexation of communities to already formed voluntary territorial communities, which have gained the “capable” status, under respective long-term prospective plans);
- On Amendments to the Budget Code of Ukraine (Concerning Voluntary Annexation of Territorial Communities) (registration No. 4773 of September 20, 2016, passed through first reading) (stipulating that the right to transition to direct transfers from the State Budget also belongs to territorial communities merged under the Law and recognized as capable in the manner prescribed by the Law);

- On Amendments to Certain Legislative Acts of Ukraine (Concerning the Status of Village or Settlement Headperson) (registration No. 4742 of September 8, 2016, passed through first reading) (more clearly determining the headperson status, remit, territorial area of responsibility, grounds and procedure of the termination of office, job security; and introducing the notion of “headperson’s precinct” to be located within the jurisdictional boundaries of merged territorial communities’ councils);
- On Amendments to Certain Legislative Acts of Ukraine Concerning the Acquisition of Authority of Mayors and Heads of Village or Settlement Councils (registration No. 4110 of September 22, 2016, passed through first reading), (amending the Law On Local Self-Government in Ukraine and the Law On Local Elections by regulating the acquisition of powers of a mayor or head of village or settlement council, and legally framing the restrictions with respect to concurrent employment while in offices referred to hereinabove);
- On Service in Local Government Bodies (as amended) (registration No. 2489, introduced by government) (synchronizing the service in local government bodies with the Law of Ukraine On Civil Service, which is already in effect);
- On Amendments to Certain Legislative Acts of Ukraine to Lift Artificial Restrictions to Exercise the Right to Privatization, Use and Enjoyment of Land (registration No. 3190) (simplifying the procedure for titling of privatization, use and enjoyment of land, streamlining the procedure for titling of real estate, abolishing the requirement to

develop a land allocation project for the transfer of title (use) thereto (thereof) to owner of building (structure) located thereon;

**In addition, the following draft laws affecting the functioning of territorial communities have been registered with the Verkhovna Rada of Ukraine:**

- Draft Law On Amendments to the Budget Code of Ukraine (to Strengthen Financial Self-Sufficiency of Merged Territorial Communities Budgets) No. 4690, stipulating that 25% of royalty payment for special water usage (save for royalty payment for special usage of water from water bodies of local importance) be paid to the budgets of merged territorial communities, whose agricultural lands are occupied by water bodies of national importance.
- Draft Law On Amendments to Certain Legislative Acts of Ukraine Concerning Euroregional Cooperation Groupings (ECGs) No. 4775, equipping local governments with a new instrument of cross-border cooperation, namely approval of agreements on Euroregional Cooperation Groupings and resolutions to set up ECGs;
- Draft Law On Amendments to the Law of Ukraine On Local Elections (Concerning Financing of First Elections of Headpersons) No. 3535, proposing to provide respective financing out of the state budget);
- Draft Law On Amendments to Certain Legislative Acts of Ukraine Concerning Elections of Headpersons No. 4091,

regulating the right of the council of a respective merged territorial community to determine whether it is feasible to elect a headperson from more than one locality;

- Draft Law On Amendments to the Law of Ukraine On Voluntary Merger of Territorial Communities (Concerning Government Support for Voluntary Merger of Territorial Communities) No. 3390, which passed through first reading on February 2, 2016, but which was excluded from consideration at second reading at the plenary session of the Verkhovna Rada of Ukraine of September 20, 2016.

► Work is underway on the following draft laws:

- Draft Law On Prefects, Draft Law On Local Self-Government in Ukraine (as amended), and Draft Law On Administrative and Territorial Structure, which, however, can be laid before Parliament provided that respective decentralization amendments have been introduced to the Constitution of Ukraine;
- Draft Law On Fundamentals of Administrative and Territorial Structure of Ukraine, setting forth, within the Constitution of Ukraine, the fundamentals of Ukraine’s administrative and territorial structure, and the procedure for setting up, liquidating, establishing and changing the boundaries of administrative and territorial units and localities, submitted for consideration in the Cabinet of Ministers of Ukraine after having been discussed at the meeting of the Verkhovna Rada Committee on State Building, Regional Policy and Local Self-Government.



## Decentralization reform

► The following instruments have been drafted, agreed with stakeholders, and submitted or prepared for submission for consideration in the Cabinet of Ministers of Ukraine:

- Draft Law On Fundamentals of Administrative and Territorial Structure of Ukraine;
- Draft Law on Amendments to Certain Legislative Acts of Ukraine to Strengthen Responsibility and Liability of Local Governments for Decisions Violating the Constitutions and Laws of Ukraine;
- Draft Law on Amendments to Certain Legislative Acts of Ukraine with respect to Charters of Territorial Communities Governing the Issues of Determining Legal Status, Procedure for Organization and Operation of Residence-Based Community Associations, and Procedure for Residence-Based General Meetings of Community Members;
- Draft Resolution of the Cabinet of Ministers of Ukraine On Certain Issues of Optimization of Territorial Organisation of Power (Concerning Establishment of Administrative Districts);

**Draft governmental acts adjusting long-term perspective plans for the formation of capable communities within oblasts:**

- Draft Order of the Cabinet of Ministers of Ukraine On Amending Order of the Cabinet of Ministers of Ukraine (On Updating Long-Term Perspective Plan for the Formation of Community Territories in Zhytomyr Oblast) No. 901 of August 12, 2015;

- Draft Order of the Cabinet of Ministers of Ukraine On Amending Certain Orders of the Cabinet of Ministers of Ukraine (On Updating Long-Term Perspective Plans for the Formation of Community Territories in Dnipropetrovsk and Ivano-Frankivsk Oblasts);

- Draft Order of the Cabinet of Ministers of Ukraine On Amending Certain Orders of the Cabinet of Ministers of Ukraine (On Updating Long-Term Perspective Plans for the Formation of Community Territories in Donetsk and Chernihiv Oblasts);

- Draft Resolution of the Cabinet of Ministers of Ukraine On Amending Annex 2 to Resolution of the Cabinet of Ministers of Ukraine (On Inclusion of Public Relations Units into the Recommended List of Structural Units of Rayon State Administrations and District State Administrations in Kyiv and Sevastopol, approved by Resolution of the Cabinet of Ministers of Ukraine No. 606 of April 18, 2012).

### **2. Formation of capable communities and ensuring their sustainable development:**

► **Assisting local governments in the voluntary merger of territorial communities (MTCs)**

1,744 village, settlement and city councils voluntary merged into 367 territorial communities in 2015 and 2016.

2015 saw first local elections held in 159 MTCs (comprised of 794 territorial communities). 159 MTCs have a population of 1,390,494 and cover an area of 35,807.4 km<sup>2</sup>.

In 2016, 950 village, settlement, and city councils voluntary merged into 209 territorial communities, of which 208 held the first local elections. (For reference: seven village councils to merge into Richkivska MTC, having a population of 5,960 and covering an area of 362.7 km<sup>2</sup>, located in Bilopilnyi Rayon, Sumy Oblast, carried a resolution to cancel the decision on the voluntary merger of territorial communities.

208 MTCs have a population of 1,792,894 and cover an area of 49,930.30 km<sup>2</sup>.

Merged territorial communities have a total population of 3,183,388 (7.5%) and cover a total area of 85,737.70 km<sup>2</sup>.

December 11, 2016 saw the first local elections held in 41 merged territorial communities of 13 regions (Vynnytsia, Dnipropetrovsk, Zaporizhzhya, Mykolaiv, Odesa, Poltava, Rivne, Ternopil, Kharkiv, Kherson, Chernivtsi and Chernihiv oblasts).

Merged territorial communities elected 3 mayors, 13 heads of settlement councils, and 25 heads of village councils.

December 18, 2016 saw the first local elections held in 142 merged territorial communities of 22 regions (save for Kyiv and Kharkiv oblasts), in particular in 75 village, 46 settlement, and 21 municipal communities.

Ukraine had a total of 366 merged territorial communities as at 2016 year end. Under the Law of Ukraine On State Budget of Ukraine 2017, budgets of these MTCs have been factored into the calculation of inter-budget transfers for 2017.

► The concept of headpersons was

introduced in pursuance of the Law On Voluntary Merger of Territorial Communities, and reflected in Article 141 of the Law On Local Self-Government in Ukraine.

350 headpersons were elected to operate in this capacity until the election of 1,377 headpersons vested with the power to provide administrative services.

### **3. Strengthening the resource base of communities, their financial backup, and financial decentralization:**

**New model of financial backup for local budgets, developed as part of fiscal decentralization, helped increase motivation to build up local budget revenue base.**

Local governments were provided with additional resources both to perform the delegated powers constituting the government functions and to finance self-governing powers.

2016 performance results prove a positive trend towards increase in local budget revenues, which emerged in 2015.

2016 saw UAH 146.6 billion in local budget general fund revenues or 116.3% of the annual plan.

**For reference:**

The best performance in meeting the annual targets was recorded in Kyiv (129.7%), Luhansk (126.3%), Poltava (122.7%), Kherson (122.1%), and Kirovohrad (122.0%) oblasts.



## Decentralization reform

**In 2016, general fund receipts grew by 49.3% or UAH 48.4 billion year-on-year (under comparable conditions and exclusive of uncontrolled territory of Ukraine).**

In 18 out of 25 regions the revenue growth rates were higher than the average across Ukraine.

Revenue growth was ensured with respect to the following taxes:

- personal income tax – 47.3% or UAH 25.3 billion (growth rates were higher than average across Ukraine in 21 out of 25 regions).

**For reference:**

Annual target performance was 112.9% against 2015 target of 113.7%.

- land-use fee – 61.2% or UAH 8.9 billion (growth rates were higher than the average across Ukraine in 6 out of 25 regions).

**For reference:**

Annual target performance was 114.7% against 2015 target of 112.2%.

Real estate tax revenues also demonstrated a significant increase to UAH 1,418.9 million against UAH 736.9 in 2015.

Annual target performance has demonstrated significant variation in regional terms, from 156.1% and 152.9% in Luhansk and Rivne oblasts to 105.7% and 108.1% in Ivank-Frankivsk and Zaporizhzhya oblasts (against the national average of 123.3%).

Revenue from excise duty with respect to retail sale of excisable goods reached UAH 11.6 billion or 117.2% of the annual plan.

Compared to January-September 2015, the revenue grew by 51.6% or UAH 4 billion. Revenue growth rates were higher than the average across Ukraine in 13 out of 25 regions.

**For reference:**

The highest growth rates were recorded in Kirovohrad (170.3%), Khmelnytskyi (170.2%), Sumy (167.4%), Poltava (166.6%), and Chernihiv (161.1%) oblasts.

Corporate income tax revenue (in terms of 10% credited to oblast budgets) stood at UAH 5.6 billion, up by UAH 1.9 billion compared to 2015.

### Budgets of merged territorial communities

In Pursuance of the long-term perspective plans (or the Methodology absent such plans), 159 merged village, settlement and municipal territorial communities were reflected in the State Budget 2016 as having a new legal status of territorial communities that enjoy the authority of cities of oblast significance and direct inter-budget relations with the state budget (i.e. inter-budget transfers from the state budget and horizontal equalization of taxpaying capacity).

The Budget Code of Ukraine (Article 64) stipulates the composition of revenues assigned to budgets of merged territorial communities established under the Law and long-term perspective plans for the formation of community territories. This

arrangement differs significantly from the composition of revenues assigned to budgets of other local councils (Article 69) and provided an important impetus to the merger under long-term perspective plans.

Revenues of the general fund of local budgets of 159 merged territorial communities (inclusive of transfers from the state budget) grew to almost UAH 6.3 billion in the first 11 months of 2016, a greater than six-fold year-over-year increase. The revenues of merged territorial communities' local budgets grew more than three-fold (by UAH 2 billion) year-over-year, from UAH 0.9 billion to UAH 2.9 billion.

The revenues of merged territorial communities' budgets per capita grew on average by UAH 1,475 from UAH 640 to UAH 2,115 across all MTCs.

### ► Government support for the development of MTC infrastructure out of subventions from the state budget to local budgets for the formation of merged territorial community infrastructure

In 2016, an overall amount of financial support (subventions for MTC infrastructure development) was determined by the Law On State Budget and allocated among budgets of merged territorial communities pro rata to their areas and agricultural population with both factors being equally weighted.

UAH 994 million were allocated to 1,383 project proposals out of UAH 1 billion: more than UAH 253 million to 360 facilities and measures in the field of education; more than 257 million to 300 road transport infrastructure facilities; UAH 57 million to 150 street lighting facilities; UAH 68 million

to 120 cultural facilities; UAH 81 million to 90 water supply and wastewater removal facilities, and municipal solid waste landfill sites; UAH 128 million to 80 pieces of special purpose machinery and other equipment for utility companies; UAH 47 million to 70 healthcare facilities; UAH 30 million to 40 administrative buildings; UAH 23 million to purchase 20 school buses; UAH 21 million to 20 administrative service centres; and UAH 30 million to other facilities and measures.

### 4. Decentralization and regional development: putting in place an effective regional development management system

Resolution of the Cabinet of Ministers of Ukraine On Approval of the Model Regulation on Regional Development Agency No. 258 of February 11, 2016, adopted.

Implementation of Ukraine's State Regional Development Strategy is well underway: 24 oblasts had their Regional Development Strategies developed and respective implementation action plans developed and approved (except for Lviv Oblast).

The Ministry of Regional Development introduced a regional socio-economic development rating.

UAH 3 billion of the State Budget 2016 was earmarked for the implementation of oblast development projects. 810 projects worth a total of UAH 2,694.5 thousand were funded out of the State Fund for Regional Development as at December 31, 2016.



## Decentralization reform

The Ministry of Regional Development launched a geo-portal on Ukraine's administrative and territorial structure (providing for visualization of geographical and statistical data for decision-making purposes) as part of its efforts to set up a national geographic information system to support regional development management. The geo-portal contains details of administrative and territorial units, long-term perspective plans of merged territorial communities, their budget profiles and data, number of education institutions and other social facilities, quantitative characteristics of their budgets, transfers, subventions, etc.

Administrative service centres were opened in merged communities of Dnipropetrovsk, Khmelnytskyi and Ternopil oblasts. Efforts are underway to set up 28 administrative service centres using international technical assistance funding. Projects proposals to set up 5 administrative service centres out of the subvention to support merged territorial communities have been approved.

Authority to register business entities and titles to immovable property has been delegated from the Ministry of Justice to rayon state administrations and local governments.

Authority to register/deregister place of residence of an individual and issue a passport (including with an electronic chip) has been delegated from the Ministry of Internal Affairs and State Migration Service to local governments.

Selection of candidates for the positions of coordinators at 24 regional offices for

decentralization and development reform has been completed.

### 5. Sectoral decentralization

The Cabinet of Ministers of Ukraine passed Resolution On Amendments to Certain Resolutions of the Cabinet of Ministers of Ukraine No. 79 of January 20, 2016, thereby setting out the new operating procedures for education precincts and supportive general education institutions **as part of sectoral decentralization in education**. Efforts to create a map of education precincts in the regions in furtherance of the long-term perspective plans for the formation of community territories gained traction in late June.

The government upheld the initiative of the Ministry of Education and Science to increase the government's share in co-financing the procurement of school buses for rural areas in 2016. The 50% vs. 50% co-financing rate was changed to 70% vs. 30% rate for communities having no respective local budget revenues (a Euro 4 and Euro 5 compliant 31 seat school bus for 28 children and 3 bus monitors costs around UAH 1.4-1.6 million. Total purchase amount for 2016 totalled UAH 600 million). In addition, UAH 200 million of the state budget were earmarked for setting up supportive schools by local governments.

A completion was held by the Ministry of Education and Science to select pilot projects to set up supportive schools in each region of Ukraine. There have been 137 supportive schools of which 19 in merged territorial communities operating since September 1, 2016.

By its resolution the Cabinet of Ministers approved the criteria for the formation of the network of education precincts.

Implementation of projects to set up the necessary road infrastructure to ensure accessibility of education precincts, including the projects financed out of the State Fund for Regional Development and a subvention from the state budget to local budgets for the formation of infrastructure of merged territorial communities got underway.

**As part of sectoral decentralization in healthcare**, the Cabinet of Ministers issued Resolution No. 932 of November 30, 2016 to approve the procedure for the establishment of hospital precincts, setting out the criteria to determine the composition and boundaries of hospital precincts as well as their roll out mechanism.

**Sectoral decentralization in policing and law enforcement** gained traction with the introduction of a district police officer concept across territorial communities (above all across 159 merged territorial communities) and the launch of the first police stations in Ukraine.

Communities of Krasny Lyman, Druzhkivka, Selydove, Dzershyansk, Toretsk, Mariupol, Kherson, Energodar, Nikopol, Apostolove, Kamianske, Dnipro, Yuvilejne, Kharkiv, Liuboty, Goryshni Plavni, Odesa, Chernomorsk, Uman, Obukhiv, Ukrainka, Brovary, Kyiv, Irpin, Makariv, Korostyshiv, Vasylykiv, Zhytomir, Netishyn, Slavuta, Shepetivka, Ternopil, Dolyna, Ivano-Frankivsk, Chernivtsi, Uzhhorod, Horodok, Lviv, Lutsk, Lubny, and Pokrov were vested with the State

Architectural and Construction Inspectorate's authority **as part of decentralization in architectural and construction control**.

### 6. International cooperation and donor aided projects

The composition of Ukrainian delegation to the Congress of Local and Regional Authorities of the Council of Europe for 2016-2020 was approved by Presidential Decree No. 358 of August 29, 2016.

**EU approved a new program to support decentralization in Ukraine** worth EUR 97 million, namely "U-LEAD with Europe: Ukraine – Local Empowerment, Accountability and Development Program. This is a joint initiative of the EU and its member states (Denmark, Germany, Poland and Sweden).

U-LEAD is executed together with a number of donors to support the implementation of Ukraine's key decentralization and regional development policies.

U-LEAD consists of two components: Component 1, implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, and Component 2, implemented by Swedish International Development Cooperation Agency (SIDA).

The Inception Phase of the project resulted in the positive steps to set up reform implementation system and a number of institutional support mechanisms, including Central Reform Office, regional reform offices, Local Government Development Office and the pool of experts. The above-named structures form an important part of the reform implementation at national, regional and local levels.



## Decentralization reform

Sectoral Decentralization Project Office tasked with coordination of the sectoral decentralization policy formulation was set up under the Ministry of Regional Development as the agency responsible for the decentralization reform with support from the **Expert Deployment for Governance and Economic Development (EDGE) Project** implemented by Agriteam Canada Consulting Ltd and funded by Global Affairs Canada. On November 11, 2016, a Memorandum of understanding on support for the implementation of sectoral decentralization was signed at the Ministry of Regional Development. The document was signed by the representatives of 7 Ukrainian ministries, in particular **the Ministry of Regional Development, Construction, Housing and Utilities of Ukraine, Ministry of Ecology and Natural Resources, Ministry of Infrastructure, Ministry of Culture, Ministry of Education and Science, Ministry of Health and Ministry of Finance**. Another signatory was the Expert Deployment for Governance and Economic Growth (EDGE) Project, implemented by Agriteam Canada Consulting Ltd and funded by Global Affairs Canada.

Results of partnership with the Decentralization Support in Ukraine (DESPRO) Project in 2016 were many:

- 51 rural water supply projects covering 36 thousand rural residents were supported in 5 regions (Vinnytsia, Sumy, Poltava, Dnipropetrovsk and Ivano-Frankivsk oblasts).
- 5 pilot projects for water supply in small cities of 4 target regions covering 22 thousand residents are already well underway.
- Projects on improvement of drinking water supply in 5 merged territorial

communities gained traction in Vinnytsia, Sumy, Poltava, Dnipropetrovsk and Ivano-Frankivsk oblasts.

- 2 pilot rural sanitation projects are being implemented with DESPRO support in Vinnytsia and Sumy oblasts.
- There are 2 inter-municipal solid waste management projects underway in Vinnytsia and Poltava oblasts.
- A geo-portal on Ukraine's administrative and territorial structure was developed and put into operation at the request of the Ministry of Regional Development.
- There were public discussions of community merger and decentralization progress held to foster a better understanding of the reform and facilitate feedback from all parties involved. Discussions were held in 14 regions and involved more than 500 stakeholders.
- The expert group that provides legal advice to merged territorial communities has been put into operation as part of the Central Reform Office. Based on the consultations being provided, the expert group develops analytical materials (sample documents, manuals and guidelines, video lectures, the most frequently asked questions from MTCs and answers) which are necessary for the daily work of the executive officers of MTCs and communities to be merged. An online forum on legal support to the decentralization reform which includes nearly 400 registered users has been operating.
- The Local Self-Governance School (LSG School) has been established in

cooperation with local government associations. The aim of the LSG School, which offers 15 training modules, face-to-face sessions, e-courses, and tainer-the-trainer (TOT) programs, is to create a critical mass of leaders from local government bodies. 170 people were selected to undergo training at LSG, 100 people successfully completed the training and obtained LSG certificates, and 28 LSG representatives underwent TOTs.

- DESPRO initiated and proposed to local government associations a joint project aimed at supporting merged communities in preparing their local development strategies. The associations agreed with the initiative and selected 3 merged territorial communities for the project.
- There were 6 thematic study trips to the Republic of Poland arranged for the representatives of local authorities, central government and expert circles.
- 236 people completed the "Integrated municipal solid waste (MSW) management" e-course, 80 people completed the "Rural drinking water supply" e-course, and 185 people completed the "Local and regional development project management" e-course.
- DESPRO Community of Practices e-platform "Innovations and best practices of local governments" has been functioning.
- The all-Ukrainian project "Let's Change the Country Together! Decentralisation: New Opportunities" was implemented at the initiative of Luhansk Oblast State Administration. Its objective was to study positive examples of decentralisation in

Ukraine and share the experience of development of rural areas in the course of a one-week tour from East to West of Ukraine.

1,300 local communities and governments received capacity-building support within the framework of Community Based Approach to Local Development Project – a joint initiative of the European Union and the **United Nations Development Programme**. The project helped rehabilitate public utilities and social infrastructure and provided support to small-scale farming and other businesses. Two Administrative Service Centres were opened as part of merged territorial communities with support from the project's mini-grants program and co-financing from local budgets.

"Decentralization School" project was launched and a practitioner's guide to decentralization was published.

A focused EU-funded "Programme on Restoration of Governance and Reconciliation in Crisis-Affected Communities of Ukraine" has been implemented by the UNDP in Donetsk and Luhansk oblasts to strengthen the capacity of local governments to handle administrative and fiscal decentralization and improve the quality of and access to social services.

### 7. Communication support to the reform

The Ministry of Regional Development with support from DESPRO set up a Communication Office at the Central Reform Office. The Communication Office is responsible for the development and implementation of a number of projects to facilitate the decentralization reform:



## Decentralization reform

An All-Ukrainian Decentralization Reform Events Calendar was designed to reflect activities underway to implement reforms in all 24 regions of Ukraine.

Radio and television programs whereby representatives of the Ministry of Regional Development and other central executive agencies, experts, civil society organizations and merged territorial community leaders reveal the benefits that the decentralization reform brings to communities are broadcasted on a weekly basis.

Each region saw round table meetings and conferences to discuss devolution to local government and sectoral decentralization held as part of donor aided projects.

Performance results of the Communication Office at the Central Reform Office of the Ministry of Regional Development, actively supported by DESPRO, were many:

- “A Merged Community Brings in Better Farming” integrated information campaign was implemented through posters, advertising boards, as well as TV, radio and Internet outreach activities.
- 10 monthly English-language newsletters on the progress of reform for donors, embassies and foreign governments were published. Newsletter audience includes 550 users.
- 41st issue of the “No. 1 Reform” weekly information digest targeting 7,000 users was published.
- “Changes in people’s opinions 2014-2015-2016” social dynamics survey to research into the public attitude to the

decentralization reform was conducted.

- 40 episodes of “Decentralization as Community Power” weekly TV series were shown on “Rada” parliamentary TV channel reaching 5 million people.
- 30 episodes of “Territory” weekly radio show, which includes interviews of regional partners and experts, were broadcasted on Hromadske Radio to 10 million listeners.
- Production of a series of video documentaries on the achievements of merged communities gained traction. The first 10-minute video of Yuvileyne MTC was shown channels 31 and 54, both top-rated Dnipropetrovsk oblast TV channels watched by 4 million viewers. The next five video documentaries from Zhovtneve MTC, Dnipropetrovsk Oblast, and Humentsi MTC, Khmelnytskyi Oblast were filmed. Their editing is nearing completion.

Expert advice (in the form of opinions and reports on conformity of the existing best practices with European standards) was rendered as part of the **“Decentralization and Territorial Consolidation in Ukraine” EC-led project** in response to enquiries from the Ministry of Regional Development and the Verkhovna Rada Committee on State Building, Regional Policy and Local Self-Government. This included:

- reviews of European practices for elected and appointed local government officials;
- proposals covering the main avenues of social policy decentralization;
- strengthened responsibility and liability of local governments for decisions violating the

Constitution and laws of Ukraine;

- voluntary annexation of territorial communities; fundamentals of administrative and territorial structure;
- amendments to the Law of Ukraine On Civil Service; Draft Law On Service in Local Government Bodies;
- changes in rayon boundaries and operation of rayon councils in the event of merger of territorial communities;
- distribution of powers with respect to social services between central and local government in European countries; and
- a professional review of sectoral decentralization in Ukraine.

The following initiatives aimed at enhancing national partners’ knowledge and understanding of European standards, best practices, and methodologies in decentralization (i.e. professional reviews, study trips, and trainings) were delivered and included (i) a study tour on inter-municipal cooperation and related legal and regulatory environment concerns for People’s Deputies of Ukraine (involving members of relevant committees of the Verkhovna Rada) and representatives of the Ministry of Regional Development (September 13-16), and (ii) “Leadership Academy” training for two groups of heads of merged territorial communities.

Aiming to raise awareness of reform and communicate its mission, a couple of initiatives were implemented: (i) the “Local Governance Best Practices” Contest and All-Ukrainian Journalism Contest “Reform of

Local Self-Government and Territorial Organization of Power” were launched jointly with the Ministry of Regional Development, and (ii) winners of the “We Are Local Self-Government” nomination of the International Children Television Festival “Dytiatko” were decided and awarded.

### ■ What has not been achieved

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 framework 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, registration No. 2217a):

- On Local Self-Government in Ukraine (as amended);
- On Prefects;
- On Fundamentals of Administrative and Territorial Structure of Ukraine.



## Decentralization reform

### ■ What need to be done to accelerate reform

**1.** Complete the formation of the reform management structure, i.e., launch a Central Reform Office under the Ministry of Regional Development acting as national coordinator for the implementation of decentralization reform in Ukraine. Provide staffing to 24 Regional Reform Offices acting as regional reform implementation coordinators in 24 oblasts. Open a Sectoral Decentralization Project Office to act as the national coordinator for elaboration of the sectoral decentralization policy.

**2.** 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.

Complete development of a raft of decentralization legislation:

- Continue working on draft laws of Ukraine required to implement the decentralization amendments to the Ukrainian Constitution: On Local Self-Government in Ukraine (as amended), On Prefects, and On Fundamentals of Administrative and Territorial Structure of Ukraine;
- Draft laws that do not require modification of the Constitution of Ukraine, in particular: those related to land matters, urban development planning, proposals for the improvement of inter-governmental fiscal relations, local taxes and levies, administrative

services, social standards, and legislation governing related sectors and industries regarding decentralization of powers of the executive branch.

**3.** Develop a Healthcare Reform Concept to determine the mandate and responsibility of local governments at the level of territorial communities and rayons of oblast, and assist territorial communities (above all those 159 merged ones) in orchestrating an optimum network of healthcare facilities.

**4.** Develop a scheme of education precincts (above all for 159 merged territorial communities).

**5.** Develop proposals for optimization of the territorial organization of power – prospective model of administrative districts – future rayons.

**6.** Further facilitate the merger into capable communities.

**7.** Facilitate infrastructural development of merged and other communities.

**8.** Set up Administrative Service Centres and improve the quality of administrative services.

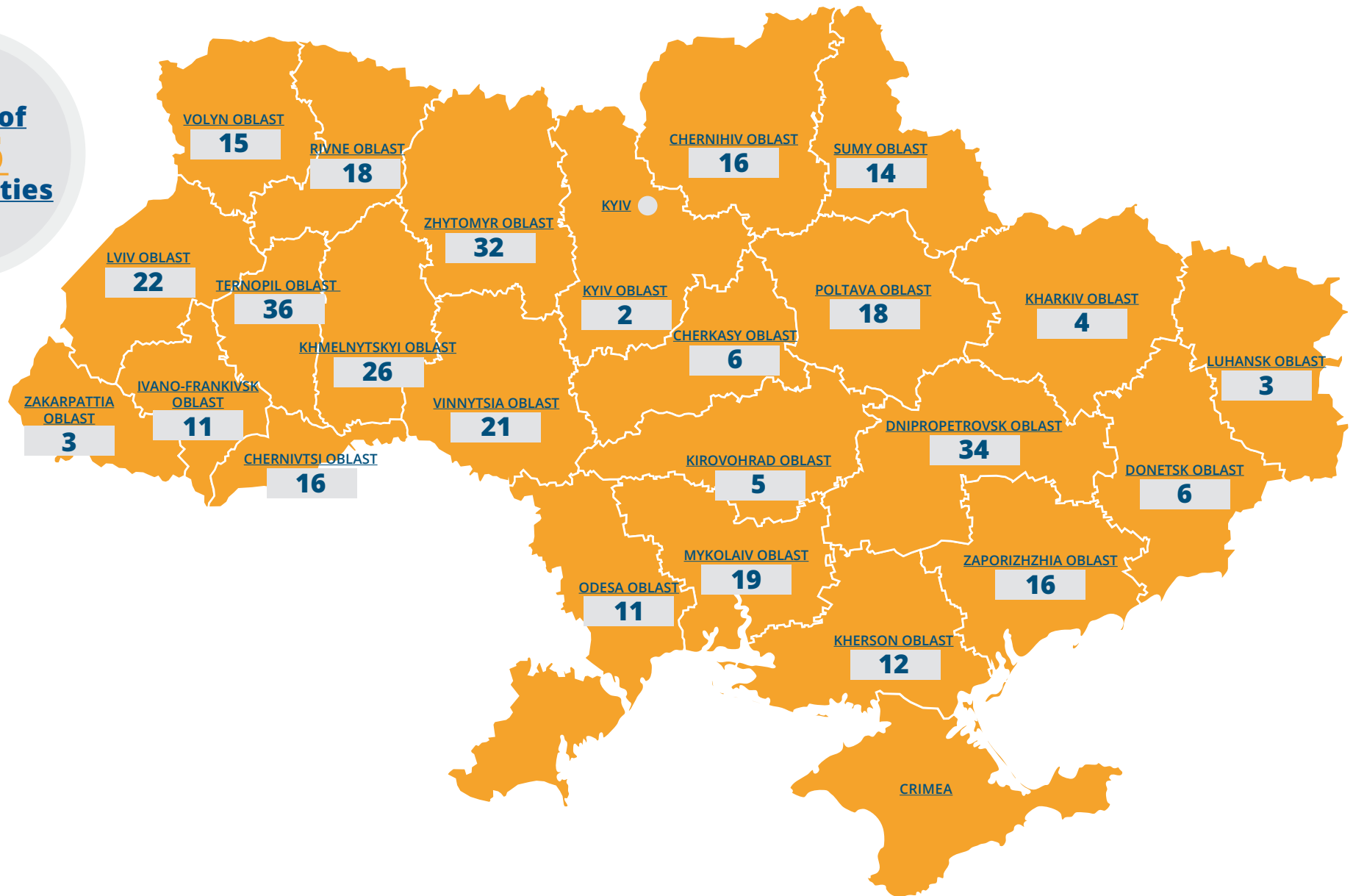
**9.** Deliver a large-scale regional training and exchange of experience on project analysis, preparation and management as well as on implementation of regional development and public private partnership projects.

**10.** Ensure large-scale media coverage of the reforms.



# Decentralization: merger of territorial communities has been gaining momentum

A total of  
**366**  
communities





## Law enforcement reform

**1.** Patrol Police was launched in 32 Ukrainian cities, with a total number of more than 12 thousand police officers employed. Recruitment of an extra 1,100 offices was announced in September 2016 to restore Patrol Police staff in Kyiv, Odesa, Dnipro, Kharkiv and Zaporizhzhya. Further on, officers will be recruited depending on the need to increase Patrol Police units staffing.

**2.** 34 mobile patrols ensure road traffic safety on a total of 1,502 kilometers of roads (to include all E-roads by the end of 2016) in Kyiv, Odesa, Lviv, Mykolaiv, Kherson, Volyn, Zhytomyr, Zakarpattya and Rivne oblasts.

**3.** The 102 Call Centre Service was implemented in all regional centers of Ukraine and the cities in which Patrol Police had been launched. As at December 25, 2016, the renewed 102 Service operated on a full-fledged basis in the city of Kyiv as well as in Kyiv, Rivne, Khmelnytskyi, Chernihiv and Chernivtsi oblasts. Other oblasts had a partial 102 Service.

Short-term plans include implementation of the renewed 102 Service Ukraine-wide.

**4.** New forms and methods of working continue to be rigorously implemented through the establishment of response units as part of territorial police forces in small towns and rural areas.

Today the staffing structures of all Main Departments of the National Police envisage Patrol Police response sectors and units. Fully staffed response units have already embarked on their duties in Khmelnytskyi, Volyn, Lviv, Kharkiv, and Kyiv oblasts.

**5.** There was the Human Rights Protection Office set up within the National Police structure. The Office incorporates the Temporary Detention Facilities Organizational Support Department.

The Council of Europe Office in Ukraine helped arrange training for 28 officers of the Patrol Police and the Human Rights Protection Office.

**6.** Efforts to reform the existing system of temporary detention facilities (TDFs) to ensure compliance with European and international detention conditions, optimize the number of the existing TDFs, establish backbone TDFs, and bring the conditions of confinement of persons under arrest or in custody into line with respective standards have gained momentum. The operation of 133 TDFs has been suspended as a result of reform.

In addition, a custody records information management system was developed and put in place in 75 TDFs in 23 oblasts.

**7.** On July, 2016, a pilot project for photo/video recording of road traffic offences gained traction with the test-mode operation of three automated recording systems (1 in Kyiv and 2 in Odesa).

**8.** Assessment of police officers continued throughout 2016. The principled approach of the assessment commissions (composed, among other things, of civil society representatives) to dismissal of police officers whose corrupt, unethical, or unlawful acts erode public credibility, resulted in a sizeable shortage of personnel.

7% (5,300) out of 71,500 police officers subjected to the assessment are to be dismissed for being unfit for the position thus far. At that, an overall shortage of police officers who have passed the assessment exceeds 18%.

**9.** In November 2015, the Department for Organization of Operation of the Rapid Operational Response (KORD) Unit commenced its operation.

There were 19 instructors selected to recruit and train potential candidates. Upon completion of training at the training center, 233 officers were granted certificates and placed at the disposal of the National Police to continue their service in the City of Kyiv as well as in Kyiv, Kharkiv, Sumy, Odesa, Lugansk, Rivne, Vinnytsia and Zhytomyr oblasts. 687 candidates joining the KORD units in all Main Departments of the National Police have completed a five-day endurance course.

Scheduled recruitment of staff to special police forces in other regions is currently underway (under a separate plan).

Completion of the units' staffing for all Main Departments of the National Police is scheduled for year-end 2017.

**10.** In addition, there is active cooperation underway with foreign partners (governments, international institutions, etc.) for the provision of financial, technical, and other assistance to Ukraine in its efforts to implement the National Police development projects. Early July 2016 saw the government's approval of the project to replace the police fleet with Mitsubishi plug-in hybrid vehicles with support from

Japan. Between December 2016 and March 2017 Ukrainian police forces are to receive 651 vehicles as part of the project.

In addition, in early October 2016 the Government of Japan delivered over 9,500 police winter uniform sets as part of technical assistance to the National Police.



## Deregulation

### ■ What has been achieved

- The change of government in early 2016 did not sway the importance of the reform. It remains among the TOP-5 priority reforms.
- The new government re-registered with the Verkhovna Rada almost all draft laws listed in the Deregulation Action Plan and the Doing Business Roadmap.
- In August, the National Reforms Council upheld the Better Regulation Delivery Concept as a principled approach to reform, which consists of a systematic and balanced review of the regulatory environment and the central government's near-term priorities for this field.
- The IMF has secured deregulation commitments from Ukraine's government. Crucial issues include cancellation of price controls on food products, normal provision of electricity connections, alignment of procedures for issuing licensing documents with the laws on licensing system and administrative services, reform of supervisory (control) authorities, including bringing the Fiscal Service under the scope of law. The issues of particular concern include approval of licensing conditions and systematic review of the regulatory environment.
- All the necessary procedures to transfer the Better Regulation Delivery Office (BRDO) to the EU-funded FORBIZ project for 3 years have been completed.
- Business climate development backup

structures, such as investment attraction, export promotion, and high-tech offices, have been set up.

- An automated one stop system for customs clearance of goods and vehicles has been demonstrating positive dynamics with over 30% of all declarations controlled electronically.
- An e-service related to land matters, namely an online ordering and allocation of land management plans among experts, has been implemented.
- August saw approval of the updated Deregulation Action Plan (CMU Resolution No. 615-p dated August 23, 2016) to replace the existing one comprising 112 clauses. More than a half of the new clauses resulted from surveys of business associations, civil society organizations, Business Ombudsman Council, and central government authorities.
- Systematic review of the regulatory environment gained traction in 4 ministries (Ministry of Agrarian Policy and Food, Ministry of Regional Development, Ministry of Infrastructure, and Ministry of Energy and Coal Industry). Respective working groups have been set up and systematic review planning completed. Overall, next year is expected to see the regulatory environments of nearly 70 markets reviewed.
- An updated Doing Business Roadmap was approved by CMU Resolution No. 926-p dated November 23, 2016. The Roadmap comprises 46 clauses which, if complied with, will allow Ukraine to be ranked among the top 20 economies on the Doing Business Ranking.

- There are currently around 50 draft laws aimed at deregulation or better regulation delivery registered with Parliament and pending consideration at various stages. Consideration of deregulation draft laws has gained significant momentum since September.
- A law was passed to considerably simplify registration of medicines already registered in jurisdictions having powerful regulators (Law of Ukraine On Amendments to Article 9 of the Law of Ukraine On Medicines Concerning Simplification of State Registration of Medicines No. 1396-VIII of May 31, 2016).
- Mandatory registration of foreign investments cancelled (Law of Ukraine On Amendments to Certain Legislative Acts of Ukraine Concerning Cancellation of Mandatory State Registration of Foreign Investments No. 1390-VIII of May 31, 2016).
- Legislation introducing private enforcement services passed (Law of Ukraine On Enforcement Proceedings No. 1404-VIII of June 2, 2016 and Law of Ukraine On Agencies and Officers Enforcing Decisions of Courts and Other Bodies No. 1403-VIII of June 2, 2016).
- Licensing of small-sized wineries cancelled (Law of Ukraine On Amendments to Law of Ukraine On State Regulation of Production and Circulation of Ethyl, Cognac and Fruit Alcohols, Alcoholic Beverages and Tobacco Products Concerning Wholesale Trade in Alcoholic Beverages Produced of Own (Rather Than Purchased) Wine Making Materials No. 1534-VIII of September 20, 2016).
- Registration of scrap metal export contracts, which in fact introduced quotas,

cancelled (Law of Ukraine On Amendments to Some Laws of Ukraine to Reduce Domestic Market Ferrous Scrap Metal Deficit No. 1455-VIII of July 12, 2016).

- A law was passed to simplify export of service and sizeably reduce red tape (Law of Ukraine On Amendments to Some Laws of Ukraine to Eliminate Administrative Barriers to Export of Services No. 1724-VIII of November 11, 2016).
- A raft of laws was passed to reform supervisory (control) authorities, namely: Law of Ukraine On Amendments to Law of Ukraine On Basic Principles of State Supervision (Control) of Business Activity Concerning Liberalization of the System of State Supervision (Control) of Business Activity No. 1726-VIII of November 3, 2016, Law of Ukraine On Amendments to Certain Legislative Acts of Ukraine to Improve Legislation Related to State Supervision (Control) No. 1727-VIII of November 3, 2016, and Law of Ukraine On Temporary Special Aspects of Measures of State Supervision (Control) of Business Activity No. 1728-VIII of November 3, 2016. Reduction in the number and length of inspections alone would save Ukrainian businesses USD 0.5 billion annually, not to speak of fines and bribes that are common attributes of inspections. In addition, a public electronic integrated system of business inspections is being implemented and the principle of presumption of innocence of businesses is being strengthened.

The following draft laws passed their first reading in Parliament:

- Draft law on Business Ombudsman Council institutionalizing the existing Council



## Deregulation

and vesting thereof with legislative powers in its interactions with business entities and government agencies (Draft Law No. 4591);

- Draft law providing for debt-to-equity conversion (Draft Law No. 2764);
- Draft law cancelling 6 import and export licences (Draft Law No. 4958);
- Draft law fully eliminating mandatory use of corporate seals (Draft Law No. 4194);
- Draft law prohibiting seizure of servers during search (Draft Law No. 3719);
- Draft law on electronic fiduciary service (Draft Law No. 4685);
- Draft law simplifying access to utility networks (Draft Law No. 4159);
- Draft law deregulating work permit requirements for foreign nationals (Draft Law No. 4541);
- Draft law on limited liability companies and additional liability companies modernizing respective legislation and bringing Ukraine's corporate governance framework closer to international best practices (Draft Law No. 4666).

March saw entry into force of CMU Resolution on the implementation of an updated Regulatory Impact Assessment Methodology, which provided for the use of M-Test to assess the regulatory impact on SMEs and updated supporting documentation requirements.

The National Bank has taken decisive steps in liberalizing the foreign exchange market

(ban on repatriation of dividends lifted, portion of foreign exchange earnings subject to mandatory sale reduced, foreign currency trading in the interbank market liberalized, cash foreign exchange market liberalized, etc.).

The Cabinet of Ministers abolished sanitary standards adopted before 1991.

The number of National Building Regulations was reduced by 50%, of which 13% were abolished, while 44% were made voluntary.

The Cabinet of Ministers launched a pilot project to temporarily cancel price controls on food products. Started on October 1, the project is designed to monitor price dynamics for 3 months, whereupon a decision on whether to cancel, restrict or renew price regulation would be taken.

Completion of all the procedures resulted in the publication of amendments to Government Resolution On Addressing Some Issues of Collection, Removal, Processing and Disposal of Used Industrial Oils and Lubricants No. 1221 of December 17, 2012, concerning disposal of used engine oils targeted at elimination of corruption schemes worth nearly UAH 200 million.

16 business licensing procedures were converted into an electronic format.

The National Standards Body (Ukrainian Agency for Standardization) was steered out of financial and operational crisis and reformed.

There were adopted over 1,300 standards,

of which approximately 300 were harmonized with European standards.

In November, a Deregulation Day was held in the Cabinet of Ministers whereby a whole range of resolutions was adopted and 367 outdated acts abolished. The Cabinet also simplified the telecommunication equipment commissioning procedure, initiated cancellation of the Presidential Decree which set a minimum price of notarial services, reduced the rates for renting government-owned property for telecommunication purposes, permitted mixing grains of different classes for export purposes, introduced an automated one-day regulatory monetary valuation of land and approved amendments to model land lease agreement.

In addition, the government presented an omnibus bill concept targeted at improving Ukraine's rating in the Doing Business Ranking up 40 places straightaway (subject to proper implementation of its provisions).

The government has come close to fully meeting its commitment to IMF to approve licensing conditions for certain types of business. So far, it has approved 22 documents out of 24 documents required. The National Commission for State Regulation of Energy and Public Utilities issued an order streamlining the procedure for connecting business entities to electric power networks with up to 5 MW of capacity.

### ■ What has not been achieved

- Draft law to simplify bankruptcy proceeding as required by Ukraine-IMF Memorandum has failed to materialize. Draft Law No. 3132 was sent to be re-reviewed in its first reading, whereupon Draft Law No. 3132-д was registered, considered by a respective committee, and recommended to be passed through first reading.
- There are delays in enacting legislation to reform the food safety surveillance system.
- There are delays in the implementation of legislation to complete technical regulation system reform (i.e., bringing the legislative environment into full compliance with EU standards).
- Commitments to develop and approve licensing conditions for various types of business subject to licensing have not been fully met.



## Deregulation

### ■ What need to be done to accelerate reform

- Continue close cooperation with the Verkhovna Rada in arranging thematic and special Economic Blocks.
- Further promote self-regulation in Ukraine.
- Register draft laws related to technical regulation (on technical guidelines and on standardization).
- Develop amendments to the Law On Foreign Economic Activity to liberalize sanctions.
- Monitor and facilitate the implementation of the Deregulation Action Plan.
- Continue to systematically review the regulatory environment.
- Implement the updated Doing Business Roadmap.





## Health care reform

### ■ What has been achieved

- The Law on the Simplified Registration of Medicinal Products was adopted. Under this law, medications which are already registered in a country with a strict regulatory framework (USA, Canada, Australia, Japan, and the EU) may undergo a simplified registration procedure in Ukraine. This is an important step towards deregulation of the pharmaceutical market.
- Draft Law No. 2309a-d on the Autonomy of Healthcare Facilities was approved in the first reading, its primary intent being the reform of the organizational and legal status, as well as funding of healthcare facilities. The Specialized Parliamentary Committee on Healthcare and the Ministry of Health of Ukraine reached an agreement regarding the further development of the draft law, in particular, the updated version will specify the implementation period of the law and define the term “medical service”.
- The Ministry of Health of Ukraine cancelled the model staffing schedules for healthcare facilities (directive No. 928 of September 2, 2016) in order to give healthcare facilities’ management more autonomy in formation and approval of facilities’ staffing schedules based on their functions and scope of medical care provided.
- Publicly funded facilities will receive financial planning autonomy starting from 2017. This was introduced via amendments to the Procedure for Preparation, Review,

Approval, and the Major Requirements for Execution of Budgets of Publicly Funded Institutions. The budgets will be prepared using a simplified economic classification consisting of only two codes, recurrent and capital expenditures, which will allow facility managers to reallocate funds between budget lines quickly and adopt managerial decisions of higher flexibility and quality (Resolution No. 875 of November 30, 2016).

- Agreement has been reached between the healthcare and decentralization reforms. A roadmap of primary care reform and establishment of hospital districts was agreed. The latter is an important step in the administrative and territorial reform, and optimization of the hospital infrastructure.
- On November 30, 2016, the government approved the Procedure for Establishment of Hospital Districts, which, in particular, specifies the technical criteria used to determine the geographic boundaries of hospital districts (Resolution No. 932).
- The Government approved the License Requirements for the Business of Manufacture, Wholesale and Retail Trade, and Import of Medicinal Products (except of Active Pharmaceutical Ingredients) (Resolution of November 30, 2016, No. 929). The adoption of the License Requirements makes it possible to specify unified requirements to entities operating on the pharmaceutical market and lays the foundation for protection of the citizens’ lawful interests in receiving medicinal products of proper quality.
- The Government of Ukraine approved

the Concept of Healthcare System Financing Reform in Ukraine (Resolution No. 1013-r of November 30, 2016). The purpose of the reform is to introduce a new model of financing of the healthcare system, which includes clear and explicit government guarantees for provision of medical care, better financial protection for citizens in case of sickness, efficient and equitable distribution of public resources, and reduction of informal payments.

- The Government of Ukraine approved the Concept for Development of the Public Health System in Ukraine (Resolution No. 1002-r of November 30, 2016). The purpose of the proposed reform is to develop and implement effective government policy to improve health, prevent diseases, prolong active and working age, and to promote a healthy lifestyle through combined efforts of the entire society.
  - The Public Health Center of the Ministry of Health of Ukraine was established, and reorganization of the existing institutions is in progress. The International Association of National Public Health Institutes approved the Public Health Center as its member.
  - The practice of procurement of medicinal products through international organizations was continued. The experience and capabilities of international organizations allow for transparent and efficient use of budget funds and, more importantly, ensure high quality treatment for patients in Ukraine.
- Throughout 2016, the United Nations Children’s Fund (UNICEF) in Ukraine, the UN Development Program, and the British

Crown Agents performed public procurement in the following areas: pediatric and adult oncology, pediatric and adult hepatitis, hemophilia in children, tuberculosis, rare diseases, immunologic prophylaxis, and antiretroviral therapy. The total amount of funds used within public procurement via international organizations accounted for UAH 2.2 billion.

- The Draft Resolution of the Cabinet of Ministers of Ukraine on Approval of the National Policy for Provision of Medicinal Products through 2025, which lays the foundations for supplying citizens with affordable, effective, high quality and safe medicinal products, was developed and presented for the public discussion. The Draft Resolution of the Cabinet of Ministers of Ukraine on Amendment of the National List of Essential Medicines was developed and presented for the public discussion. The proposed list is based on the list of essential medicines recommended by the World Health Organizations. The purpose of amending the list is to establish the conditions under which the government will be able to provide citizens with all necessary medicinal products with proven efficacy.
- The regulatory framework for implementation of reference pricing and reimbursement system for essential medicines was developed. The actual implementation is planned for 2017. The main priority of implementing reimbursement in 2017 will be the treatment of diseases that have the largest impact on the key health indicators (cardiovascular disease, type 2 diabetes, and asthma) and can be effectively treated at the outpatient level. The 2017 budget



## Health care reform

allocates UAH 500 million for the implementation of the reimbursement program.

- The roadmap and principles of the first stage of the **E-Health** system component in Ukraine were approved. In particular, the technical requirements for developing the minimum viable product for a transparent and effective electronic healthcare system were approved. It is expected that the electronic healthcare system will be put in operation in 2017 to support the primary care reform.

- **Government health spending** in 2017 was increased by 26% as compared to the 2016 budget. This will allow increasing investments for medical infrastructure, increasing salaries of medical professionals, and improving the availability of medicinal products. In particular, in the 2017 budget allocation for centralized procurement of medicines will be increased by UAH 2 billion, amounting to UAH 5.9 billion.

### ■ What has not been achieved

- The Draft Law No. 2309a-d on the Autonomy of Healthcare Facilities was not reviewed by the Parliament in the second reading.

- The Concept for Reform of the Mechanism for Procurement of Medicines and Medical p]Products developed by the Ministry of Health was not approved. Adopting the draft

resolution of the Cabinet of Ministers of Ukraine will make it possible to commence the process of establishing professional centralized procurement organizations in Ukraine, which will require time and is planned as a multi-stage process.

- The reorganization of the Public Health Center was not completed.

### ■ What need to be done to accelerate reform

- In order to start the healthcare financing reform, it is required to establish the National Health Service, this will allow to introduce purchaser-provider split in healthcare system in Ukraine.

- Adopt Draft Law 2309a-d on the Autonomy of Healthcare Facilities. This step is critical in order to proceed to further stages of the healthcare reform, in particular, to financing medical facilities based on contracts using the "money follows the patient" principle.

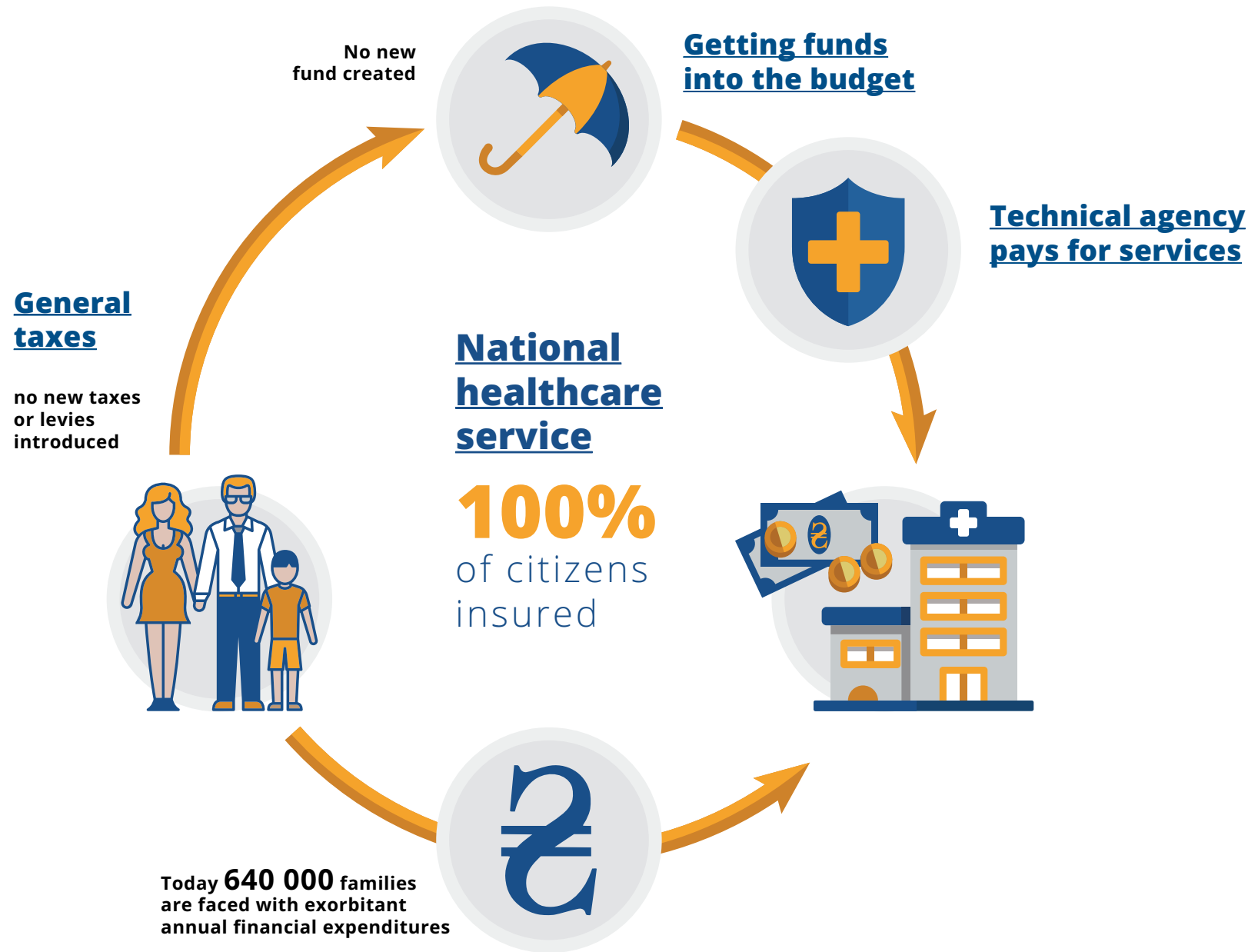
- Develop and approve the state guaranteed benefit package for primary care, this will allow giving a clear definition of the government guarantees in financing primary care.

- Develop legislation for implementation of the Concept of Healthcare System Financing Reform.





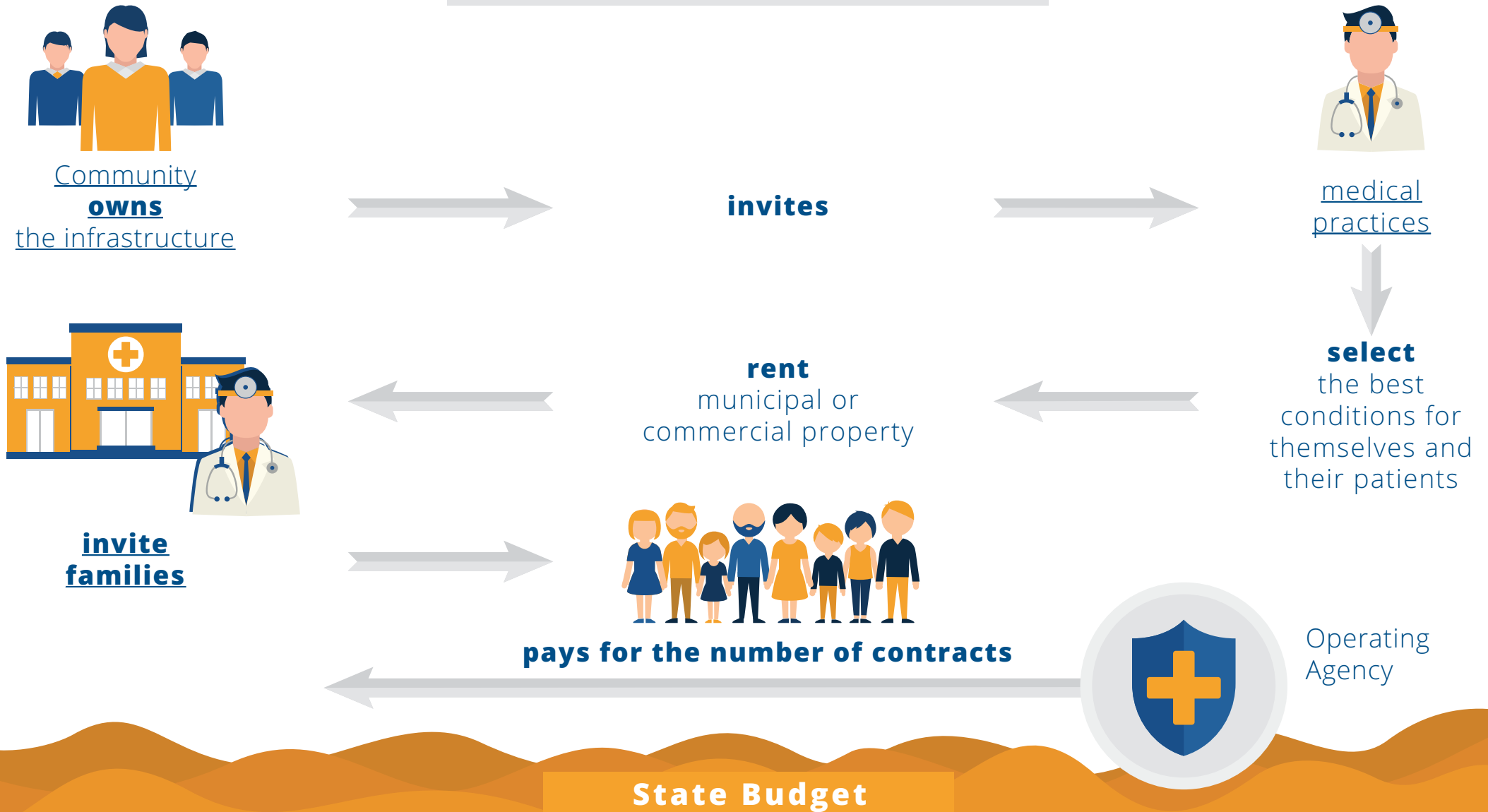
# Basic principles of healthcare finance reform





# Primary healthcare: introducing the new payment policy

## Roles of players and system launch





# Hospital precinct operating procedure (Clarification of the resolution on hospital precincts):

## Hospital precincts

There is a first-tier or second-tier intensive treatment hospital

Within 60 minutes from any part of the precinct

Having minimum medical coverage at

first-tier hospital	second-tier hospital
120 000	200 000

Setting up: Oblast state administration sets out the scope and composition subject to CMU's approval



## Ministry of Healthcare



Presently healthcare institutions fail to meet the framework requirements

They must be able to meet these requirements by the completion of the reform



## Hospital board

Local council deputies pro rata to the number of residents

Which hospitals are to be developed in line with the framework requirements?

Which hospitals are to be converted?





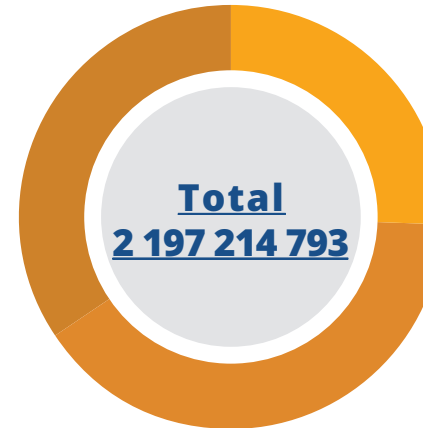
## Procurement of medicines and vaccines through international organizations

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

Procurement through international organizations has yielded positive results by making the use of public more effective and transparent.

### Allocated funds, UAH

 **CROWN AGENTS**  
**750 065 700**



 **unicef**  
**566 124 100**

 **UN DP**  
**881 024 993**

### Procurement through international organizations helped save funds and ensured an additional purchase\* of the following pharmaceuticals and medical supplies:



**UAH 27.7**  
million

**Tuberculosis**



**UAH 10.6**  
million

**HIV tests**



**UAH 73.3**  
million

**Vaccines**



**UAH 6.4**  
million

**Orphan diseases**

\*Calculated at an average exchange rate of UAH 23.00 for USD 1.00

### ■ What has been achieved

#### Tax policy optimization:

At its meetings, the National Reforms Council

- addressed the issue of support to the deoffshorization process. The meeting resulted in the Decree of the President of Ukraine On Combating Tax Base Erosion and Shifting Profits Abroad No. 180 of April 28, 2016, and the establishment of a task group to draft legislation to combat tax base erosion and shifting profits overseas (Meeting dated April 19, 2016);

- discussed and upheld approaches to setting up a Financial Investigation Service as the agency to combat financial crimes in order to consolidate respective powers currently vested in the Tax Police, Ministry of Internal Affairs and Security Service of Ukraine, which were proposed by Mr. Stepan Kubiv, First Vice Prime Minister of Ukraine, Minister of Economic Development and Trade of Ukraine (Meeting dated August 29, 2016);

- heard a presentation on measures to improve the tax system delivered by Minister of Finance Mr. Oleksandr Danyliuk, and upheld the fundamental provisions of the Draft Law On Amendments to Tax Code of Ukraine (Meeting dated October 25, 2016).

#### The following laws were passed:

- Law of Ukraine On Amendments to Article 189 of the Tax Code of Ukraine To Facilitate Development of Second-Hand

Goods Market No. 1084-VIII of April 12, 2016, regulating certain issues of taxation of second-hand goods. In particular, it allows using margin schemes to account for VAT on sales of second-hand goods, which are heterogeneous and which have been purchased not only from individuals, but also from any person who is not a VAT payer.

- Law of Ukraine On Amendments to Sub-Section 5, Section XX Transitional Provisions of the Tax Code of Ukraine To Facilitate Used Car Market Development 1389-VIII of May 31, 2016, stipulating for a temporary reduction in used vehicle excise duty rates from August 1, 2016 to December 31, 2018 and setting the level of new vehicle tax rates to improve affordability of vehicles for the public.

- Law of Ukraine On Amendments to the Tax Code of Ukraine to Exempt Pensions from Tax No. 1411-VIII of June 2, 2016, whereby the amount of non-taxable pension or monthly lifetime allowance for persons who lost their earning capacity has been increased from three- to ten-times subsistence minimums (UAH 4,134 and UAH 10,740 respectively in 2016), while excess is to be taxed 18%.

- Law of Ukraine On Amendments to the Tax Code of Ukraine Concerning Clarification of Certain Provisions on Taxation of Not-for-Profit Organizations No. 1667-VIII of October 6, 2016, aimed at providing an enabling environment for faith-based organizations' charitable activities including humanitarian aid, charity and benevolence, and preventing withdrawal of not-for-profit status of more than 34,000 faith-based organizations starting January 1, 2017.

- Law of Ukraine On Amendments to the Tax Code of Ukraine to Provide an Enabling Environment to the Implementation of Charity Telecommunication Messages No. 1665-VIII of October 6, 2016, stipulating VAT exemption for charity text messages to ensure crediting of an entire amount donated to charity.

- 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 2017 No. 1791-VIII of December 20, 2016, whereby:

- certain UAH tax rates were indexed;

- issues related to termination of the special VAT regime for agricultural producers as of January 1, 2017, introduction of budget subsidy to such producers and promotion of agricultural produce were addressed;

- excise duty in relation to fuel retail trade cancelled and fuel excise duty rate was increased as a compensator;

- private enforcement officers classified as independent professional practitioners amid reform of the judiciary;

- use of payment transaction registers by single tax payers selling technically sophisticated household products that are subject to warranty repair service were made mandatory to prevent fiscal evasion;

- payment of mandatory state pension insurance fee by individuals contemplating cash foreign currency purchase transactions was cancelled;

- possibilities of banks to write off bad debts (loans more than 360 days overdue) expanded, and the insurance reserve limit was recognized for tax purposes retained at 25% throughout 2017. These would exert a positive impact on banking operations.

- Law of Ukraine On Amendments to the Tax Code of Ukraine to Improve Investment Climate in Ukraine No. 1797-VIII of December 21, 2016, aimed at simplification of the tax system and tax administration through:

- implementing a unified public register of value-added tax refund applications instead of the existing two registers, and refunding VAT solely based on the data from such a unified register, and cancelling VAT refunds based on the findings of regulatory agencies with the aim to considerably reduce corruption and level the playing field;

- prohibiting regulatory agencies to unilaterally terminate agreements on recognition of electronic documents;

- liquidating tax police (following enactment of the law to stipulate for a legal basis of organization and operation of a specially designated agency);

- reorienting tax inspectorates towards customer service;

- providing for registration of personal tax advices in a unified database and affording taxpayers free-of-charge and open access;

- enhancing the taxpayer e-office functionality to provide for the exercise of taxpayer rights and discharge of their obligations without having to contact regulatory officers directly;

- addressing taxation challenges of the temporarily occupied territories of Donetsk and Luhansk regions and localities near the line of contact;

- conferring liability on regulatory officers and their immediate supervisors for wrongful decisions;

- providing for accelerated depreciation on plant and equipment introduced between January 1, 2017 and December 31, 2018 through decreasing their minimum allowable useful life by 2.5 times;

- introducing of a 5-year zero income tax for taxpayers whose annual income does not exceed UAH 3 million while gross monthly payroll is not less than two minimum monthly wages, provided that they meet established criteria;

- increasing the criteria for classifying legal entities as large taxpayers in pursuance of Resolution of the National Reforms Council dated October 25, 2016, to prevent an unreasonable assignment of a large number of taxpayers to large taxpayer offices;

- improving the transfer pricing framework to prevent shifting profits overseas.

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

- On March 30, 2016 the government adopted Resolution On Some Issues for Territorial Offices of the State Fiscal Service as part of implementing the IMF recommendations on reform of the State Fiscal Service and with the aim to create an enabling environment for large taxpayers, and ensure consistently high quality of

services. The Resolution calls for reorganization of Specialized State Tax Inspectorates for Large Taxpayers through their amalgamation with the SFS Office for Large Taxpayers;

- On September 28, 2016, the Ministry of Finance issued Order No. 849 approving amendments to the Procedure for Formulation and Lodgement of Complaints by Taxpayers and Consideration Thereof by Regulatory Authorities, aimed at enhancing taxpayers' confidence in and improving the quality of the appeal procedure, in particular by enabling taxpayers to demand open consideration of complaints and by entitling representatives of the Ministry of Finance, State Regulatory Service and Business Ombudsman Council to participate in the consideration of complaints;

- On July 18, 2016, the State Fiscal Service issued Order No. 633 amending Methodological Recommendations for Liaison among State Fiscal Service Units in Organizing and Conducting Taxpayer Inspections and Handling Taxpayer Inspection Materials, whereby taxpayer inspection materials may only be handed over to financial crime investigation unit upon completion of all administrative appeal and judicial review proceedings. The rationale behind the above is to decrease the number of groundless criminal cases against business entities.

- On September 27, 2016 the Ministry of Finance approved Key Performance Indicators for State Fiscal Service developed jointly with civic experts. One of the KPIs is a regular assessment of taxpayers' satisfaction with SFS performance.

- In July 2016, the Ministry of Finance

launched a project to provide general tax counselling for business to clarify ambiguities in tax law. Such counselling will help businesses save time and money in litigation.

- The following regulations were enacted as part of electronic administration of fuel sales implemented starting March 1, 2016:

- CMU Resolution On Some Issues of Electronic Administration of Fuel Sales No. 113 of February 24, 2016, setting out the procedure for registration of fuel excise duty payers in the electronic registry, the procedure for opening and closing electronic accounts for fuel vendors paying the excise duty, and the operational procedure for the fuel sales electronic administration system;

- CMU Resolution On Amendments to Fuel Sales Electronic Administration Procedure No. 409 of July 6, 2016 allows persons operating under joint activity agreement without establishing a legal entity to register as excise duty payers to sell fuel;

- CMU Resolution On Approval of the Procedure to Maintain a Unified Register of Excise Invoices No. 114 of February 24, 2016, envisaging the introduction of excise invoice as a mandatory electronic document drawn up for all fuel sales transactions in the domestic market;

- Order of the Ministry of Finance On Amending Excise Duty Declaration Form and the Procedure for Completion and Lodgement of Excise Duty Declaration Form No. 841 of September 26, 2016, introducing new annexes to the declaration form to calculate the amount of fuel excise duty and the amount of fuel excise duty payable by

fuel retailers;

- The following regulations were enacted to improve excise duty administration and have in place the necessary controls:

- CMU Resolution No. 497-p of July 6, 2016 to approve the Concept for Establishing and Implementing an Automated System of Control over the Circulation of Excisable Goods (Alcoholic Beverages and Tobacco Products) "Electronic Excise Duty". Electronic excise duty implementation would introduce a single information space and provide for the formation of a database on the circulation of excisable goods to serve as a viable mechanism in the battle against fake, counterfeit, and contraband products.

- CMU Resolution On Some Issues of Excise Stamp Usage No. 209 of March 23, 2016, stipulating that producers and importers of alcoholic beverages may continue using the remainder of prepaid old-style excise stamps available in SFS storage vaults should new-style excise stamps be introduced.

- Ministry of Finance issued Order On Approval of the Forms of Reports on Production and Circulation of Alcohol, Alcoholic Beverages and Tobacco Products and Procedure for Completion Thereof No. 49 of February 11, 2016, enabling enhanced control over production and circulation of alcohol, alcoholic beverages, and tobacco products, as well as over excise duty payment for these excisable goods;

- SFS provided for the functioning of the Unified State Register of Places of Storage of Alcohol, Alcoholic Beverages and Tobacco Products, and the Unified State Register of Alcohol Flow Meter.

- To provide for transparent VAT recovery, the government adopted the Resolution On Approval of the Procedure for Maintaining Registers of Value-Added Tax Refund Applications No. 68 of February 22, 2016, which envisages two publicly accessible registers of value-added tax refund applications that are published daily on the SFS website.

- To simplify tax invoices, the Ministry of Finance issued Order On Approval of the Form of Tax Invoice and Procedure for Completion Thereof No. 1307 of December 31, 2015, whereby certain details (such as seller/purchaser location, telephone number, type of commercial agreement, mode of payment), which became irrelevant due to introduction of the VAT electronic administration system, have been omitted in the tax declaration.

- To simplify the form of value-added tax return and the procedure for completion thereof, the Ministry of Finance issued Order No 21 of January 28, 2016, reducing the number of sections from four to three and the number of lines from 96 to 44 as compared to the form of VAT return previously in force.

- The State Fiscal Service operates and ongoingly improves the following e-services:

- “Taxpayer E-Office”, a personal computer workstation allowing a taxpayer to operate without special client application software installed;

- “ZIR”, a public information and reference system helping taxpayers holding digital signature keys access to tax legislation and

search 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”, “Register of Single Tax Payers”, “Register of Insurers”, “Details of Registration as Taxpayer”, “Register of Fuel Excise Duty Payers”, helping check whether a potential business partner is registered with the State Fiscal Service as a payer of respective taxes and duties;

- “Pulse”, an 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;

- “Maximum Retail Prices Charge by Producers and Importers of Excisable Goods”, providing relevant information about prices charged by producers or importers based on the declarations.

- In 2016, SFS decreased the number of documentary business inspections: the number of unscheduled inspections decreased by 24% (from 21 thousand to 16 thousand), while scheduled inspections saw a 5% reduction (from 4.4 thousand to 4.2 thousand). The quantity of crosschecks decreased more than two-fold (from 50 thousand to 22 thousand).

### International cooperation:

- On November 7, 2016, the government introduced the Draft Law of Ukraine On Ratification of the Protocol Amending the Convention between the Government of the Republic of Cyprus and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income into the Verkhovna Rada of Ukraine;

- On July 27, 2016, the government approved the Draft Agreement between the Government of Ukraine and the Government of Malaysia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and the Protocol thereto (Order No. 595-p);

- On September 30, 2016, Mr. Oleksandr Danyliuk, Minister of Finance of Ukraine and Mrs. Michele Pranchere-Tomassini, Ambassador Extraordinary and Plenipotentiary of the Grand Duchy of Luxembourg in Ukraine signed the Protocol between the Government of the Grand Duchy of Luxembourg and the Government of Ukraine to Amend the Convention between the Government of the Grand Duchy of Luxembourg and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Capital as part of bilateral cooperation between the two states. On December 19, 2016, the Government introduced draft law on ratification of said Convention and the Protocol thereto into Parliament;

- On November 22, 2016, Mr. Oleksandr Danyliuk, Minister of Finance of Ukraine handed an official letter on Ukraine’s accession to the BEPS (Base Erosion and Profit Shifting) to Mr. Jose Angel Gurrria Trevino, Secretary-General of the OECD. A final stage in the process of becoming a member of the Inclusive Framework on BEPS, it gives a positive signal to investors and will facilitate international trade activities and economic growth.

### Reform progress assessment by the international community:

- Ukraine improved its rating in the Paying Taxes ranking – a joint annual publication by the World Bank Group and PricewaterhouseCoopers – by going up 23 positions (from 107th to 84th place among 190 countries). This improvement was mainly due to reduction in the USC rate from 41% (on average) to 22%, reduction in rent payment for subsoil use for the extraction of natural gas, abolishment of USC withheld from salaries, introduction of an 18% flat tax on personal income (instead of two – 15% and 20%), and implementation of the new VAT refund procedure and the fuel sales electronic administration system.

---

■ **What need to  
be done to  
accelerate reform**

- Provide for the operation of Taxpayer E-Office service with extended functionality.
- Introduce a draft law establishing a new agency responsible for the prevention, detection, termination, investigation, and uncovering of criminal offences against financial interests of the state and/or local governments.
- Develop a draft law concerning tax on capital outflows.
- Conduct an independent audit of SFS databases and information resources.
- Develop a draft law concerning a unified account for the payment of taxes and duties.
- Develop a draft law concerning standard accounting of unified social contribution and personal income tax.
- Develop a draft law concerning general declaring of personal income and expenses and tax control over matching of personal income and expenses using indirect methods.
- Put in place a unified database of personal tax advice and post on the SFS website.
- Prepare and approve draft schedules for harmonising rates of excise duty payable on tobacco products with those set forth in EU Directives.





## Public administration reform

Reforms Monitoring Progress  
2016

### What has been achieved

#### Implementation of the Law On Civil Service

1. On May 1, 2016, the new Law of Ukraine On Civil Service (No. 889-VIII of December 10, 2015) entered into force.

2. There were over 30 crucial pieces of subordinate legislation developed and adopted to implement the new Law of Ukraine On Civil Service. The government approved, among other acts, the following subordinate legislation for civil service reform:

- Regulations on Senior Civil Service Commission;
- Procedure for Competitive Selection for Civil Service Positions;
- Standard Qualification Requirements for Candidates to Categories "A", "B" and "C" Civil Service Positions;
- Regulations on a typical Central executive bodies human resources department;
- Civil Service remuneration scheme.

3. June saw the formation and launch of the Senior Civil Service Commission composed of 12 members, representing all three branches of Ukraine's government and including 4 representatives of non-governmental organizations, scientific institutions, and educational establishments.

4. There were 108 competitions for

category "A" civil service positions, including state secretaries of ministries, heads of local (oblast and rayon) state administrations, and heads of central executive agencies, held. There were winners of 87 competitions determined, including those for Heads of Mykolaiv, Kharkiv, Kyiv and Zhytomyr Oblast State Administrations, and Heads of State Statistics Service, State Service On Pharmaceutical Products and Drug Control, State Forest Resources Agency, State Water Resources Agency, etc.

5. There were 26 competitions to fill the vacancies of state secretaries of ministries held, with 21 winners determined. The government appointed 9 state secretaries, namely of:

- Ministry of Internal Affairs of Ukraine;
- Ministry of Economic Development and Trade of Ukraine;
- Ministry of Ecology and Natural Resources of Ukraine;
- Ministry of Social Policy of Ukraine;
- Ministry of Foreign Affairs of Ukraine;
- Ministry of Regional Development, Construction, Housing and Utilities of Ukraine;
- Ministry of Justice of Ukraine;
- Ministry of Infrastructure of Ukraine;
- Secretariat of the Cabinet of Ministers of Ukraine.

6. General Rules of Ethical Conduct for Civil Servants and Local Government Officials developed by the National Agency on Civil Service with contributions from a broad range of Ukrainian and international experts and representatives of relevant international institutions were approved and took effect.

7. On April 14, 2016, the National Agency on Civil Service launched ksds.nads.gov.ua – a system for the automated collection of data on the quantitative composition of civil servants – in test mode. The automated data collection system, a system pioneered in Ukraine, operates almost in real-time mode and covers 898 public bodies (129 agencies within the executive branch and 769 agencies within the judicial branch). The system was developed and implemented by the National Agency on Civil Service with support from the iGov team and the National Reforms Council's Project Management Office without government spending.

#### Implementation of the Strategy for Public Administration Reform

8. On April 14, 2016, the Cabinet of Ministers of Ukraine upheld the Strategy for Public Administration Reform in Ukraine 2016-2020 and approved the Action Plan for its implementation. Crucial areas of the reform include:

- Strategic framework of public administration reform;
- Strategic planning, formulation, and coordination of the public policy;

• Civil service and human resources management;

• Accountability: organization, transparency, supervision;

• Provision of administrative services and administrative procedure;

• Public finance management.

9. There was a Public Administration Reform Coordination Council chaired by Vice Prime Minister for European and Euro-Atlantic Integration and involving representatives of civic associations established. The Council held two meetings, set out a general approach to coordination of efforts in implementing the Strategy for Public Administration Reform, and approved personal composition of respective task groups.

10. The Cabinet of Ministers approved the Concept for the Introduction of Reform Expert Positions 2020 by its Resolution No. 905 of November 11, 2016. The Concept is aimed at refreshing the staffing aspect of state bodies and improving their performance in developing and implementing crucial national reforms.

11. On December 19, 2016 the financing agreement governing support to Ukraine's public administration reform was signed between the European Commission and the Ukrainian Government. The agreement provides for non-repayable financial assistance worth EUR 104 million (EUR 90 million as sector budget support and EUR 14 million as technical assistance) to be given over 5 years to support various areas of public administration reform.



## Public administration reform

**12.** A number of amendments to CMU Rules of Procedure were introduced to streamline the procedure for preparation and approval of the government's decisions: These include:

- providing for the planning of Cabinet of Minister's meetings through the approval of quarterly agendas of the government's meetings;
- removing the rule whereby ministers were allowed to submit draft documents in the course of the government session without observing procedure rules;
- improving the government committees' work;
- reducing the time for reconciliation of certain documents.

**13.** Updated organizational structure of the CMU Secretariat was developed and approved by CMU Resolution No. 564 of August 23, 2016. There were Strategic Planning and National Policy Coordination Department and Public Administration Department established. The latter is primarily tasked with coordination and monitoring of Ukraine's public administration reform implementation.

**14.** On August 15, 2016, the CMU Secretariat transitioned to electronic document management system to speed up the flow of documents while interacting with central executive authorities to make document handling less time consuming, provide for optimization of records management processes and improve the overall performance.

### Other areas of the reform effort

**15.** The Ministry of Economic Development and Trade of Ukraine launched an updated Unified State Portal of Administrative Services pilot project at [www.poslugy.gov.ua](http://www.poslugy.gov.ua). The first 15 MEDT electronic services launched, login authentication using digital signature implemented.

**16.** Vasyl Kuybida was appointed President of the National Academy for Public Administration under the President of Ukraine (NAPA). In addition, there was a new personal composition of the NAPA's Supervisory Board approved (Decree of the President of Ukraine No. 375/2016). Draft NAPA Development Strategy 2017 – 2021 was approved by Resolution of the NAPA's Academic Council dated as of November 24, 2016.

### What has not been achieved

1. Amendments to respective laws of Ukraine required under the Law of Ukraine On Civil Service failed to materialize.
2. Law of Ukraine On Service in Local Government Bodies (No. 2489) pending enactment.

### What need to be done to accelerate reform

1. Pass respective legislative amendments in connection with the enactment of the Law of Ukraine On Civil Service to streamline civil service in various public bodies.
2. Enact Law of Ukraine On Service in Local Government Bodies (No. 2489).
3. Implement the Concept for the Introduction of Reform Expert Positions and provide civil service employment to qualified professionals capable to efficiently implement crucial national reforms and develop the civil service.

**4.** Develop and implement a fair and competitive civil service pay system based on job classification to provide for robust public administration reform.

**5.** Approve strategic planning and national policy formulation methodologies, and pass respective amendments to the CMU Rules of Procedure, Law of Ukraine On the Cabinet of Ministers of Ukraine and Law of Ukraine On Central Government Authorities to streamline the procedure for approval of the government's decisions.

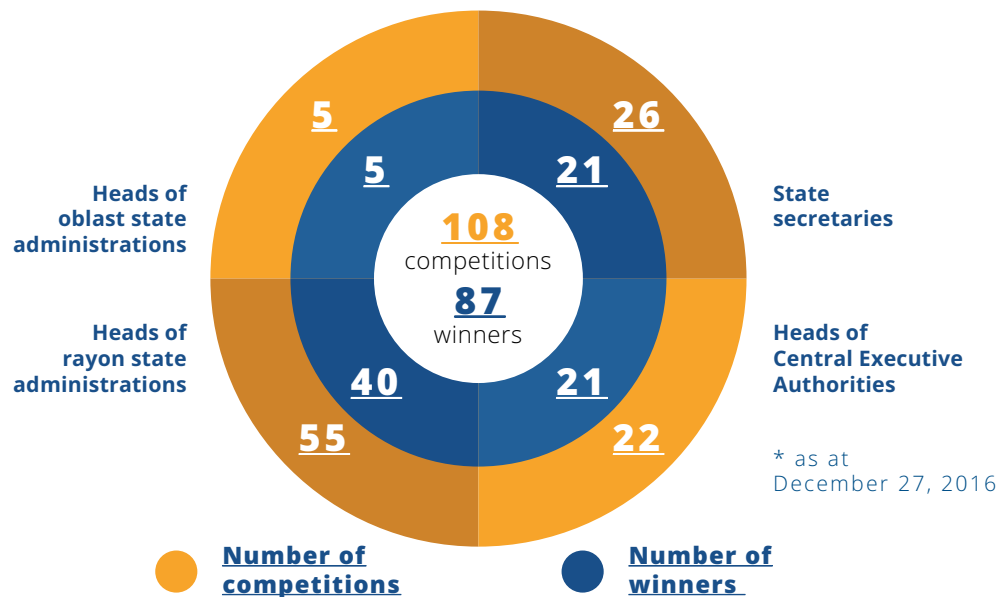




# Public administration reform

## Senior Civil Service Commission

Competitions for civil service positions\*



- ▶ Law on Civil Service
- ▶ 2016-2020 Public Administration Reform Strategy
- ▶ EU-Ukraine Public Administration Reform Financing Agreement
- ▶ Concept for Introducing Reform Expert Positions



Senior Civil Service Commission

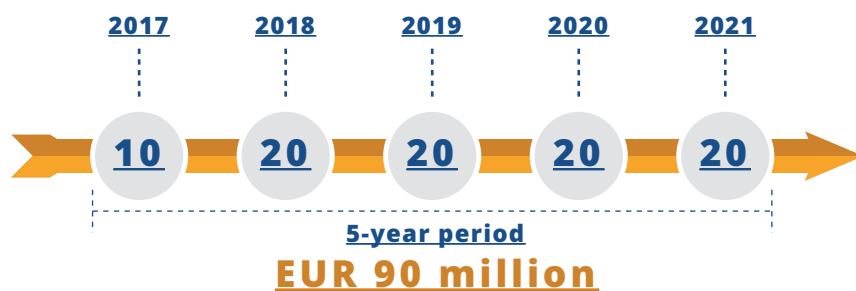


Public Administration Reform Coordination Council



Special Working Groups

## EU financial support to public administration reform, in EUR million\*



\* Tentative schedule of budget support under Financing Agreement dated December 19, 2016



## Financial sector reform

### ■ What has been achieved

On September 14, 2016, Ukraine saw a **positive resolution of the IMF Executive Board** to disburse the third tranche from its Extended Fund Facility of USD 17.5 billion. USD 1 billion in tranche proceeds were transferred to the NBU account on September 16, 2016.

The tranche enabled further international support for Ukrainian reforms.

Intensified cooperation with international creditors had a positive effect on Ukraine's international reserves, which stood at USD 15.465 million as at December 19, 2016 against USD 13.300 million as at the start of the year.

**Ukraine's economy continued its gradual recovery.** Real GDP growth accelerated to 2.0% on a year-over-year basis in the third quarter of 2016.

**Consumer price inflation** stood at 1.8% in November 2016. It **decelerated** to 12.1% on a year-over-year basis, which is mostly in line with the NBU projections of a 12% increase in the Consumer Price Index in 2016.

Also, 2016 saw **a trend towards an increase in national currency denominated deposits** (+2.7% exclusive of insolvent banks as at December 19, 2016). Bank lending to businesses has been gradually recovering (+23.9% for UAH denominated lending as at December 19, 2016).

On December 8, 2016 the NBU Board resolved to **retain the refinancing rate at 14% per annum**. This decision was made to neutralize inflation risks in order to meet 2017-2018 inflation targets (inflation stood at 22% as at January 1, 2016).

Against this background the NBU has continued to gradually **liberalize administrative restrictions** imposed in 2014-2015. The National Bank has, among other things, cancelled restrictions on withdrawal of Ukrainian hryvnia denominated deposits; decreased the mandatory sale requirement in respect of foreign exchange earnings from 75% to 65%; allowed bank customers to withdraw funds denominated in foreign currency or precious metals from current and deposit accounts via cash desks and ATMs provided that the amount withdrawn per customer a day is not greater than the equivalent of UAH 250 thousand (previously UAH 100 thousand); allowed a gradual repatriation of dividends accrued to foreign investors over 2014-2015 for an amount not to exceed the greater of the following threshold values: a UAH equivalent of USD 1 million or 10% of total dividends to be or to have been repatriated (but not greater than USD 5 million).

**Parliamentary approval** of the Law of Ukraine On the Elimination of Administrative Barriers to Export of Services **signed by the President** on November 30, 2016 was yet a further **step** towards **foreign exchange liberalization** and **an impulse to investment attraction** and IT sector development.

The National Bank continued to pursue its course towards rebooting the banking

sector: **16 banks were removed from the market in the first 9 months of 2016. A total of 81 banks have been removed from the market since the beginning of 2014.**

October 2016 marked the **launch of the Council of the National Bank of Ukraine**. The Council held two meetings and approved over ten resolutions as at December 19, 2016.

On December 18, 2016 the Cabinet of Ministers of Ukraine **approved a resolution for acquisition by the government of 100 percent of shares of the largest Ukrainian bank Privatbank** and issuance of domestic government bonds worth a total of UAH 116.8 billion to provide for its capitalization. The resolution will help avoid systemic risks in the banking sector, guarantee financial stability of the country and protect more than 20 million Ukrainians holding deposits and using the services of Privatbank.

#### Legislative amendments:

June 2016 saw the launch of the instruments to **tackle corporate non-performing loans and clean up banks' balance sheets**, i.e. the Law On Financial Restructuring, and to provide an institutional framework to **improve the quality of non-performing loan recovery**, i.e. the Law On Private Enforcement Officers. Both Laws became effective in October 2016.

Draft Law of Ukraine On Restructuring of Foreign Currency Denominated Liabilities of Ukrainian Citizens Under Home (Mortgage) Loans No. 4004<sub>d</sub> of June 21, 2016, which received the IMF preliminary approval, was introduced into Parliament and refined by a respective parliamentary

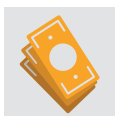
committee to address the challenge of foreign currency borrowers, relieve social stress and handle bad retail loans.

Draft Law of Ukraine On Amendments to Some Laws of Ukraine Concerning Corporate Agreements No. 4470 was introduced into Parliament on April 19, 2016 to **enhance corporate governance of business entities**, implement respective international best practices and **boost Ukraine's investment appeal**.

The Law of Ukraine On Amendments to Some Laws of Ukraine Concerning Compensation of Individuals Via Household Deposit Guarantee System for Damages Caused through Banking and Other Financial Malpractices, initiated by the President of Ukraine, was passed in **November 2016** to streamline the mechanism for protecting rights and interests of depositors, in particular depositors of non-bank financial institutions. The Law puts in place a legislative mechanism to tackle compensation through the Deposit Guarantee Fund and strengthens legal responsibility and liability not only of the management and shareholders of banks that set up criminal schemes, but also of financial institutions involved in such schemes.

**December 2016** saw enactment of the following laws of Ukraine:

- On Consumer Lending, bringing Ukraine's consumer lending legislation closer to Directive 2008/48/EC and implementation of EU-Ukraine Association Agreement, as well as providing for a comprehensive regulation of respective issues;



## Financial sector reform

- On Amendments to Law of Ukraine On Banks and Banking Concerning Government Guarantee of Retail Deposits, introduced by the President of Ukraine. The law is aimed at strengthening the government guarantees of retail deposits in state-owned banks.

The Draft Law on Amendments to Some Legislative Acts of Ukraine Concerning Certain Types of Bonds and Draft Law on Amendments to the Budget Code of Ukraine Concerning **Certain Types of Bonds** aimed at protecting investor rights and developing capital market instruments were **registered** on September 5, 2016.

Draft law on simplification of bank capitalization and reorganization procedures to enable additional legal mechanisms to ensure stability of the banking sector through optimization of bank capitalization and reorganization procedures was **registered with Parliament in December 2016**.

### ■ What has not been achieved

Passage of draft laws through **Parliament** remains **the bottleneck of reform**.

### ■ What need to be done to accelerate reform

Further steps of reform are to continue **creating an enabling regulatory environment necessary to achieve the reform objectives, which include, among other things:**

- Improving corporate governance of government-owned banks by passing the law on corporate governance of government-owned banks;
- Promoting development of capital markets by passing the law on derivative financial instruments and regulated markets;
- Promoting development of non-bank financial services markets by passing the law on consolidation of financial services markets regulation functions;
- Drafting new foreign exchange legislation in line with international best practices with a continued focus on gradual foreign exchange liberalization;
- Ensuring an efficient financial restructuring process using new mechanisms introduced by the Law of Ukraine On Financial Restructuring.





## Education reform

### What has been achieved

#### Higher Education

- The Research and Methodology Council of the Ministry of Education and Science was established, and the members of the Research and Methodology Committees (higher education sector) were selected. Throughout 2016 they developed around 100 new standards for higher education specialties.
- New requirements for awarding academic degrees to scientific and teaching personnel were approved. The Ministry of Education and Science of Ukraine initiated a series of training sessions for instructors of higher education institutions and research fellows on basic requirements for publishing in international peer-reviewed journals and academic writing standards.
- The new procedure was approved for the training of doctors of philosophy (PhD) and doctors of science.
- Non-competitive enrollment in higher education institutions was cancelled. The 2016 enrollment campaign involved testing the system of priorities and automatic distribution of state-funded places at higher education institutions (the enrollment “waves” and the associated fraud and corruption possibilities were cancelled). The state-funded places were distributed using the “place follows the student” principle, which should become an incentive to build a new strategy for

enrollment in higher education institutions and establish guidance counseling for the school leavers.

- The model of independent testing based on the independent external evaluation process was tested during enrollment in the master's degree program in Law, minimizing the risks of unfair practices during enrollment. The results of the independent testing experiment were used as the basis for the Concept for Development of Legal Education in Ukraine that provides for a unified qualification exam for all employees.
- The government regulated the issues required to start the operation of the National Agency for the Quality of Higher Education, amending the agency's charter, approving the staff, stipulating the maximum personnel count and the staffing schedule, and appointing the head of the agency's secretariat. The authority of the agency includes laying down the requirements for the higher education quality assurance system, preparing the resolution on certification of training programs, and conducting the assessment for the licensing of higher education activities.
- The Cabinet of Ministers established the National Academic Text Repository, intended as a tool against plagiarism in academic publications. The Ministry of Education and Science of Ukraine developed and proposed for public discussion the Draft Regulation on the National Academic Text Repository.
- The new website of the Ukrainian State Center for International Education was launched <http://www.studyinukraine.gov.ua/> for

prospective foreign students. The website provides comprehensive information on education in Ukraine, in particular the training programs, scholarships, etc.

- In order to ensure effective national-level coordination of activities when implementing the strategic recommendations of the UNESCO SDG4 program, the Ministry of Education and Science established a group to arrange the preparation and adoption of the Action Plan for Implementation of the UNESCO SDG4 Program for Sustainable Development in Education in Ukraine.
- A group was established for development of the Concept for Reform of Pedagogic Education.
- The Resolutions of the Cabinet of Ministers approved the procedure for award and payment of scholarships as well as the procedure for disbursement of funds allocated in the state budget for academic and social scholarships to students of higher education institutions, identifying the categories of students receiving social scholarships starting from 2017.

#### Vocational Education

- In order to address the strategic issues, such as developing vocational education at the regional level, organizing an efficient network of educational facilities, and shaping regional demand for personnel training, vocational education councils were established in the regions. Their members include representatives of oblast administrations, the business community, and education institutions.
- With the support from the European

Education Fund, monitoring of the vocational education system was conducted in each oblast, identifying the problems and priorities for managerial decisions. In September, it was resolved to terminate ten vocational schools by merging them into larger education institutions.

- 25 newly developed state standards of vocational education in specific specialties were approved by the Federation of Employers of Ukraine. In order to prepare workers in the specialties most needed by the state, 25 vocational schools were selected for establishment of modern training and practice centers, and the process of establishing such centers was launched.
- 19 specialties were designated as professions of national significance; vocational school students of such specialties will be trained at the expense of the state. The training in other professions required for the local infrastructure and municipal companies will be funded from local budgets in the course of decentralization of education, based on the regional needs.

#### General Secondary Education

- The Cabinet of Ministers of Ukraine adopted the action plan for improving English learning through 2020, focused on high quality training and skill improvement for teachers, exchange in teaching technologies and foreign language teaching techniques, and the creation of an English-speaking environment.
- Amendments were made to the Regulation of the Cabinet of Ministers of Ukraine On Education Districts defining the



## Education reform

status and basic organizational principles of hub schools and specifying the major criteria of bidding for funding of investment projects of the best hub schools in 2016. During the year, 137 schools and 360 branches commenced operation. The hub schools enabled 332 students, who were previously trained on an individual basis, to go to school with their peers.

- The primary school education programs were modernized and approved by the College of the Ministry of Education and Science (the topics incomprehensible for children in primary school were removed, modern reading texts interesting to children were added, and the approach to the teaching of English in the 1st through 4th grades was changed, etc.) Video materials containing methodological recommendations for the updated primary school programs on three subjects – literature reading, English, and mathematics – were published online on the EdEra platform.

- The government designated the Ukrainian Center for Education Quality Assessment as the agency to conduct the PISA 2018 (Programme for International Student Assessment) study. The Ministry of Education and Science approved the 2016 Action Plan to organize and hold the PISA-2018 international education quality assessment. The results of PISA-2018 study will create opportunities to assess the quality of school education as compared to other countries, while the Ukrainian specialists engaged in the adaptation of the PISA tests will become experts in competency-based assessment.

- The State Education Information System,

an information and telecommunication system, was launched into test operation; from now on, the system will be connected to the education sector under a single information and analysis system. A list of national education efficiency and quality indicators related to general secondary education were approved and put into operation in order to organize the statistical reports, improve their availability, and make them comparable with the international education indicators. The visualization of the system's content is now publicly available.

- Based on the wide public discussion, the government adopted the New Ukrainian School Concept for Implementation of the State Policy in the Reform of General Secondary Education in the period till 2029. This strategic document provides for a transition from a “school of knowledge” to a “school of competencies”, and will be the basis for the policy on the reform of general secondary education. In particular, the following activities have been defined as major reform components: formation of the new content of education (standards, programs, textbooks, and techniques), changes in the training, skill improvement, and financial incentives for teachers, change of the school structure (implementing higher specialized schools), increased school autonomy, transparent disbursement of public funds for education and implementation of the “money follows the student” principle, reorienting the schools to the partnership pedagogy and child-centeredness approach.

- Steps have been made in the process of de-bureaucratizing the general secondary education system and reducing the paper

pressure on teachers and school administrators. The Ministry of Education and Science, together with the EdCamp Ukraine community initiative, and with support from Microsoft Ukraine and other project partners, conducted an anonymous survey on document management and reporting in the secondary education facilities and freed the educators' time for work with children. It is already prohibited for the education administrations to require reports on school activities not provided for by law or redundant paper documents if electronic reports are available.

- The Cabinet of Ministers of Ukraine has made a resolution that students of special (residential) facilities for children with development disorders will be gradually transferred to the general education institutions by 2022. This will help ensure equal access to high-quality education for children with special needs and contribute to successful learning, development, and socialization.

- The government allocated over UAH 1.6 billion of the reserves and undistributed expenses of the education subvention to improve the material and technical resources of schools, further procurement of school buses for hub schools, and support of education in united local communities. A total of 10,400 students across the country use school buses.

### Pre-School Education

- The new Health Regulations for Pre-School Education Facilities was approved, laying the foundations for development of small private kindergartens.

- The staffing schedule of pre-school facilities now includes the “teacher's assistant” positions in inclusive groups with pay grades 8 to 10.

- The kindergarten directors received more authority in the human resources policy.

### Science

- The Resolution on Establishment of the Science Identification Committee was adopted, approving the Regulation and the composition of the committee.

- The Cabinet of Ministers established the Horizon 2020 Framework Program Coordination Center and the Selection Committee to select representatives and experts for the Program Committees of the Framework Program responsible for the choice of topics for research funded within the program. Their purpose is effective resolution of problems arising during the implementation of the program projects, as well as democratic and transparent selection of Ukraine's representatives in the Program Committees of the Framework Program. In the Horizon 2020 program, our scientists already take part in 61 international award-winning consortia, their share in the project budgets exceeding EUR 11.5 million, whereas Ukraine's annual contribution to the program budget is around EUR 5.8 million, which is two times less than the benefits already received from the program by Ukrainian scientists.



## Education reform

- An independent European audit of the Ukrainian national research and innovation system was conducted, resulting in the Report on the Audit of the Research and Innovation System of Ukraine using the Horizon 2020 instruments, including detailed recommendations on the reforms required to improve the quality and efficiency of the state investments in scientific research and innovations, as well as to create a favorable environment for innovations and stronger connections between the scientific and business communities.

- Ukraine became an associated member of the European Organization for Nuclear Research, which gives the Ukrainian scientists a unique opportunity to gain experience by taking part in cutting-edge research, working at CERN, and participating in career development programs. For the purpose of implementing the activities of the Roadmap for Development of High Energy Physics Research in Ukraine in collaboration with the European Organization for Nuclear Research, the Resolution on the Interagency Coordination Board of the Ministry of Education and Science of Ukraine and the National Academy of Science of Ukraine on collaboration between Ukraine and the European Organization for Nuclear Research was passed.

- The Agreement between the Government of Ukraine and the European Atomic Energy Community on scientific and technological collaboration and Ukraine's associated participation in the Euratom Research and Training Program (2014-2018) was ratified. Its implementation will ensure Ukraine's integration in the European scientific community and

intensify the international scientific and technological collaboration in nuclear energy. Ukrainian nuclear energy scientists will receive wide access to the EU scientific structures, and Ukrainian research facilities may be engaged in the Euratom projects.

- In pursuance of the Law of Ukraine On Scientific and Technical Activities, the government adopted the resolution stipulating that the net profit resulting from financial and economic activity shall be fully retained by scientific institutions and complexes, which makes it possible to allocate such institutions' profits to initiative-driven scientific and technical activities, expansion of their own material and technical resources, and funding of innovations.

- The Cabinet of Ministers of Ukraine approved the Model Regulation on the Young Scientists Council at Executive Government Agencies, which will help young scientists exercise their rights, receive consultative support in the scientific activities, cooperate with foreign customers of scientific products, etc.

- The government resolved that Ukraine shall host the INNOVATION MARKET international forum on an annual basis and the Innovative Economy and Science, International East European Forum, once every two years, for the purpose of presenting and promoting the projects of the research and production institutions and companies as well as higher education institutions of Ukraine in order to find customers, engage systemic investments, and implement projects.

- The Ihor Sikorsky Kyiv Polytechnic Institute (National Technical University of

Ukraine) hosted the 5th Sikorsky Challenge 2016, an innovation projects festival intended to identify the most interesting and relevant projects in various technical areas, as well as support the best authors in commercialization, startup creation, and bringing innovative projects to national and international markets.

### Reforms of Legal Foundations

- The Draft Law of Ukraine On Education was approved by the Parliament in the first reading (Registration No. 3491-d of April 4, 2016).

- The Cabinet of Ministers submitted the Draft Law of Ukraine On Vocational Education to the Parliament (Registration No. 5160-1 of October 10, 2016).

---

## ■ What need to be done to accelerate reform

- Adopt the new Law of Ukraine On Education (registration No. 3491-d of April 4, 2016, approved in the first reading on October 6, 2016).

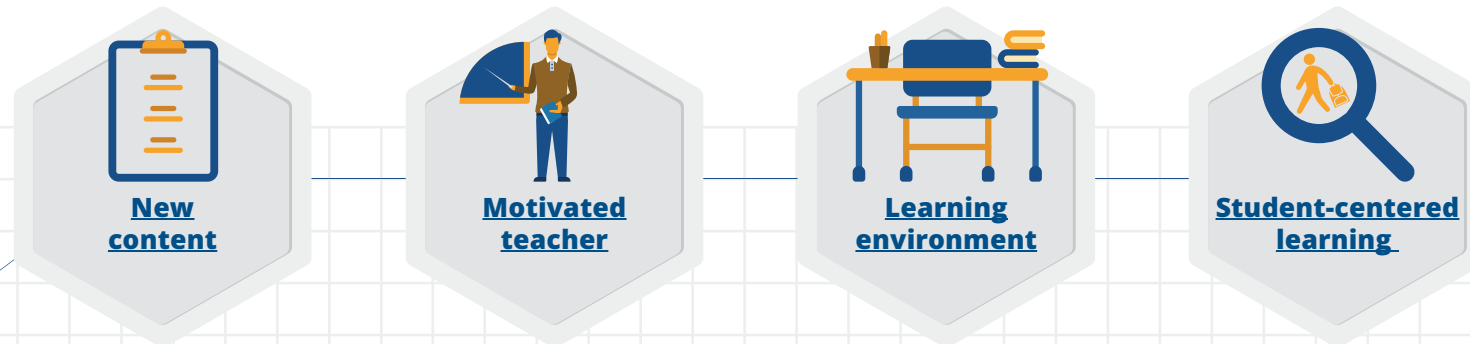
- Adopt the Law of Ukraine On Vocational Education (Registration No. 5160-1 of October 10, 2016).

- Amend the Law of Ukraine On Pre-School Education (draft law published for discussion on the website of the Ministry of Education and Science of Ukraine on December 19, 2016).

- Develop the new Law of Ukraine On General Secondary Education.



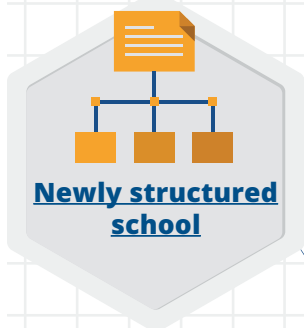
# General secondary education reform formula



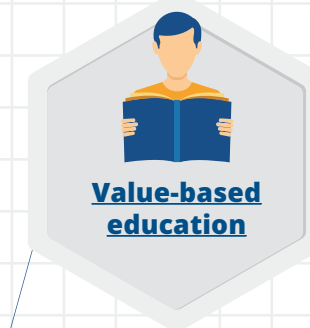
Targeting competencies necessary for personal fulfillment

- Changes in the preparation and selection of teacher professional development models
- Institutional autonomy
- Financial incentives for teachers

- Creative learning environment
- Infrastructure (libraries, online learning platform)
- Inclusion



## NEW UKRAINIAN SCHOOL



Personal development for national and global well-being

**Primary school:**  
2 stages:  
 ■ Adaptive learning through play (Grades 1-2)  
 ■ Basic course (Grades 3-4)

**Middle school:**  
2 stages:  
 ■ Bridging learning (Grades 5-6)  
 ■ Subject-oriented learning (Grades 7-9)

**High School:**  
 ■ Academic Lyceum – academic education and advanced curriculum in particular subjects with a focus on continuing into higher education  
 ■ Professional Lyceum or College – general secondary education plus initial qualification and opportunity to continue into higher education



- “Money follows the student” principle
- Transparency – schools report on funding obtained from budget or other sources



- Powers:**
- Formulation of education programs and curriculums
  - Range of textbooks to choose from
  - Physical infrastructure development
  - Responsibility for the quality of education



Partnership among student, teacher and parents



**SCHOOL GRADUATE: Personality, Patriot and Innovator**



## Energy reform

### ■ What has been achieved

- The Verkhovna Rada of Ukraine adopted:
  - The Law of Ukraine "On the National Commission for state regulation in the energy and utilities sector" (Reg. No. 2966-d issued on 19/02/2016), which stipulates the following: legitimate status of the Regulator, functional independence in decision-making and licensing, financial independence and ability to strengthen institutional capacity, political independence and inclusive process of appointing members of the Regulator, transparency in the development of decisions and decision-making - draft decisions and justification will be published before the meeting of the Commission;
  - The Law of Ukraine "On Amendments to the Budget Code of Ukraine (regarding the regulation of the system of revenue and spending of funds received from royalties for the use of subsoil, extraction of oil, natural gas and gas condensate)" (the Law will come into effect in 2018). The Law provides for the distribution of subsoil royalty fees for the extraction of oil, gas, and gas condensate using the following ratio: 2% for the village, town, and city budgets, 1.5% for the oblast budget, and 1.5% for the relevant district budget, the remaining 95% will be credited the State Budget;
  - The Law of Ukraine "On Amendments to the Law of Ukraine "On the Natural Gas Market "(regarding natural gas safety stock) No. 1541-VIII issued on 22.09.2016, requiring all suppliers of natural gas to establish the safety stock of no more than 10% of the monthly volume of deliveries;

- the draft law of Ukraine "On Electricity Market of Ukraine" (Reg. number 4493 of 21/04/2016) after the first hearing, the bill is being prepared for the second hearing;
- the draft law of Ukraine "On Amendments to the Law of Ukraine "On Heating Energy Supply" after the first hearing, to stimulate the production of heating energy from alternative energy sources" (No. 4334 issued on 30.03.2016), the bill is being finalized and prepared for the second hearing;
- the draft law of Ukraine "On Commercial Metering of Utility Services" (No.4901 issued on 06.07.2016) in the first hearing, as the basis.
- To create an effective competitive market of natural gas taking into account the main requirements of EU legislation:
  - Pursuant to the Law of Ukraine "On the Natural Gas Market" and the action plan on gas sector reform, the government approved a decree "On the Separation of transportation and storage (filling, extracting) of natural gas" issued on 01.07.2016 No.496;
  - According to the decree of the government and to implement the Naftogaz Ukraine restructuring plan, the Ministry of Energy issued order No.586 on 13.09.2016 to establish a working group to implement the Plan;
  - Under the restructuring plan of Naftogaz Ukraine and to implement Government Resolution No. 801 issued on 11.09.2016, a public joint stock company "Trunk Pipelines of Ukraine" was formed. 100% of this company is owned by the state. The same Resolution also approved the charter of the company.

- On 22.09.2016, the government decided to transfer 100% of the state-owned shares of the PJSC NJSC Naftogaz of Ukraine to the Cabinet of Ministers of Ukraine.
- Through significant diversification of the energy supply routes and reducing dependence on the traditional gas supplier, national energy security has significantly increased. Ukraine has not bought gas from Russia for over a year.
- On 28.12.2016, the government adopted the Concept of development of Ukraine's gas production by 2020; the paper identified specific steps for increasing production of domestic gas. A key goal of the Concept - 27 billion cubic meters of Ukrainian gas per year by 2020.
- The Draft Law of Ukraine "On information disclosure in the extractive industries" aimed at ensuring the implementation of the Extractive Industries Transparency Initiative (EITI) submitted to the Verkhovna Rada of Ukraine (Reg. No.4840 issued on 17.06.2016). The adoption of this law will allow implementing the provisions of EC Directives: 2007/14 / EC, 2013/50 / EC, 2013/34 / EC.
- Ukraine and the EU have expanded energy cooperation by signing a Memorandum of Understanding on strategic energy partnership between the EU and Ukraine jointly with the European Atomic Energy Community (11/24/2016).
- The Ministry of Energy published the Draft Energy Strategy of Ukraine 2035.
- The Ministry of Energy, the Ministry of Infrastructure and Ukravtodor launched a national initiative "Elektrosohodni" (E2D). The goal of the Initiative is to create conditions in Ukraine to encourage citizens

- to switch to electric cars. As part of the initiative, it is planned to develop and approve the "Electric global strategy of Ukraine's transition to electric vehicles."
- Implemented the Project "Study of the possibility of synchronous interconnection of Ukraine's and Moldova's power systems to ENTSO-E Continental Europe Power Grid", prepared the necessary amount of output data in accordance with the Agreement for future electrical calculations and tested generating equipment for thermal power plants and hydropower plants to provide for primary and secondary regulation.
- The third hydraulic unit of Dniester PSP with the generator mode capacity 324 MW (10/06/2016) was launched and connected to the Joint Grid of Ukraine.
- The Cabinet of Ministers of Ukraine issued a Resolution No.552-p of 07.13.2016 to approve the Hydropower Development Program of Ukraine 2026.
- Cooperation with the Westinghouse Company continues under the contract with the State Enterprise Energoatom on the supply of nuclear fuel for nuclear power plants of Ukraine, which provided for the measures to diversify the sources of supply of nuclear fuel for nuclear power plants of Ukraine. Since the beginning of 2016, 13 deliveries of nuclear fuel supply have taken place, 9 from JSC "TVEL" (Russia) and 4 from the Westinghouse company (USA).
- The shelf-life of power generating unit No.1 of the Zaporizhzhya NPP was extended to 23/12/2025. On September 21, 2016, power generating unit No.1 of Zaporizhzhya NPP was connected to the network.



## Energy reform

- The Verkhovna Rada of Ukraine adopted the Law of Ukraine "On Amendments to certain legislative acts of Ukraine regarding the settlement of certain issues of legal regime of territories contaminated by the Chernobyl disaster" No. 1472-VIII issued on 14.07.2016. CMU Resolution No.721-r issued on 10.05.2016 "On Forfeiting and rendering land for permanent use followed by the change of land designation" granted land to Energoatom to build a centralized storage facility for spent nuclear fuel from VVER-type domestic nuclear power reactors.
- The government has approved the Resolution "On approval of the Procedure of movement of spent fuel and radioactive materials, formed as a result of its processing from the Ukrainian nuclear power plants through the national border" (09/27/2016).
- Under Resolution No. 943-r issued on 09.11.2016, the government approved the Concept of the State Target Economic Development Program of nuclear and industrial complex of Ukraine 2020.
- With the purpose of organizational support to building the centralized repository for spent nuclear fuel from domestic nuclear power plants, there has been developed and submitted to the State Enterprise Ukrderzhbudekspertyza design papers and estimates for construction of the repository for conducting comprehensive state evaluation.
- To address the functional issues of domestic oil market, the Cabinet of Ministers of Ukraine adopted a Resolution "On establishment of the Interagency Working Group on the functioning

of the oil and petroleum market and development of refining industry" No. 814 issued on 11.16.2016.

- CMU draft Resolution "On Approval of the Concept of the State Target Economic Reform Program of the coal industry 2020" has been revised and sent for another round of CEB coordination.
- On 31/03/2016, in the framework of preparation for privatization of coal mining companies, the Ministry of Energy handed the package of documents regarding the Buzhanska Mine and Volynvuhillya company to the regional office of the State Property Fund and prepared a draft CMU Resolution "On making the decision to privatize."
- Strict quality control has been introduced over extracted coal and the coal shipped to processing plants and consumers, which has reduced the ash content of extracted coal by 41.7% compared to the planned 43.3% in 2016.
- The Ministry of Energy, together with representatives of the public and experts have developed and proposed a series of effective measures for CMU to prevent, detect and combat corruption aiming at:
  - Selection of heads of state enterprises, institutions, and organizations exclusively through transparent competition;
  - Involvement of civil society to assess corruption risks in the Ministry of Energy and preparation of relevant Anti-corruption Program;
  - Regular publication of updated analytical information as a part of open procedures

of the Ministry of Energy;

- Meetings with the representatives of NGOs and the media to explain the decisions and initiatives of the Ministry in the framework of transparency of the sector and prevention of corruption;
- Review of applicable energy sector regulations to identify provisions that may contribute to the occurrence of corruption or corruption-related offenses.
- The Ministry of Energy is a leader among other ministries in the work of adoption of anti-corruption programs in the enterprises that belong to its jurisdiction: the enterprises the Ministry of Energy approved 34 anti-corruption programs in 2016, the work is underway to develop and approve anti-corruption programs in 2017.
- On 04.10.2016, the Parliament adopted the draft law of Ukraine "On Amendments to the Law of Ukraine No. 327-VIII of 04.09.2015" On the Introduction of new investment opportunities, guaranteeing the rights and legitimate interests of businesses for a large-scale energy sector modernization" (No. 4549) after the first hearing to bring the relevant legislation on energy services in accordance with the law "On Public Procurement".
- The government has approved the Draft Law of Ukraine "On the Energy Efficiency Fund" and submitted it to the Parliament of Ukraine (No. 5598 of 26.12.2016).
- The government approved a draft law of Ukraine "On Energy Efficiency of Buildings" developed by the Ministry of Regional development and Construction jointly with

the State Service for Energy Efficiency, which was sent to the Parliament of Ukraine (No. 4941 of 11.07.2016). On 17.11.2016, the Verkhovna Rada of Ukraine considered the bill and sent it back for revision (repeat of the first hearing).

- As of 1/1/2017 under the state program to stimulate energy efficiency issued almost 164,000 "warm" loans totaling UAH 2.734 billion (of which 629 loans were issued to HOAs/Condominium Associations). More than 213,000 Ukrainian families received loans, including almost 67,000 recipients of subsidies. UAH 894 million were earmarked in the state budget to implement the Program in 2016.
- Work is underway in the regions to implement local energy efficiency programs: 216 local programs adopted in 2016.
- Active work is underway to substitute and reduce gas consumption. Over the past two heating periods, the population, municipal energy producing enterprises and public organizations reduced and substituted 7.2 billion m<sup>3</sup> of gas (or 30%), including: population - from 14.09 to 9.6 billion m<sup>3</sup> (or 35.6%); municipal energy producing enterprises - from 8.8 to 6.38 billion m<sup>3</sup> (or 27.5%); public organizations - from 0.73 to 0.49 billion m<sup>3</sup> (or 33%).
- On 01.01.16, for the first time in Ukraine, the national Regulator issued a decision introducing stimulating regulation of natural gas transportation for gas transmission system operator JSC Ukrtransgaz and set new tariffs based on years of experience of incentive-based regulation.



## Energy reform

- The national Regulator adopted a resolution which simplified connection to electric networks with up to 5 MW capacity.
- There has been approved the Procedure of establishing quality standards of power supply services to protect the rights of consumers, which receive poor quality power supply services and to encourage licensees to improve the quality of services to meet the practice of the European countries (NERC Resolution No. 1841 of 10/18/2016).
- On 23.08.2016, following the NERC initiative, the government decided to simplify the procedure of buying and installing multi-zone meters. The government issued the Resolution on amendments to the Rules of power consumption for the population. Now consumers can buy their own meters and oblast power companies are obliged to accept them and make parameterization during 3 days for cities and 5 days for rural areas.
- NERC approved the investment programs covering 2016 for 82 entities that carry out economic activities in heating supply, where it is planned to install 15,771 in-house heat meters.
- NERC approved the investment programs covering 2016 for 23 entities that carry out economic activities in the distribution of natural gas, where it is planned to install 19,222 in-house natural gas meters. This will save UAH 2.15 billion.
- NERC reported successful implementation of the pilot project on remote metering of natural gas consumption, which includes three gas distribution companies located in different (by type of consumption and geography)

regions of Ukraine, covering 26,920 customers of various categories. As of 25.12.2016, the participants of the pilot project physically installed all the measuring instruments; the software has been developed for the operators and consumers; commissioning of the instruments, measurement of consumption and daily automatic balancing in test mode are underway. At the first stage of the system testing process, it has proven the following capabilities: automatic generation of real gas balance; detecting abnormal situations; data transfer regardless of the type of consumption and provision of actual hourly consumption information to the clients.

### What has not been achieved

- Develop legislation to launch a gas hub in Ukraine.
- Create the conditions under which traders from the EU could buy natural gas from JSC Gazprom on the eastern border of Ukraine.
- Implement the exchange-based format of e-trade in thermal coal before determining its objective market price.

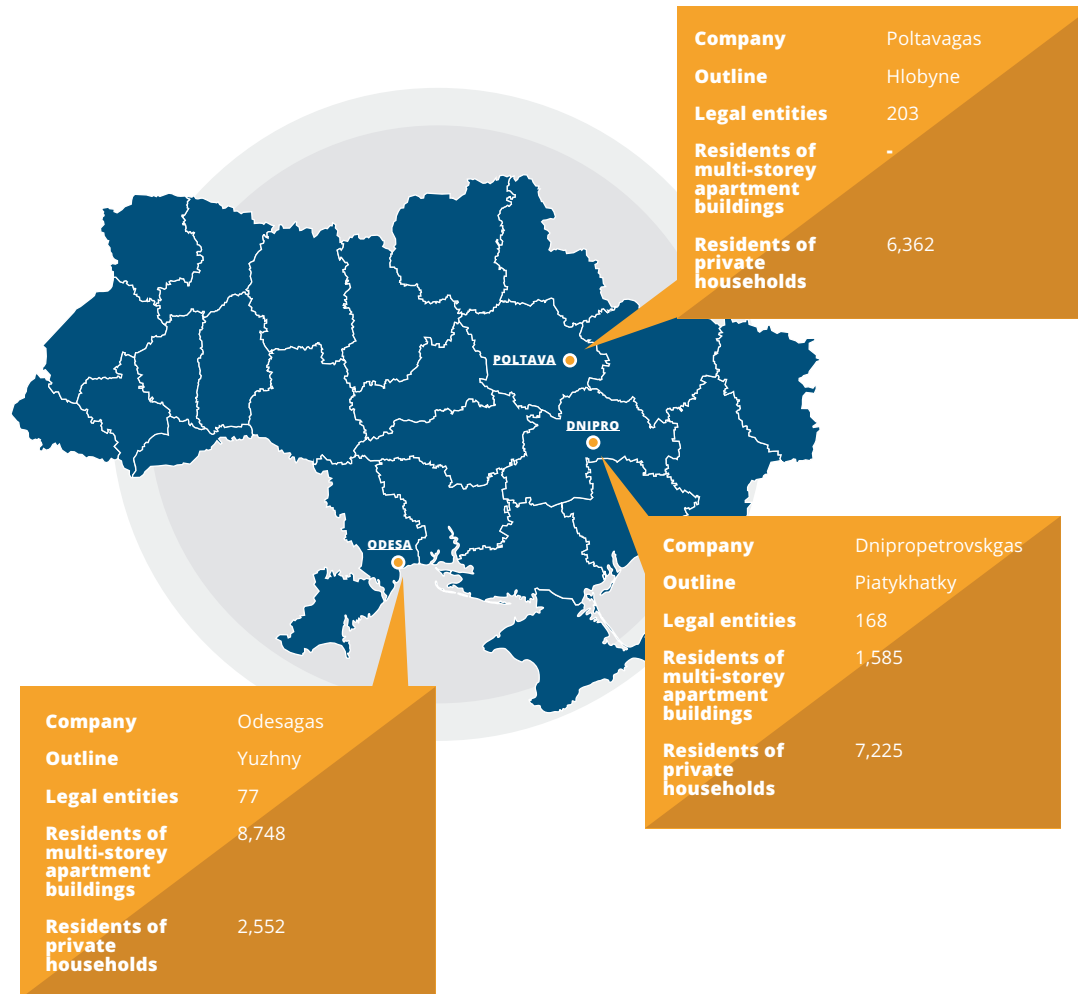
### What need to be done to accelerate reform

- Adopt the bill "On the Electric Energy of Ukraine" entirely (No. 4493 issued on 21.04.2016).
- Adopt the Law of Ukraine "On the Energy Efficiency Fund."
- At the government meeting:
  - Approve the State Target Economic Development Program of the coal industry 2016-2020;
  - Approve the "Energy Strategy of Ukraine 2035".
- Activate the preparation of regulations to implement the provisions of the Law "On Electricity Market of Ukraine".
- Intensify reforms to improve energy efficiency.
- Improve the financial position of public enterprises by further cost optimization and implementation of priority investment programs.



# Successful implementation of pilot projects on remote meter reading of natural gas supply

## Cities in which the pilot project was launched:



## As at year-end 2016 the pilot project participants:



physically installed all metering devices



developed software for operators and consumers



continued carrying out adjustment works, reading the meters and daily automatic balancing in test mode

## The first testing stage has proved that the system is able to:



automatically configure real gas balance



identify abnormal situations

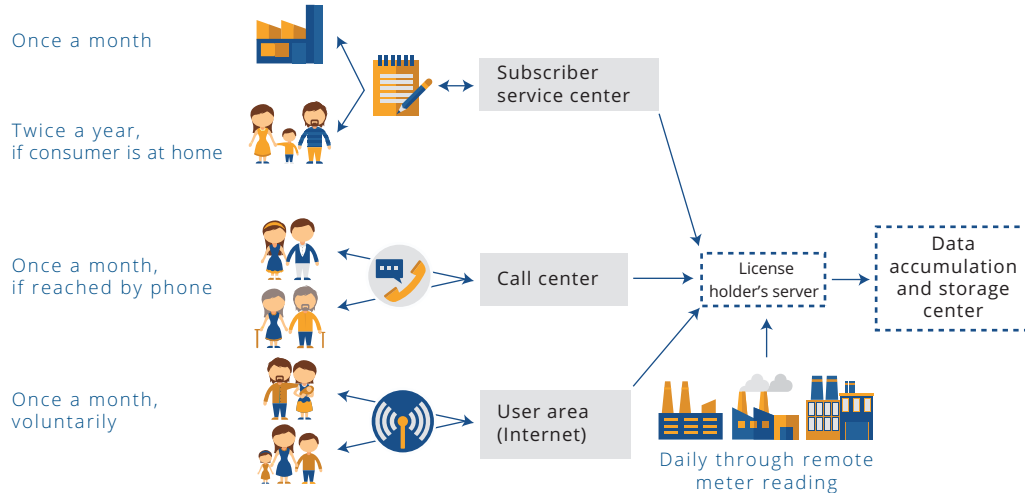


transfer data regardless of the type of consumption and provide users with information about hourly gas consumption



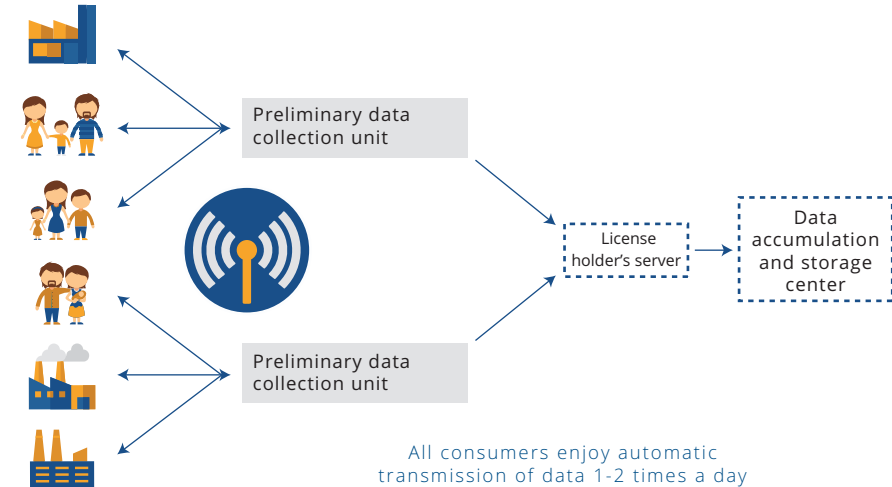
# Successful implementation of pilot projects on remote meter reading of natural gas supply

## Existing meter reading pattern



- ⚡ Data on the volumes of consumption by miscellaneous categories is collected at different times and at different intervals. Therefore, the existing system does not allow to correctly calculate the consumption balance
- ⚡ Data on consumption volumes is entered into the database subject to no verification and control

## Remote meter reading system



- ⚡ Automatic data collection allows to form a consumption balance in real-time mode
- ⚡ Automatic data collection allows to identify abnormal situations

## Key results of remote meter reading system implementation



Fair balancing of natural gas volumes



Prompt identification and elimination of the causes of natural gas losses in the network and network optimization based on reliable gas consumption data



Prompt identification and elimination of the causes of gas leaks to enable timely response and prevent emergencies



Provision of consumers with reliable analytical information would significantly improve energy efficiency



Provision of the regulator with reliable analytical information would ensure a more detailed analysis of the tariff structure and measures under action plans for gas distribution system development



Provision of the gas transmission system operator with reliable analytical information would enable a more effective network management and provide a platform for the implementation of daily balancing



## State-owned enterprise governance reform

### ■ What has been achieved

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

- The Verkhovna Rada of Ukraine passed the Law of Ukraine On Amendments to Some Laws of Ukraine to Improve Privatization Process No. 1005-VIII of February 16, 2016. The law envisages the implementation 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.
- In order to optimize the portfolio of state-owned enterprises, the objects and performance results of all such enterprises were subjected to analysis. The analysis resulted in the drafting of CMU Resolution listing enterprises in the following categories: those recommended for privatization, those recommended for liquidation, and those to remain under the State.
- The State Property Fund of Ukraine and the Ministry of Economic Development and Trade, with support of the law firm of Baker & McKenzie, have developed a draft law on privatization to significantly streamline the privatization process. The new draft law provides for the implementation of a streamlined and simple privatization system, expansion of the list of enterprises

subject to privatization, and maintenance of two separate procedures, i.e. for “small-scale” and for “large-scale” privatization (with “small-scale” privatization to be held through ProZorro e-procurement platform).

#### Introduction of supervisory boards and independent directors at unitary enterprises

- The Law of Ukraine No. 1405-VIII of June 2, 2016 introduces corporate governance in state-owned enterprises (by introducing supervisory boards and independent directors at unitary state-owned and municipal enterprises, as well as mandatory independent audits and more stringent information disclosure requirements) was passed by the Verkhovna Rada as amended by the President and took effect.
  - nine rules of procedure were developed to implement the Law On Corporate Governance. These rules of procedure mainly regulate the establishment of supervisory boards, appointment of their members and information disclosure requirements. Seven rules of procedure were approved by the Cabinet of Ministers (pending publication as at December 31, 2016).
- MEDT has played an important role in reforming NJSC Naftogaz of Ukraine, in particular by implementing the NJSC Naftogaz of Ukraine Corporate Governance Reform Action Plan and in restructuring Naftogaz of Ukraine to make unbundling of the natural gas transportation and storage business. Phase 1 of Naftogaz Corporate Governance Reform has been completed

with the approval of the new charter, establishment of the Supervisory Board, and approval of its structure. Development of legislative amendments is underway as part of Phase 2 to put in place the regulations necessary to bring Ukrainian corporate governance practice closer to OECD Guidelines on Corporate Governance of State-Owned Enterprises.

- The NJSC Naftogaz of Ukraine Supervisory Board was selected and appointed. Supervisory Board Members include three independent experts with broad international professional experience in oil and gas industry, and two representatives of the State.
- A group chaired by Vice Prime Minister of Ukraine was set up to speed the implementation of the NJSC Naftogaz Corporate Governance Reform Action Plan.
- As part of the efforts to restructure NJSC Naftogaz of Ukraine and make unbundling of natural gas transportation and storage business, the Ministry of Economic Development and Trade and the Ministry of Energy and Coal Industry updated the Corporate Governance Action Plan for a new gas transmission system operator, which was subsequently approved by the Cabinet of Ministers. MEDT is currently drafting legislative amendments in relation to the transfer of underground gas storage facilities forming part of the gas transmission system into concession.

#### Transparent appointment of state-owned enterprise CEOs and market level of remuneration

- The procedure for the appointment of

executives of the largest state-owned enterprises was updated by approving amendments to the CMU Resolution On Competitive Selection of Chief Executive Officers of Business Entities of the Public Sector of Economy No. 777 of September 3, 2008. The authority to hold competitive selection of executives of enterprises crucial to the national economy was delegated from the management bodies to the Ministry of Economic Development and Trade. The Nomination Committee was expanded to 18 experts. The new structure provides for increase in the number of the Committee's voting members from 5 to 9, and appointment of four new independent experts. The amendments made the voting procedure increasingly independent and expert advisory opinion increasingly diversified.

- MEDT, with support of professional recruitment companies, carried out a competitive selection of CEOs for the following three state-owned enterprises: Ukrposhta, Ukrzaliznytsa, and NEC Ukrenergo. The government appointed CEOs of the first two companies. In addition, the Committee developed selection criteria and completed the selection process for four state-owned enterprises, namely Mariupol Sea Commercial Port, International Airport Boryspil, Ukrkhimtransammiak and Electrovazhmash. Three candidates were selected. Selection process for CEO Electrovazhmash will be completed at the beginning of 2017.
- Market level remuneration was appointed for CEOs of 6 SOEs, namely Ukrgazvydobuvannya, Ukrtransnafta, Ukrtransgaz, Naftogaz of Ukraine,



## State-owned enterprise governance reform

Reforms Monitoring Progress  
2016

Ukrposhta, and Ukrzaliznytsa. KPIs for CEOs will serve as benchmarks in determining the level of remuneration for other SOEs, and are under development in cooperation with PWC.

### Analytical reports of the Ministry of Economic Development and Trade on the operation of state-owned enterprises (TOP 100)

- Analytical report for 9 months of 2015 and analytical report for 12 months of 2015 (TOP-100 SOEs) are published in Ukrainian. Analytical report for 6 months of 2016 is developed and will be published in early 2017.

### Training program for executives of state-owned enterprises

- The first phase of training for CEOs of largest state-owned enterprises has been completed. The training was carried out with support of Kyiv School of Economics and WNISEF. The program covered 15 modules and was attended by 25 SOE CEOs.

- The second training phase, i.e. an MBA program for SOE management started.

### Financial audits

- 36 companies (85% of total assets) of 45 largest SOEs have completed or in process of audit for 2015 financial statements audited in accordance with Resolution No. 390 adopted by the Cabinet of Ministers last year.

### Reviewing corporate governance principles and mechanisms for banks

Efforts to put the banking sector back on a sound footing have been taken to ensure stable operation of banks, improve their performance efficiency, and increase their attractiveness for potential investors.

The European Bank for Reconstruction and Development will contribute to the transformation of JSC State Savings Bank of Ukraine. Its privatization envisages alienation of 20% of its shares to a minority shareholder, thereby attracting private investment.

An important step in the efforts to safeguard Ukraine's financial stability was the adoption of CMU Resolution dated December 18, 2016 to acquire 100 percent of the shares of Privatbank by the government and issue domestic government bonds worth a total of UAH 116.8 billion to provide for its capitalization. Privatbank's Supervisory Board composed of 7 members include 4 representatives of the leading international companies and financial institutions and 3 representatives of the government set up.

### ■ What has not been achieved

Law of Ukraine On State Budget of Ukraine 2016 set the target for budget revenue from privatization of state-owned property at UAH 17.1 billion, which was to be obtained from disposal of:

- Government's stake in PJSC Odesa Port Plant – UAH 13,175 million;

- Government's stakes in regional power distribution companies – UAH 3,825 million;

- Other property – UAH 100 million.

However, sales of state-owned property during privatization process brought in only UAH 331 million.

The tender for the government's stake in PJSC Odesa Port Plant flopped due to lack of bids from investors. Privatization of regional power distribution companies was rescheduled at a later date in 2017.

Competitive selection of CEOs for PJSC Centrenergo and NEC Ukrenergo is blocked by the court.

Competitive selection process for Ukrspyrnt is to be relaunched due to absence of the mutual position of the Nomination Committee re the winner.

Draft Law No. 4536 to remove alcohol producers and stevedoring companies from the list of enterprises not subject to privatization failed in Parliament.

### ■ What need to be done to accelerate reform

Pass draft law on privatization.

Appoint Supervisory Boards at least 15 major SOEs.

BAmend legislation to streamline and speed up the procedure for liquidation

and transfer of non-operating SOEs to the State Property Fund for liquidation.

Draft legislative amendments in relation to corporate governance of NJSC Naftogaz Ukrainy, align the positions of all stakeholders involved and provide for passage thereof through Parliament. Amendments referred to hereinabove are envisaged by NJSC Naftogaz Ukrainy Corporate Governance Reform Action Plan, which was developed with support from EBRD experts and approved by the Government.

Accommodate contradictions and approve draft CMU Resolution listing enterprises in the following categories: those recommended for privatization, those recommended for liquidation and those to remain in government ownership.

These efforts will facilitate the inflow of funds from privatization into the government budget to meet UAH 17.1 billion budget revenue target set forth in Law of Ukraine On State Budget of Ukraine 2017 No. 1801-VIII of December 20, 2016.



## Agricultural sector reform

### What has been achieved

#### What was achieved in Q1:

1. On 27.01.2016, the Cabinet of Ministers of Ukraine adopted Resolution No. 76 "Certain issues regarding the activities of the State Service for Food Safety and Consumer Protection," (SSFSCP) which provides funding to SSFSCP by transferring budgets from other central executive bodies that joined the SSFSCP.
2. On 24.02.2016, CMU adopted Res. "On Approval of a Comprehensive Strategy for the implementation of Chapter IV (sanitary and phytosanitary measures), Section IV "Trade and trade-related issues" of the Association Agreement between Ukraine and the EU."
3. On 23.03.2016, CMU adopted Res. No. 208 "On Approval of the detailed rules for organic production (raw products) of bee farming."
4. On 30.03.2016, CMU adopted Res. No.241 "On Approval of the detailed rules for organic production (raw products) of animal origin."
5. The Verkhovna Rada of Ukraine adopted the Law of Ukraine No.1012-VIII of 02.18.2016 "On Amendments to the Land Code of Ukraine regarding holding land auctions," reducing the number of exemptions that allowed receiving state-owned land outside the auction.
6. On January 27, 2016, the Parliamentary

Budget Committee approved CMU Res.No. 76 "Certain issues regarding the activities of the State Service for Food Safety and Consumer Protection", which provided funding to SSFSCP by transferring budgets from other central executive bodies that joined the SSFSCP.

7. The CMU approved a Resolution "On Approval of a Comprehensive Strategy for the implementation of Chapter IV (sanitary and phytosanitary measures), Section IV "Trade and trade-related issues" of the Association Agreement between Ukraine and the EU".

#### What was achieved in Q2:

1. The President of Ukraine signed the Law of Ukraine No.1067-VIII of 31.03.2016 "On Amending some laws of Ukraine to encourage establishment and functioning of family farms."This law should contribute to legalization and regulation of the activities of private farms, which have been transformed into family farms, as fully-fledged participants in the agricultural market.
2. SSFSCP officially started work and began to perform its functions after the CMU issued Res.No.260-r of 04.06.2016 "The Issues of the State Service for Food Safety and Consumer Protection."
3. On 19.04.2016, the bill No.4355 "On Amendments to Certain Legislative Acts of Ukraine regarding expansion of the land management powers of local government and strengthening government control over land use and protection" was passed at the first hearing.

4. The Ministry of Agricultural Policy and Food of Ukraine has opened a center for consulting businesses on exports of agricultural products to the EU.

5. The Ministry of Agricultural Policy and Food of Ukraine adopted the Order No. 157 "On Approval of Requirements for products containing cocoa and chocolate," which made a significant contribution to the harmonization of Ukrainian and EU legislation.

6. The Verkhovna Rada of Ukraine adopted the Law of Ukraine No.1405-VIII of 02.06.2016 "On Amendments to Certain Legislative Acts of Ukraine on government property," according to which the officials of government bodies (heads of ministries) should be excluded from the management of state enterprises and the state enterprises should introduce corporate governance in accordance with OECD standards.

7. The State Fisheries Agency of Ukraine (SFA) presented Ukraine's first Register of Fishery Objects and their components. The Register is a unified electronic database with comprehensive information on all Ukrainian water bodies suitable for fisheries, aquaculture, or fish farming. According to the CMU Res. No. 979, SFA is responsible for filling and maintaining the Register while SFA territorial bodies, local authorities, oblast state administrations, and the users themselves are obliged to provide SFA with information on concluded transactions to lease water bodies.

8. On 16.06.2016, Ukraine's first fish patrol started working in Kyiv Oblast. It was created to replace fish protection agencies with an effective system of monitoring the

use and reproduction of fish (water life) and the fight against poaching in Ukrainian water bodies. This entity reports to the central executive authority in the field of fisheries – SFA Ukraine.

#### What was achieved in Q3:

1. On 20.09.2016, the Verkhovna Rada of Ukraine ratified the financial agreement ("The Principal Loan for the Agricultural Sector - Ukraine" Project) between Ukraine and the European Investment Bank for EUR 400 million to provide financial support to farmers.
2. On 20.09.2016, the Verkhovna Rada of Ukraine adopted the Law of Ukraine No.1532-VIII "On Amendments to some legislative acts of Ukraine to establish a minimum term of lease of agricultural land, where hydro-technical reclamation is carried out", which set a minimum lease term of at least 10 years for agricultural land, where hydro-technical reclamation is carried out and the lessees were obliged to facilitate the proper operation of reclamation systems and infrastructure facilities.
3. On 20.09.2016, the Verkhovna Rada of Ukraine adopted the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on the legal status of land which owners deceased". The law approved the mechanism of regulation of the legal status of land held by deceased owners.
4. On 20.09.2016, the Verkhovna Rada of Ukraine adopted the Law of Ukraine No. 1534-VIII "On Amendments to the Law of Ukraine "On Government regulation of production and circulation of ethyl, cognac



## Agricultural sector reform

and fruit alcoholic beverages and tobacco" regarding the wholesale trade in alcoholic beverages made of their own (instead of acquired) wine base", which fall under licensing exemption for trading in wine base for small and medium-size manufacturers.

5. The Verkhovna Rada of Ukraine voted for extension of the moratorium on agricultural land sales until 01.01.2018.

### What was achieved in Q4:

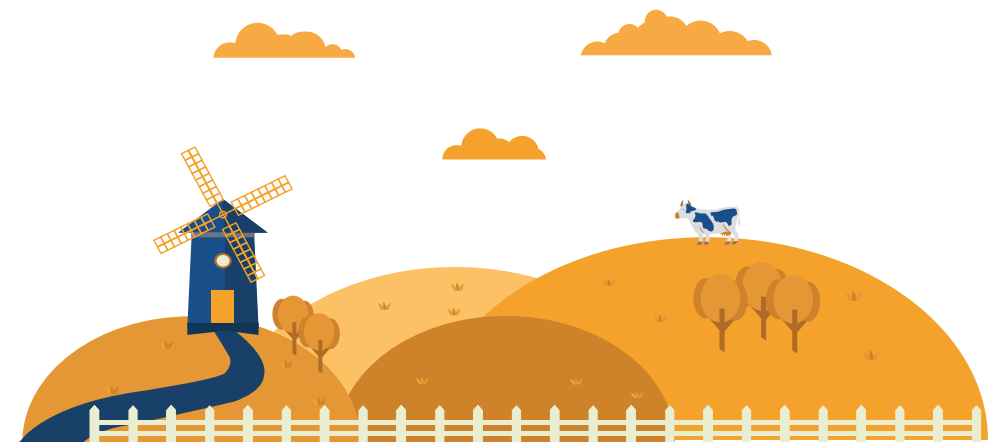
1. The Parliament granted the right to the agricultural producers registered in the appropriate Register to receive budgetary subsidies during 5 years (from January 1, 2017 to January 1, 2022) for the development of agricultural producers and promotion of agricultural production. In 2017, the allocation of such subsidies from the budget will be automatically proportional to the total value of agricultural products sold by the agricultural producers (the Law of Ukraine "On Amendments to the Tax Code of Ukraine and the laws of Ukraine on ensuring the balance of revenue in 2017" and "On the State Budget of Ukraine 2017").

2. The Verkhovna Rada of Ukraine eliminated the disparity in rates of the land tax and land lease fee shaving found that the minimum amount of lease fees for the land belonging to state and municipal property cannot be less than the amount of the land tax set for the relevant category of land in the relevant territory (the Law of Ukraine No.1797-VIII of 21.12.2016 "On Amendments to the Tax Code of Ukraine (regarding improvement of the investment climate in Ukraine)").

### What has not been achieved

1. The Verkhovna Rada of Ukraine did not consider the draft Law of Ukraine No.4536 of 04.27.2016 "On Amendments to the Law of Ukraine "On the list of objects of government property that are not subject to privatization" regarding some objects of agricultural and transport sectors."The bill proposes removing 374 state agricultural enterprises from the list of property not subject to privatization.

2. The Verkhovna Rada of Ukraine did not consider the draft Law of Ukraine No.4536 of 04.27.2016 "On Amendments to the Law of Ukraine "On the list of objects of government property that are not subject to privatization" regarding some objects of agricultural and transport sectors."The bill proposes removing 374 state agricultural enterprises from the list of property not subject to privatization.





## Judicial reform

### ■ What has been achieved

**1.** 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.

**2.** The Strategy was approved by the Decree of the President of Ukraine on May 20, 2015; the Cabinet of Ministers was proposed to set out the mechanism for implementation of the Action Plan and report on its implementation progress.

**3.** The adopted Law of Ukraine "On Ensuring the Right to 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 judges' dossiers accumulating official information about judges' 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 judge selection process and strengthening of professional requirements;
- Exclusively competitive procedures for appointment 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.

**4.** 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.

**5.** The Judicial Reform Council drafted and adopted amendments to the Civil Procedure Code and redrafted the Commercial Procedure Code. Finalization of amendments to the Administrative Procedure Code is in progress. Public and expert discussions of such amendments are in progress.

**6.** The Judicial Reform Council drafted the bills aimed at reforming the system of enforcement of judgments, which were adopted by the Verkhovna Rada.

**7.** 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.

**8.** The Council of Judges of Ukraine developed and approved the Regulation on the procedure for keeping the judges' dossiers.

**9.** The State Judicial Administration is preparing the judges' dossiers.

**10.** The High Qualification Commission of Judges adopted Regulations on the procedure and methodology for evaluating the qualification of judges and Regulations on the procedure for examination during a judge's qualification evaluation.

**11.** The Council of Judges of Ukraine approved Regulations on the procedure and methodology for qualification evaluation of judges and Regulations on the procedure for examination during a judge's qualification evaluation, previously approved by the HQC.

**12.** The Judicial Reform Council approved the Concept for Optimization of the Infrastructure of the Judiciary.

**13.** The High Qualification Commission of Judges of Ukraine started the qualification evaluation of all judges. From February to June 2016, the High Qualification Commission of Judges conducted the qualification evaluation of over 300 judges.

**14.** The Amendments to the Constitution of Ukraine (On Justice) were finally approved by the Verkhovna Rada on June 2, 2016 (335 votes "For").

The Amendments to the Constitution of Ukraine (On Justice) were enacted on September 30, 2016.

**15.** The Judicial Reform Council prepared and the the Verkhovna Rada adopted the Law of Ukraine On the Judiciary and Status of Judges, which was enacted simultaneously with the Amendments to the Constitution of Ukraine (On Justice). According to this Law:

- 6 months after enacting the Law a new

Supreme Court will be established, which will include the Grand Chamber tasked with unification of court practice and the resolution of jurisdictional disputes, as well as four courts of cassation, tasked with cassation review of cases. The judges of the SC are appointed exclusively based on an open and transparent competition which will include qualification evaluation;

- There is a possibility for candidates from outside the system to participate in the competition – advocates and scholars in the field of law with no less than 10 years of experience for candidates for SC justice positions and no less than 7 years of experience for candidates for the positions of appellate court judges;

- Provides for a transition to a three-tier judicial system;

- Provides for the establishment of the High Court for Intellectual Property, and the High Anticorruption Court;

- The procedure for qualification evaluation of judges was brought in conformity with the Amendments to the Constitution of Ukraine (On Justice). The evaluation will take place based on criteria of competence (professional, personal, social, etc.), professional ethics and integrity;

- The judges who won't pass the qualification evaluation or who will refuse to take it, will be dismissed;

- The grounds for dismissal of a judge – the violation of the obligation to legally confirm sources of property origin has been introduced;



## Judicial reform

**16.** The Judicial Reform Council prepared and the Verkhovna Rada adopted the draft Law of Ukraine On the High Council of Justice, under which:

- The HCJ is an independent judicial governance body in majority comprised with judges elected by their peers, which is one of the CE standards. The HCJ is formed from politically neutral professionals only;
- The HCJ is the main body that takes decisions on the appointment, dismissal and transfer of judges and is responsible for the establishment of a highly professional, independent judicial corps, and with high standards of integrity;
- The HCJ is the only disciplinary body with regard to judges, and which controls the compliance with law and ethical rules in activities of judges and prosecutors;
- A fast, clear, and transparent procedure for the consideration of disciplinary cases is enacted. The decisions to discipline a judge are passed by disciplinary chambers, and complaints against decisions are reviewed by the HCJ in plenary meetings;
- The HCJ gives consent to the detention of a judge and his/her arrest, as well as decides to suspend a judge from office;
- The HCJ provides opinions, mandatory for consideration, on draft laws with regard to the establishment, reorganization or abolishment of courts, the status of judges and the judiciary, as well as generalizes the proposals of courts and judicial institutions and bodies with regard to the legislation pertaining to their status and functioning, the status of judges and the judiciary.

**17.** The Judicial Reform Council prepared and Members of Parliament submitted the draft Law of Ukraine On the Constitutional Court of Ukraine to the Verkhovna Rada. On December 9, 2016 the draft Law of Ukraine On the Constitutional Court of Ukraine was endorsed by Venice Commission.

**18.** The Judicial Reform Council developed Draft Law on Amendments to the Law of Ukraine On the Bar which is going through public and expert discussion in Ukrainian regions.

**19.** On November 7, 2016 the High Qualification Commission of Judges of Ukraine started the Competition for appointment of 120 judges to the new Supreme Court.

effectively and on time.

- The Judicial Reform Council is to finalize and approve the new versions of the Draft Law on Amendments to the Civil Procedure Code and the Commercial Procedure Code based on public and expert discussions.
- The Judicial Reform Council is to complete the draft of the Law of Ukraine On Amendments to the Administrative Procedure Code of Ukraine.
- The Judicial Reform Council is to finalize and approve Draft Law On Amendments to the Law of Ukraine On the Bar based on public and expert discussions.

### What has not been achieved

- Generally everything is as planned

### What need to be done to accelerate reform

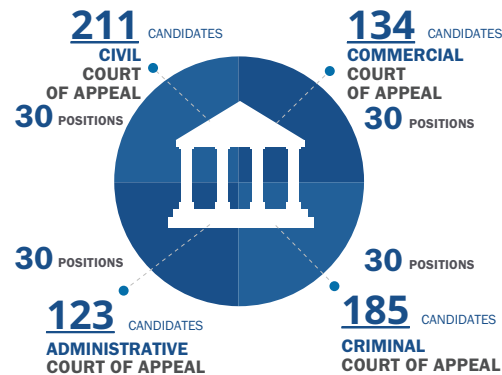
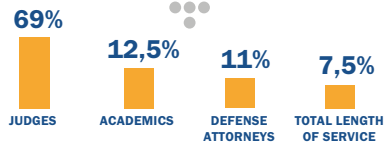
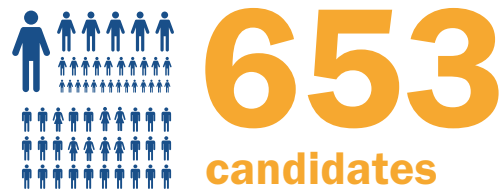
- The VRU needs to pass the draft Law of Ukraine On the Constitutional Court of Ukraine.
- High Qualification Commission of Judges is to conduct the Competition for appointment of judges to the new Supreme Court



# Judicial reform

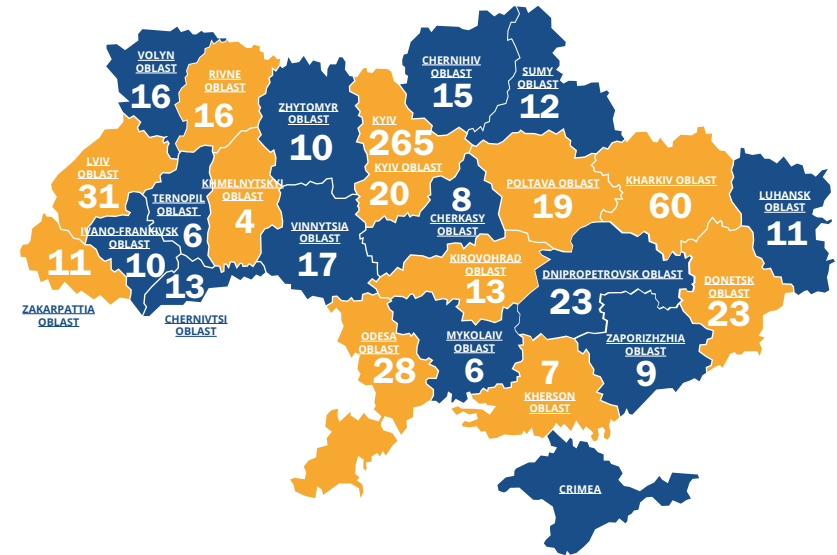
## General profile of candidates for the position of Supreme Court Judge

ADMITTED TO THE COMPETITION:

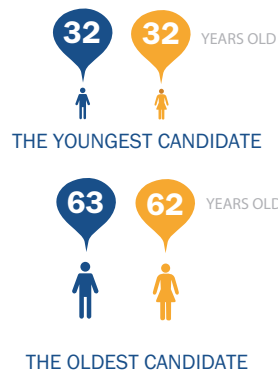
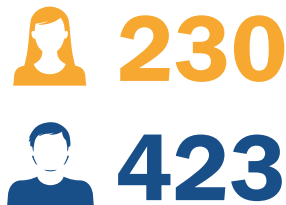


SUPREME COURT

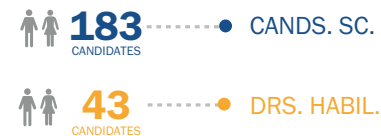
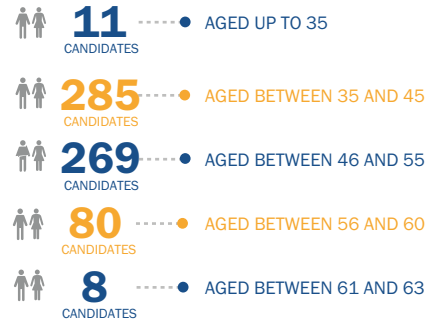
REGIONAL REPRESENTATION



OF WHICH



AGE GROUPS



[WWW.VKKSU.GOV.UA](http://WWW.VKKSU.GOV.UA)

\*SUBJECT TO PASSAGE OF THE COMPETITION ADMITTANCE STAGE





# Draft Law On the Constitutional Court of Ukraine No.5336-1

Composed of **18** Judges

the Constitutional Court is competent if composed of at least

**12** Judges

## Appoint 6 Judges each

President



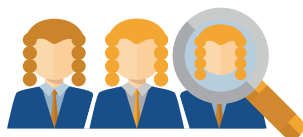
Verkhovna Rada



Congress of Judges



## Competitive selection for the position of a Constitutional Court Judge



The institute of a Special Adviser shall be established until January 1, 2020, to provide expert assistance in constitutional proceedings in the cases of constitutional complaints

A retired judge from a foreign body of constitutional jurisdiction or a representative of an international governmental organization

## 2 months lasting competitive selection of candidates for the post of judge of the Constitutional Court

### Screening Committees

The President, Verkhovna Rada, Congress of Judges (Council of Judges) establish Screening Committees from among lawyers with a recognized level of competence who do not participate in the competitive selection

### Application procedure

The screening committee, within one month from the announcement of the beginning of competitive selection, accepts applications, letters of motivation and publishes candidates' autobiographies

### The President

Following the competitive selection, the President of Ukraine issues a decree on the appointment of a Constitutional Court Judge

### The Congress of Judges

A candidate who, following the secret ballot, has received a majority of the votes cast by the delegates elected to the Congress is deemed appointed to the position of a Constitutional Court Judge



1

2

3

4

5

6

7

### Competition announcement

Competition to select candidates for the position of a Constitutional Court Judge is announced on the official website of the President of Ukraine, Verkhovna Rada or the Congress of Judges, respectively, at least three months before the expiry of the term of office or attainment of the age limit for holding office by a Constitutional Court Judge, or within one month from the introduction of vacancy

### Recommended candidates

Following the review of candidates' details and interviews with them, the screening committee compiles a list of candidates recommended for the position of a Constitutional Court Judge

### Verkhovna Rada

Verkhovna Rada of Ukraine appoints a Constitutional Court Judge by secret ballot using ballot papers

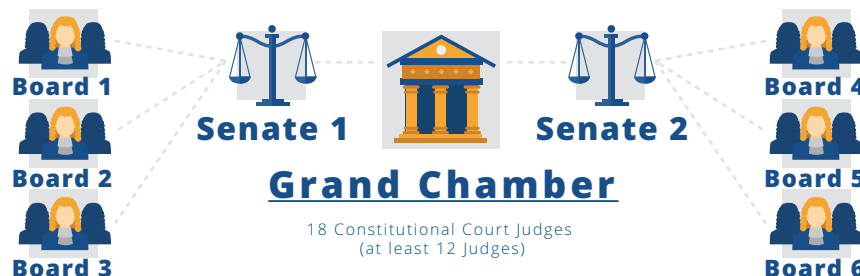
2

### Senates

consisting of 9 Judges each (6 Judges if the number of Constitutional Court Judges is less than 18)

- Handle constitutional petitions concerning the constitutionality of laws (their provisions)

## Structure and powers of the Constitutional Court's bodies



6

### Boards

consisting of 3 Judges each

- Initiate constitutional proceedings in a case

- Constitutionality of laws and acts of the VRU, the President, CMU, VR ARC

- Official interpretation of the Constitution

- Conformity of applicable international treaties of Ukraine or international treaties to be submitted to the Verkhovna Rada of Ukraine for its consent to a binding nature with the Constitution of Ukraine

- Constitutionality of the questions to be put, on a popular initiative, to an all-Ukrainian referendum

- Observance of the constitutional procedure for investigating and considering a case on removal of the President of Ukraine from office through impeachment

- Conformity of draft legislation on amendments to the Constitution of Ukraine with Articles 157 and 158 of the Constitution

- Violation by the Verkhovna Rada of the Autonomous Republic of Crimea of the Constitution of Ukraine or laws of Ukraine

- Conformity of laws and regulations of the Verkhovna Rada of the Autonomous Republic of Crimea with the Constitution or laws of Ukraine

- Constitutionality of laws of Ukraine (their provisions) upon consideration of constitutional complaints or in the event of relinquishment of jurisdiction by the Senate in favour of the Grand Chamber

- Procedural issues that may arise during constitutional proceedings



## Constitutional reform

### What has been achieved

- The Constitutional Commission established by the Decree of the President Of Ukraine developed amendments to the Constitution of Ukraine on decentralization, justice and human rights.
- **Draft amendments to the Constitution of Ukraine on Decentralization:**
  - Received a positive preliminary opinion from the Venice Commission on June 24, 2015;
  - Approved by the Constitutional Commission on June 26, 2015;
  - Received a positive final opinion from the Venice Commission on October 26, 2015;
  - Received a positive conclusion of the Constitutional Court of Ukraine as to their conformity with Articles 157 and 158 of the Constitution of Ukraine on July 31, 2015;
  - Passed by the Verkhovna Rada of Ukraine in the first reading on August 31, 2015.
- **Draft amendments to the Constitution of Ukraine on Justice:**
  - Received a positive preliminary opinion from the Venice Commission on July 24, 2015;
  - 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 on October 26, 2015;
- Approved by the Constitutional Commission on October 30, 2015;
- Endorsed by the National Reforms Council on November 9, 2015;
- Submitted by the President of Ukraine to the Verkhovna Rada on November 25, 2016;
- On December 22, 2015, the Verkhovna Rada included the draft law on the agenda of the 3rd parliamentary session and submitted it to the Constitutional Court for evaluation of its conformity with Articles 157 and 158 of the Constitution of Ukraine;
- On December 22, 2015 the Venice Commission adopted the Memorandum on the Compatibility of the Draft Law of Ukraine On Amendments to the Constitution of Ukraine (on Justice) with the Final Opinion of the Venice Commission;
- On January 30, 2016 the Constitutional Court of Ukraine confirmed the conformity of the Draft Law of Ukraine On Amendments to the Constitution of Ukraine (on Justice) with Articles 157 and 158 of the Constitution of Ukraine;
- Passed by the Verkhovna Rada of Ukraine in the first reading on February 2, 2016 (244 votes "For");
- Finally approved by the Verkhovna Rada passed on June 2, 2016) (335 votes "For");
- Published on June 29, 2016;
- Were enacted on September 30, 2016.

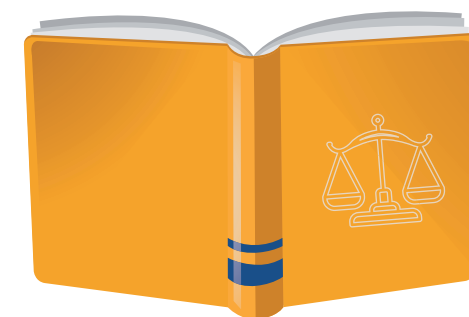
- Amendments to the Constitution of Ukraine on decentralization and justice fully conform with [European standards](#).
- **Draft Amendments to the Constitution of Ukraine on Human Rights:**
  - Developed by the Human Rights Working Group;
  - Public and expert discussions of the draft amendments to the Constitution of Ukraine on human rights are in progress.

### What has not been achieved

- The Verkhovna Rada of Ukraine did not adopt the draft amendments to the Constitution of Ukraine (on Decentralization).

### What need to be done to accelerate reform

- The Verkhovna Rada of Ukraine is to adopt the draft amendments to the Constitution of Ukraine (on Decentralization).





# National security and defence reform

## Progress evaluation and recommendations

Efforts were undertaken jointly with RAND Corporation's interdisciplinary research team to develop and provide recommendations for the reform of Ukraine's security sector in response to a request by the Ukrainian government.

The research resulted in a series of recommendations focused on five areas:

### 1. Reforming the security sector – overall architecture

Ukraine's government was recommended to clarify the roles and responsibilities of ministries and agencies through amendments to legislation and policy documents, and to change informal practices and create a culture of greater cooperation across departments and agencies.

Ukrainian internal security organisations were recommended to:

- Continue to pursue the MIA's reform plan to make the Ministry of Internal Affairs a small supervisory organization responsible for directing and coordinating a range of separate state agencies.
- Redefine the tasks of the Security Service of Ukraine as a domestic intelligence organization, with more clearly and narrowly defined authorities, while retaining its responsibility for some law enforcement activities in coordination with other agencies.
- Organize the National Guard as a separate agency under the MIA to act as a European-style gendarmerie.

- Maintain the State Border Guard Service as a non-militarized law enforcement body under the MIA, supported by the National Guard (and the Armed Forces of Ukraine when needed) in times or areas of high threat.

- Create a clear chain of command for these organizations in internal crises, and set up and practice arrangements for coordination.

### 2. Ministry of Defence (MoD):

- Reorganizing the Ministry of Defence and the General Staff

The proposed plan for the reorganization of the Ministry of Defence and the General Staff highlights the President's central role in administering the national security and defence of the state as required by the Constitution. Therefore, there is a single chain of command in place, wherein the Minister of Defence reports to the President, who exercises control over the Armed Forces of Ukraine.

- Command, control, communications, and intelligence

Pass legislation to clarify the operational chain of command and create a Joint Operational Command (JOC) to centralize responsibilities for ongoing military operations.

Specify roles and responsibilities to devolve authority and ensure that orders do not skip echelons.

Give full command authority over other state organizations participating in military operations to the Armed Forces of Ukraine.

Procure more secure communications networks by purchasing new equipment.

- Recruiting and training personnel

Reduce the number of senior officers by creating a rank structure similar to Western militaries.

Phase out mobilization and conscription. Simplify bonuses and compensations for contract soldiers.

- Procurement

Reduce sole-source contracts by reviewing the classification of defence orders, and competitively bid contracts.

Adopt NATO standards for equipment and supplies.

- Logistics

Adopt a computerized inventory management system.

Set broader and more flexible supply and equipment requirements (norms).

### 3. Intelligence coordination

Proposed recommendations:

- Issue a decree or executive order expanding the mandate of the Joint Committee on Intelligence (JCOI) and elevating its status as the lead coordinator of intelligence activities and management of requirements determination processes.

- Strengthen JCOI organizational links and the procedure for communication between

intelligence information providers and users.

- Improve training requirements for intelligence personnel, modify the existing staffing requirements "to infuse new blood", and streamline pay and benefits for intelligence staff.

### 4. Cybersecurity

Main recommendations:

- Create a new interagency cyber coordination committee, the Joint Committee on Cyber Security responsible for coordinating Ukraine's cybersecurity activities, under the auspices of the National Security and Defence Council.

- Move the national Computer Emergency Response Team out from under the State Service for Special Communication and Information Protection so that it is a fully autonomous organization.

### 5. Defence-technical cooperation with global partners

The following recommendations were given to address the challenges to defence-technical cooperation:

- Set up Advisory Board to Coordinate Foreign Defence Assistance as part of the organisational structure of the NSDC.

- Set up a pilot project to electronically track donated items, while improving the safeguards available within the existing paper-based system before its launch.

- Facilitate defence imports outside of UkrOboronProm by granting explicit



## National security and defence reform

authority for foreign procurement to the Ministry of Defence.

- Ease the rules on imports of donated defence items as part of a comprehensive reform of customs and border protection.
- Improve strategic trade controls by increasing the government's legal authority over trade in dual-use and defence technologies.
- Improve transparency, efficiency, and competitiveness of UkrOboronProm by making UkrOboronProm's holdings in its subsidiaries and affiliates a matter of public record; incorporate unconsolidated subsidiaries and all auxiliary companies as public companies; and, after careful review, decide whether to privatize, liquidate or retain state-controlled enterprises in the defence industry.

### Reform of the ministry of defence and the general staff

An Advisory Board on Implementation was set up under the Ministry of Defence. In coordination with the National Reforms Council, this board would render strategic advice to the Minister of Defence, Chief of the General Staff, and Ukraine's military and political leaders, and support the Reforms Committee of the Ministry of Defence in its operations. The Advisory Board on Implementation includes prominent (military and civilian) experts from various countries to ensure that there is the right level of expertise to reform the Armed Forces. The advisory board would monitor the quality of undertaken reforms, assess the efficiency of programs being implemented and the progress made, and

inform NATO member countries and other partners of the needs of defence reform.

### National security and defence reform

- An amended Draft Law On National Security of Ukraine was developed.
- The Security and Defence Sector Development Concept was approved, drafting of the Law On Strategic Planning in Defence and Security Sector gained traction.
- Ukraine's Cybersecurity Strategy was approved.
- Strategic Defence Bulletin was approved. Drafting of the State Medium Term Program for Ukrainian Armed Forces Development was arranged.
- Chief Situational Center of Ukraine was set up, creation of a network of situational centers gained traction.
- National Intelligence Program for 2016-2020 was approved.
- A powerful group of forces to repeal an aggressor in the event of an Eastern Ukraine conflict escalation was set up.
- Implementation of the army automated command and control system to be coordinated with law enforcement command and control systems and integrated into the state administration system gained traction to improve command and control of the Ukrainian Armed Forces. An e-procurement system to speed up the bidding process and save

public money was implemented.

- January's increase in remuneration of contract soldiers resulted in nearly 70 thousand contracts entered into with the Armed Forces during 2016.
- Institutional reform of the Armed Forces, the Ministry of Defence, and the General Staff gained traction. The reform is aimed at improving military operational efficiency, eliminating malpractice and corruption, and transitioning to NATO standards.

### Efforts to improve national security legislation

#### • The following laws were passed:

- Law of Ukraine On the National Guard of Ukraine No. 876-VII of March 13, 2014;
- Law of Ukraine On Legal Regime of Martial Law No. 389-VIII of May 12, 2015;
- Draft Law On Amendments to the 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) No. 2153a of June 23, 2016, has not yet been considered by the Verkhovna Rada of Ukraine.
- Law of Ukraine On Amendments to Some Laws of Ukraine Concerning Defence No. 1420-VIII of June 16, 2016 (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;

◦ Law of Ukraine On National Police No. 580-VIII of July 2, 2015; Law of Ukraine On State Investigation Bureau No. 794-VIII of November 12, 2015; Issues of investigative jurisdiction are governed by Article 216 of the Criminal Procedure Code of Ukraine, which was amended 15 times over 2014-2016, including two times in December 2016. With this in mind, and considering that investigative authorities continue arguing over the matter, it is proposed that the respective draft law be omitted from this report.

#### • There were the following draft laws developed:

◦ Draft Law On Amendments to the Law of Ukraine on On Defence of Ukraine, and Draft Law On Amendments to the Law of Ukraine On Mobilization Training and Mobilization.

#### For reference:

In pursuance of CMU Instruction No. 46265/1/1-15 of November 20, 2015, MoD, Ministry of Infrastructure, Ministry of Economic Development, Ministry of Finance and Ministry of Justice had to promptly work on the 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, proposals were submitted to the CMU subsequent to their findings and the presidential administration was notified. Subsequent to the inter-departmental reconciliation, the draft law was not promoted and was returned to NSDC on December 21, 2015 under No. 11233/02.



## National security and defence reform

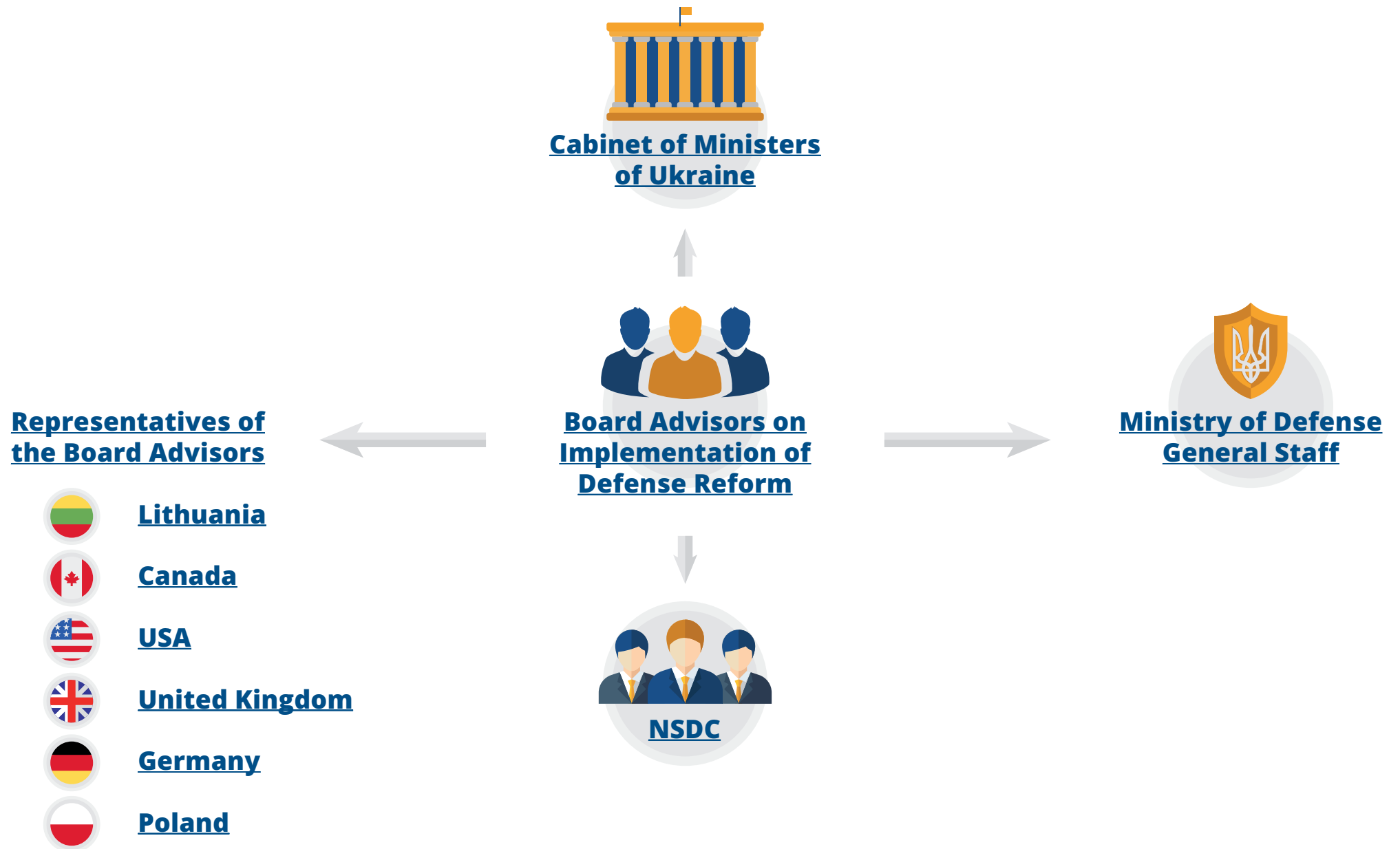
Reforms Monitoring Progress  
2016

- Law Enforcement Agencies Reform Plan, which had a major role to play in receiving a positive opinion of the European Commission on Ukraine's Report on Completion of the 2nd phase of Implementation of the Visa Liberalization Action Plan, was approved.
- State Program for Reform and Development of Defence Industry to 2020 was approved.
- Concept of the State Target Program for Development of the National Guard of Ukraine to 2024 was drafted.
- Draft State Program for Ukrainian Armed Forces Development 2020 was approved by the National Security and Defence Council of Ukraine.
- State Target Defence Program for Optimization and Restructuring of the Armed Forces of Ukraine 2015-2017 was drafted and submitted to the Cabinet of Ministers of Ukraine for review.





# Ukraine's Armed Forces reform





### ■ What has been achieved

**1. Electronic applications and electronic petitions:** the system for electronic petitions to the President was offered free of charge to interested government agencies.

**2. Electronic governance** (propagation of the Presidential Administration's successful experience in e-governance among other government agencies):

- sed.reforms.in.ua webpage was launched, containing the description of the electronic document management system (SED) implemented at the Presidential Administration, technical materials, and information on system deployment;

- SED and the electronic petitions system, including technical aspects of their operation, were presented to the public; the presentation was attended by over 400 people, the majority of them representing government agencies;

- As a result of the public presentation, 70 SED deployment requests were received from government agencies, along with 14 requests from potential partners;

- The Electronic Document Management System was proposed free of charge to all interested government agencies;

- SED was successfully implemented at the State Research and Technical Center for Radiation Safety and the State Committee for Television and Radio of Ukraine;

- SED was officially provided to 28 government and local self-governance agencies.

#### 3. Cloud Technologies:

- Draft Law 4302 on cloud computations was approved in the first reading on September 20, 2016; the draft was brought in conformity with the recommendations received in the course of expert discussions.

#### 4. Cryptography Reform:

- A list of standards for harmonization in the areas of electronic business, cryptography, electronic identification, software development, and cloud technologies was prepared.

- Draft Law 4685 on electronic trustee services was approved in the first reading on September 20, 2016; changes to the draft law intended to bring the area of trusted services in conformity with European standards were prepared and registered.

#### 5. Digital Agenda:

- The Cabinet of Ministers launched the system for electronic petitions to the Cabinet of Ministers;

- The National Bank of Ukraine adopted regulations on BankID for administrative services;

- A Resolution of the Cabinet of Ministers was adopted approving the Regulation on electronic cooperation of government information resources and the list of registries for priority development of API to ensure automated data exchange between government information resources;

- An agreement on providing Ukrainian entrepreneurs with a tool to receive EIB investments focused on innovative projects and under the Horizon 2020 cooperation was signed;

- The first national contest of e-democracy IT projects in the area of open data (a project supported by Switzerland, the Eastern Europe Foundation, and the InnovaBridge Foundation) was held, with winners presenting the following ventures: a company registration data monitoring service, a graphical analysis of the election results, an environmental monitoring system, and others.

- The Cabinet of Ministers of Ukraine passed Directive No. 909 on November 30, 2016, approving the action plan for implementation of the Open Government Partnership initiative in 2016-2018.

#### 6. IT Sector Development:

- The Law of Ukraine of November 3, 2016 No. 1724 On amendment of selected Laws of Ukraine for removal of administrative barriers for the export of services, simplifying the work in the IT sector, was adopted;

- Draft Law on the foundations of cybersecurity (No. 2126a) was approved in the first reading on September 20, 2016;

- On September 8, 2016, Draft Law No. 3719 was approved as the basis (with reduced preparation time); it contains provisions prohibiting the physical seizure of IT equipment when a company is searched by law enforcement agencies.

7. The memorandum on launching the

**Electronic Auction** in Odesa Oblast State Administration and government agencies was endorsed.

8. In 2016, Ukraine became one of top 50 countries by electronic participation, as reported by the UN Department of Economic and Social Affairs in the UN E-Government Survey 2016. Ukraine was ranked 32nd out of 193 UN member countries with the highest Electronic Participation Index (EPI) since independence at 0.7458.



**112** government/public sector entities applied to the Presidential Administration starting Quarter 3, 2016



**28** government entities obtained EDMS PAU after having applied at the State Management of Affairs website

**These include:**

**4**

central executive agencies

**6**

state-owned enterprises

**3**

oblast state administrations

**4**

city state administrations

**2**

rayon state administrations

**9**

higher education institutions



Following its successful launch at the Presidential Administration, the Electronic Document Management System of the Presidential Administration of Ukraine (EDMS PAU) is provided for free to any interested government/public sector entity starting Quarter 3, 2016. As a result of this initiative:



**2** government entities

have adjusted EDMS PAU for their internal processes and put it into operation



**30** government entities

are deciding



**29** government entities

have been analyzing all available solutions and setting priority tasks



**23** government institutions

have already been using other EDMS solutions

**The main factors that influenced in 2016 to ETS implementation in public institutions:**



On **August 15, 2016**, the Cabinet of Ministers transitioned to electronic document management system to speed up the flow of documents while interacting with central executive authorities.



By its Resolution of **September 1, 2016**, the National Agency for the Prevention of Corruption launched an electronic asset declaration system, envisaging the use of electronic digital signature (EDS). All civil servants were furnished with EDS to provide for the effective handling of e-documents.



# Infrastructure reform

## ROAD SECTOR

Slavomir Novak **APPOINTED AS CHAIR** of State Road Agency of Ukraine Ukravtodor

### LAW ON ROAD FUND PASSED

New approach to road industry finance is being implemented

### WEIGHT AND DIMENSION CONTROL IMPLEMENTED

Memorandum on the **IMPLEMENTATION OF FIDIC STANDARDS** signed

**LAW ON E-TICKET** pending second reading

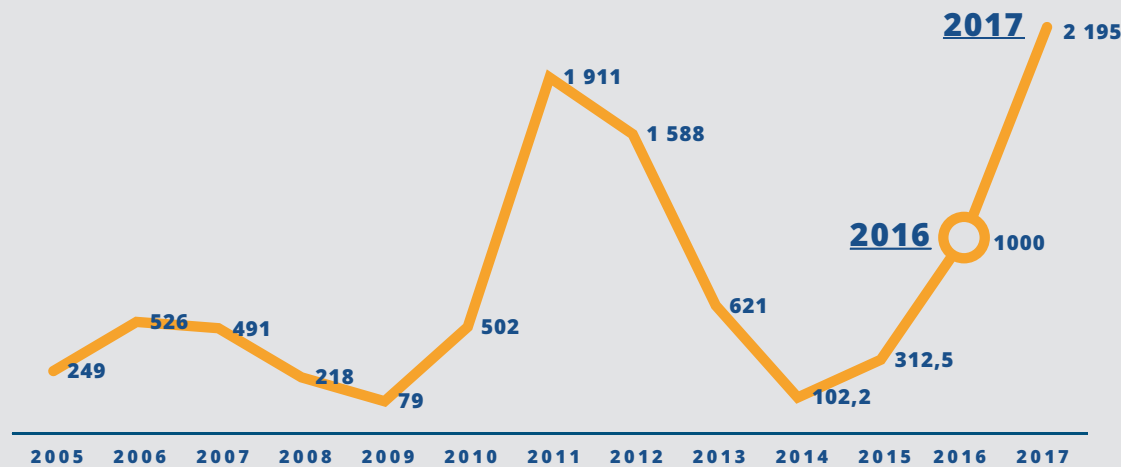
**EUR 200 MILLION** raised as part of **UKRAINE'S URBAN PUBLIC TRANSPORT** project

**UKRAINIAN ROADS** underwent **LARGE-SCALE REHABILITATION** 1,000 kilometers of roads repaired

Package proposal for **UKRAINE'S ELECTRONIC TRANSPORT INDUSTRY DEVELOPMENT** drafted

Commuter, municipal and inter-oblast **BUS SERVICE MARKET LIBERALIZATION AND DEREGULATION PROGRAM** developed

**2016 ACCOUNT FOR THE MAXIMUM LENGTH OF ROADS REHABILITATED OVER THE PAST 10 YEARS** (exclusive of EURO 2012 preparation period)



## ROAD SAFETY

**5% of ROAD FUND** is be allocated to road safety needs

State Service of Ukraine for Transport Safety secured a **20% REDUCTION IN ROAD TRAFFIC INJURY DEATH RATE**

**ROAD SAFETY WEEK** social-issue campaign

**30-40% REDUCTION IN ROAD TRAFFIC INJURY DEATH RATE** over 5 years planned by the task group for the development of Ukraine's road safety strategy



## RAIL INDUSTRY

Voitsekh Balchun **APPOINTED AS CHAIR OF PJSC Ukrainian Railways**. The company's Supervisory Board set up

"Support to the Ministry of Infrastructure in Establishing Conditions for Application of the European Model of Rail Transport Service Market in Ukraine" **EU TWINNING PROJECT LAUNCHED**

**STRATEGIC PLAN FOR PJSC UKRAINIAN RAILWAYS ROLLING STOCK RENEWAL** developed

Manufacturing of **1,000 RAILCARS** gained traction **SILK ROAD PROJECT STABILIZED AND FURTHER DEVELOPED**





# Infrastructure reform

## AVIATION INDUSTRY

**UKRAINE IS 100% READY** TO SIGN EU-UKRAINE COMMON AVIATION AREA (OPEN SKIES) AGREEMENT

Implementation of the target program for **REGIONAL AIRPORTS DEVELOPMENT** gained traction

Development of **REGIONAL AIRPORTS** in Lviv, Kherson (65% increase in passenger traffic), Zaporizhzhya, Chernivtsi, Rivne, Kryvyi Rih and Zhytomyr has been gaining momentum

**PASSENGER TRAFFIC HAS GREW** by 29%

**BORYSPIL** International Airport SEES over UAH 1.2 billion in **NET PROFIT** in 2016

**MORE THAN 8 MILLION PEOPLE** were carried, of which transit passengers accounted for 1.5 million

**BORYSPIL INTERNATIONAL AIRPORT DIRECTOR SELECTED**, clear KPIs identified

## SEA AND INLAND WATERWAY TRANSPORT INDUSTRY

**CONCESSION PROJECT** BETWEEN KHERSON COMMERCIAL SEA PORT AND OLVIA STEVEDORING COMPANY **GAINED TRACTION**

Efforts to **ROLL OUT GLOBAL MARINE TERMINAL OPERATORS** DP World and Hutchison Port **ON UKRAINIAN MARKET** got underway

**DNIPRO DEVELOPMENT INITIATIVE** providing for the restoration of inland waterway freight transport developed in support of the Netherlands Embassy

US Army Corps of Engineers **CARRIED OUT A DETAILED STUDY OF ALL LOCKS IN THE DNIPRO**, UAH 113 million were earmarked for their rehabilitation

**NUMBER OF PROCEDURES TO DOCUMENT VESSEL PASSAGE** through Ukrainian sea ports reduced (currently 20 minutes on average)

## POSTAL SERVICE

Igor Smilianskyi **APPOINTED AS HEAD OF UKRPOSHTA**, Ukraine's national postal service, new effective management team formed

**VOLUME OF POSTAL ITEMS SENT WITH UKRPOSHTA GREW** by 31.6% for small packets and by 38.0% for parcels

From January to September 2016 **UKRPOSHTA REVENUES** from mailing of small packets and parcels **INCREASED** by 44.7% and 25.3% year over year. Distribution of print grew by 71.4%.

## COMBATING CORRUPTION

ALL STATE-OWNED TRANSPORT ENTERPRISES AND AGENCIES **TRANSITIONED TO PROZORRO E-PROCUREMENT SYSTEM**

### 123 CONTROL MEASURES

**SOE UKRPOSHTA** – 53 measures

**SOE UKRAINIAN RAILWAYS** – 43 measures

**SOE UKRAINIAN SEA PORT AUTHORITY** – 27 measures

**8 EMPLOYEES DISMISSED** due to criminal proceedings

**12 CRIMINAL INVESTIGATIONS COMMENCED**

## ■ What has been achieved

GoGlobal team's continued advocacy efforts resulted in President Petro Poroshenko signing the Decree On Declaring 2016 the Year of the English Language in Ukraine. The Decree provided a framework for the implementation of a raft of targeted events, large-scale projects, and campaigns. During the English Language Week (December 12th-18th) the results of the Year of English were totalled up:

**GoCamp 2016.** GoCamp is a new format of school day language camps involving foreign volunteers organized by GoGlobal team in support of intensive study of English, intercultural dialogue, and the project of the Ministry of Education and Science of Ukraine. The goal of these language camps is to cultivate a new generation of well-rounded and well-educated young people prepared for the challenges of the 21st century, fluent in foreign languages, and open to other cultures and experiences. Foreign nationals intending to train Ukrainian children underwent individualized selection. Schools also participated in the national competition. There were 126 schools selected out of 600 applied to take part in the project, which ultimately covered 9 thousand children from all over Ukraine. June 2016 saw over 100 volunteers from 40 countries across the globe working at the school day English language camps set up in Ukrainian cities and villages. Ukrainian families hosted almost all the volunteers.

Heedful of the unstable situation in Donetsk

and Lugansk regions, there was a GoCamp East language camp arranged for children from these regions at the premises of the boarding school in Volodarka, Kyiv Oblast. GoCamp East hosted 308 schoolchildren from eight schools of Mariupol, Kostyantynivka, Dymyrov, Severodonetsk, Popasna, Novopskov and Kreminna.

**English Teachers as Change Agents.** English Teachers as Change Agents was a programme aimed at improving the quality of English language teaching in comprehensive secondary schools. It was launched in cooperation with the Ministry of Education and Science of Ukraine and British Council. In November 2015, 137 teachers joined the programme in the 7 participating regions (Cherkasy, Vinnytsia, Dnipropetrovsk, Kherson, Chernivtsi, Lviv, Volyn oblasts) and the city of Kyiv.

They were introduced to new methods of teaching English and began to apply them in their schools. 68 change agents trained by British Council to become English teacher trainers cascaded their knowledge and skills among teachers of English in their regions during the period of September – December 2016. Overall, this initiative helped 1,444 teachers undergo retraining.

**Україна (Ukraine) Speaking.** The end of 2015 saw the launch of the national "Україна (Ukraine) Speaking" social-issue campaign aimed at promoting English and creating a demand for the learning of English among the public. According to the findings of the campaign's survey, 72% of Ukrainians supported the advertising appeal, while 52% of respondents expressed their willingness to learn English.

**English free of charge.** Cooperation between GoGlobal team and educational institutions brought in free-of-charge English learning opportunities. Over 150 private schools have embarked on cooperation with GoGlobal. Currently 58% of schools provide free-of-charge learning opportunities for all attendees as well as do English speaking clubs and run training sessions.

**Global Government.** In late 2015, GoGlobal team's advocacy and communication efforts resulted in formalizing the English language requirements in the Law of Ukraine On Civil Service. In addition, the Strategy for Public Administration Reform was amended, making the knowledge of foreign languages a mandatory requirement for civil servants. English language proficiency has become a mandatory requirement for candidates for senior positions in the Presidential Administration, the National Bank of Ukraine, and other governmental entities. 700 civil servants and 1,582 military servants learned English free of charge.

**Movie in the original.** Another GoGlobal's initiative is aimed at premiere screening of movies in the original at Ukrainian cinemas. This project was launched in late November 2015 with support from Ukraine's largest film distributors. During the first 9 months of the project over 40 movies in the original were screened in Kyiv, Kharkiv, Odesa, Lviv, Dnipro, Sumy, and Poltava.

**Guinness Record.** May 28, 2016 saw the biggest English lesson in Ukraine's history simultaneously held in 56 cities. The lesson was held in the form of a speaking club, whereby teachers asked questions and

pupils gave answers communicating with one another. The English lesson involving 5,977 people from various parts of the country attempted to achieve a Guinness record. The lesson fell short of the formal record only due to lack of a couple of hundred students.

### Other achievements:

- Over 500 internally displaced persons took part in the "Online Business English for Internally Displaced Persons" pilot project. In addition, 146 internally displaced persons participated in the "Access Programme" project to sharpen their English skills, and get an insight into American culture and democratic values.
- There were free English language courses launched for taxi drivers and hotel and catering personnel.
- On August 31, Mariupol saw the presentation of the first near-front-zone Administrative Services Centre offering over 100 types of services to regional residents. The Centre was opened by President of Ukraine Petro Poroshenko and Ambassador Extraordinary and Plenipotentiary of the United States of America in Ukraine Marie Yovanovitch.
- Over 250 kilograms of foreign language books, including primary school textbooks, dictionaries, books on natural science, physics, history, arts, and children's fiction books were sent to the Children's Library in the town of Bakhmut.

## GoCamp



**100 000**  
students



**1000**  
volunteers



**700**  
schools

### 4 lines of activity:



STEAM



Sports &  
Health



Citizenship



Leadership &  
Career

### GoCamp AfterSchool pilot project 2020 ▶ **1 500 000 children**

to become project participants

## Global Government



Introducing eligibility requirements for civil servants in terms of knowledge of one of the languages of the Council of Europe at the national level



**5 000 000 current civil servants**

to be tested



**2000 civil servants**

to improve their foreign language skills free of charge



**"Global Government Ambassadors"**

awareness-raising campaign

### 2020 ▶ **20% of Ukraine's population**

to communicate in English at B2-C2 level

## English Teachers as Change Agents



**340 new trainers**

to be trained using state-of-the-art methodology



**6 800 teachers**

to be introduced to modern methods of teaching English



**350 000 schoolchildren**

to be taught by contemporary teachers

### 2020 pik ▶ **100% teachers of comprehensive secondary schools**

to use contemporary communicative approach to language teaching

## Movie in the original



**50% increase in the number of cinemas**

screening movies in the original



**Campaign**

to raise awareness of the opportunity to watch movies in the original



**60% increase in the number**

of cities participating in the project

### 2020 ▶ **Premiere screening**

of all movies in the original



**34%**  
of surveyed Ukrainians started learning English in 2016



**56 cities**  
**5977 people**  
from various parts of the country attended the biggest English lesson in Ukraine's history



**126 schools**  
**9 000 children**  
participated in GoCamp new format language camps involving foreign volunteers



**Knowledge of English**  
has become a mandatory requirement for candidates for senior positions in the Presidential Administration, National Bank of Ukraine, and other government entities



**1444 English language teachers**  
underwent retraining in 7 participating regions of the English Teachers as Change Agents program



**700 civil servants**  
**1582 military servants**  
**600 patrol police officers**  
learned English free of charge



**40 movies in the original**  
screened in Kyiv, Kharkiv, Odesa, Lviv, Dnipro, Sumy, and Poltava during the first 9 months of the project



**500 internally displaced persons**  
took part in the "Online Business English for Internally Displaced Persons" pilot project. In addition, 146 internally displaced persons participated in the "Access Programme" project to sharpen their English skills and get an insight into American culture and democratic values



**150 private schools**  
from all over the country provided Ukrainians with free English language learning opportunities



**Free English language courses**  
launched for taxi drivers and hotel and catering personnel



**53% of Ukrainians**  
expressed their willingness to learn English according to the findings of the national "Ukraine Speaking" social-issue campaign



## Culture reform

### ■ What has been achieved

The following has been approved:

- Long-term strategy for the development of Ukrainian culture - the reform strategy (CMU Resolution No. 119-r issued on 01.02.2016), which aims to promote the creative activity of citizens, learning and use of new knowledge and technology, preservation of invaluable cultural and spiritual heritage;

- The Library Science Development Strategy 2025 "Qualitative Changes in the Libraries for Sustainable Development of Ukraine" (CMU Resolution No. 219-r issued on 23.03.2016), which aims to determine the priorities of modern libraries, trends, objectives and key actions aimed at their implementation;

Developed:

- Draft Concept of reforming the circus business in Ukraine, which currently is in the process of public discussion;

Presented:

- The Concept of establishment of a Ukrainian cultural fund was presented at the National Reform Council meeting on 29/08/2016, which resulted in the decision to finalize the draft Law of Ukraine "On the Ukrainian Cultural Foundation" taking into account the suggestions made during the discussion. The aim of Ukrainian Cultural Foundation is creating appropriate conditions for implementing programs and projects in the field of culture and arts, including

through the introduction of innovative approaches in the process of funding of such projects by giving priority to the expert decisions during their selection;

- A new project on adaptation, research, and introduction of UNESCO system of indicators (indicators of cultural influence on socio-economic development - CDIS). Implementation of the project will contribute to a better understanding of the importance of culture in all spheres of public life;

Adopted:

- The Laws of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on introduction of contractual forms of the work in the area of culture and competitive procedures for the appointment of heads of state and municipal cultural establishments" and "On amendments to Chapter II "Final Provisions" of the Law of Ukraine "On Amendments to Some legislative acts of Ukraine on introduction of contractual forms of the work in the area of culture and competitive procedures for the appointment of heads of state and municipal cultural establishments."

To this end, the Ministry of Culture approved the Regulations on the composition and organization of the competitive selection board to fill the post of the head of the state cultural establishment belonging to the jurisdiction of the Ministry of Culture of Ukraine, the Procedure of competitive selection of artistic and performing staff of state and municipal cultural establishments and a contract form for professional artists (artistic and performing staff) of the state

and municipal cultural institutions.

In 2016, the Ministry of Culture held about 25 competitive selections using a new procedure;

- The Laws of Ukraine "On amendments to some laws of Ukraine concerning improvement of public administration in the book publishing sector" and "On amendments to paragraph 1 of Section II "Final Provisions" of the Law of Ukraine "On amendments to some laws of Ukraine concerning improvement of public administration in the book publishing sector", which notably aim at the development of domestic book writing and free access of citizens of Ukraine to all spheres of modern knowledge, revival of the reading culture through the introduction of a new state organization - the Book Institute of Ukraine.

In September, the newly launched Ukrainian Book Institute commenced work, which should become an effective tool for the development of the publishing sector;

- The Law of Ukraine "On State Support of Cinematography in Ukraine", which foresees direct government support mechanisms for the film industry, strengthening the protection of intellectual property rights and combating piracy in this area. However, due to some shortcomings of these mechanisms, the President of Ukraine vetoed the law and returned it to the Verkhovna Rada of Ukraine along with proposals for change. The law is currently being prepared for review by the Parliament with consideration of the presidential proposals;

- The draft Law of Ukraine "On Amendments to the Law of Ukraine "On Protection of Cultural Heritage" (regarding the preservation of cultural heritage listed in the World Heritage List of the United Nations Educational, Scientific and Cultural Organization (UNESCO))" (Reg. No. 1553 ) in the first hearing. The law provides, among other things, for defining the concept of world heritage objects and their buffer/protection zones, the procedure of introducing the regime of their use, the competences of management authorities of such objects and their supervisory boards.

Submitted to the Verkhovna Rada of Ukraine:

- The Draft Law of Ukraine "On Amendments to certain legislative acts of Ukraine on the import and export of movable cultural values" (Reg. No. 5513 ), which aims at ensuring transparency and simplification of administrative services in the field of import, export, and return of movable cultural values, enhancing control over the movement of movable cultural values which have significant value for the state and society, and introducing a new approach to the evaluation of cultural values;

- The Draft Law of Ukraine "On the Ukrainian Cultural Foundation" (Reg. No. 5491), prepared in accordance with the conceptual functioning rules of the relevant Fund, discussed at the meeting of the National Council reform. The law will define the legal, organizational and financial principles of a public establishment performing special functions to promote cultural development of Ukraine which activities



## Culture reform

will be coordinated by the Ministry of Culture of Ukraine.

### International cooperation

- Ratified the Agreement between the Government of Ukraine and the European Commission on the participation of Ukraine in the "Creative Europe" Program: the European Union program for the sector of culture and creativity, and between Ukraine and the European Union in the "Media" sub-program of the "Creative Europe" Program. To achieve this goal, there has been established a fully functioning Bureau of the EU "Creative Europe" Program;

- According to the Law of Ukraine "On Ukraine's accession to the International Centre for the study of preservation and restoration of cultural property", there has been created a national system under the International Centre for the Study of the Preservation and Restoration of Cultural Property (ICCROM) in Ukraine to facilitate the exchange of experiences, training of Ukrainian specialists in the field of protection and preservation of cultural heritage and improving the quality of preservation of cultural heritage;

- Agreement between the Ministry of Culture of Ukraine and the Ministry of Culture of the Czech Republic on cooperation in the field of culture in 2016-2020;

- A strategy session "United cultural and educational space in the amalgamated communities: New approaches and practices through dialogue" was held with the help of the OSCE Project Coordinator in

Ukraine. During the session, there was presented an integrated approach to planning and community development in the areas of education, culture, and sports. During the event, 8 amalgamated communities presented their models which include the future format for existing cultural institutions aiming to modernize their functions and orient to opening of new opportunities and new cultural services;

- The first International Cultural Expo Silk Road 2016 was held in Gansu Province of China with the participation of 80 countries, including Ukraine;

### Other activities related to the implementation of reforms:

- Established the Council for cultural and artistic education of the Ministry of Culture of Ukraine, which main tasks include participation in drafting the development strategy for education in the area of culture and the arts;

- The Ministry Culture initiated the establishment of the Council of Ethnic Organizations of Ukraine for effective implementation of national ethnic policy and strengthening communication between the national communities and government agencies responsible for protecting the rights and interests of minorities;

- The Ministry of Culture introduced a pilot program under the new procedure for the distribution of confiscated cultural values involving museum, archival, and library establishments. These establishments will examine the cultural values that are planned for distribution;

- The Ministry of Culture implemented the program involving the mechanisms of corruption prevention and mitigation of corruption risks in the activities of the Ministry. With the support of the European partners, a functional audit of the Ministry of Culture has been conducted aiming to change the internal system and sharing of functions of the Ministry;

### What need to be done to accelerate reform

- Modernization of the incentives system for cultural and artistic activities, including through the adoption of the Law of Ukraine "On the Ukrainian Cultural Foundation";

- Creation of an electronic information resource of cultural heritage and cultural values aiming to organize the structure of cultural heritage protection agencies; development of a standard for the metadata to describe the objects of immovable heritage which should be the basis of forming an electronic registry better showcasing Ukrainian cultural heritage to the world;

- Modernization of the content and the conditions of providing specialized education in arts and improving its quality;

- Strengthening the position of the state language in cultural and information space, development of new approaches to the perception of the state language;

- Identifying and development of general

and specific criteria that apply to the members of the supervisory boards of institutions belonging to the jurisdiction of the Ministry of Culture as one of the priorities of anti-corruption measures;

- Publication and regular updating of the information about the immovable objects of cultural heritage, their protection zones and their legal regimes that need to be digitized for this purpose. In the long term, creating a complete electronic resource capable to electronically receive information about every object and every territory.

---

---

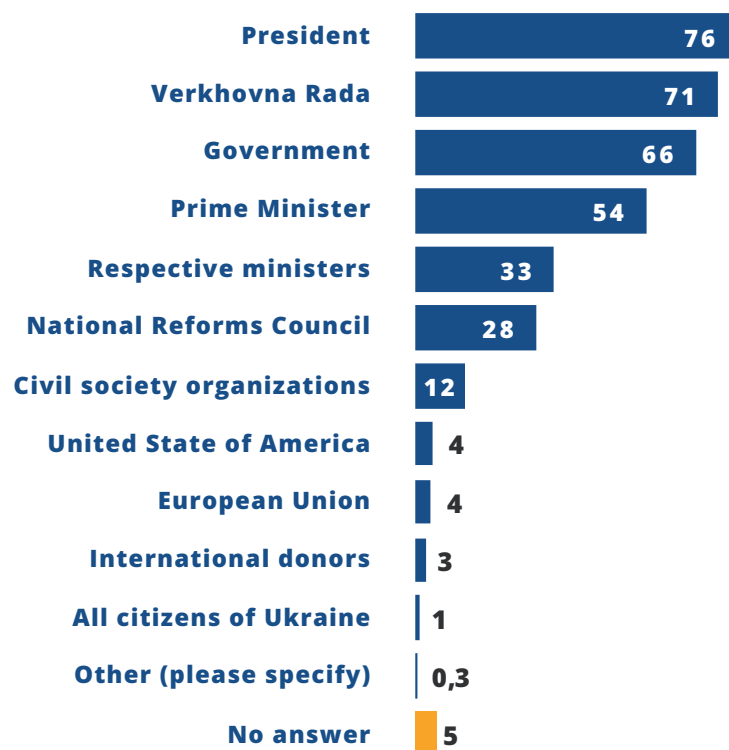
**REFORM  
PACE  
PERCEPTION**

---

---

# Responsibility for the reform progress in Ukraine

## Who is responsible

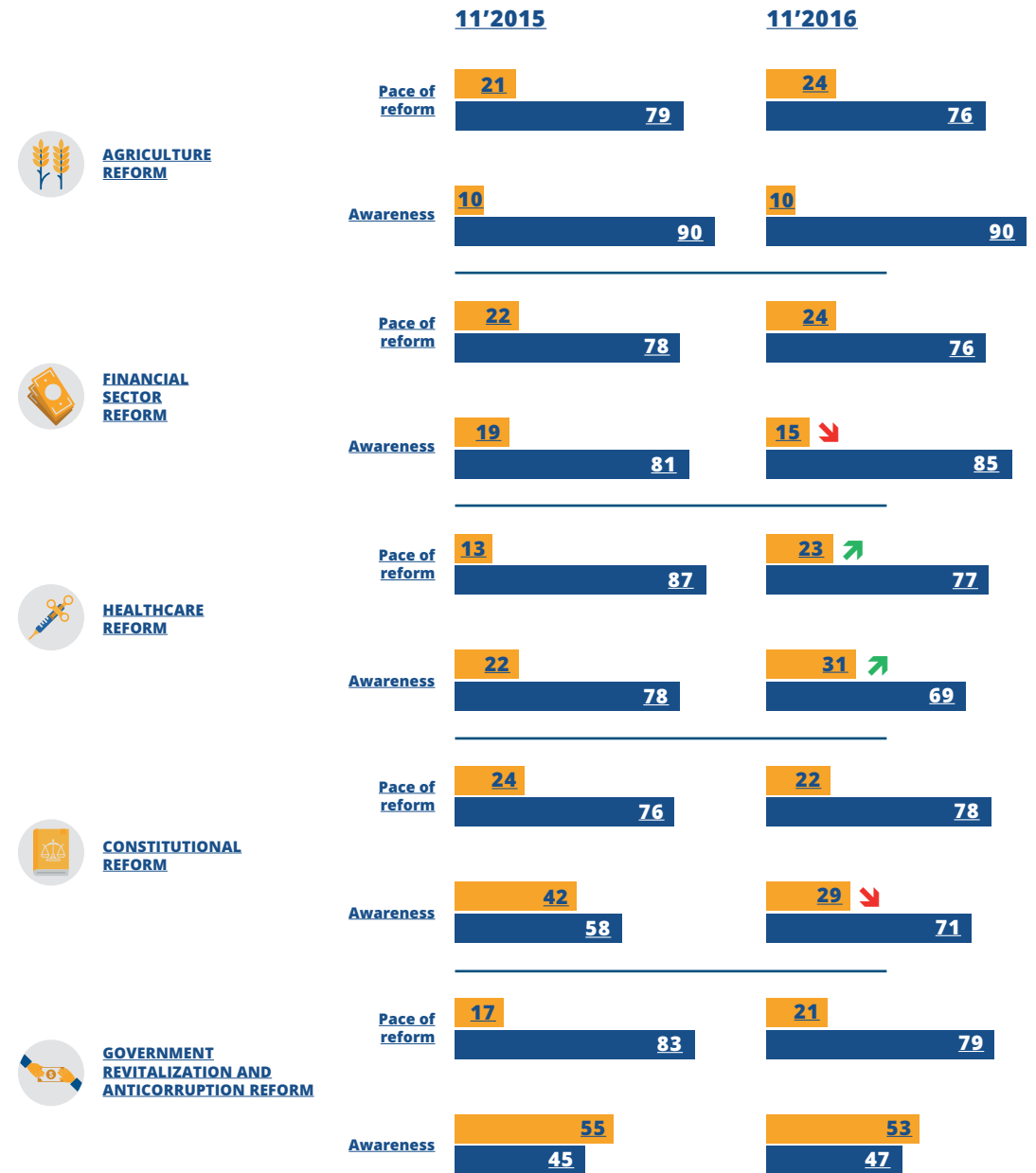
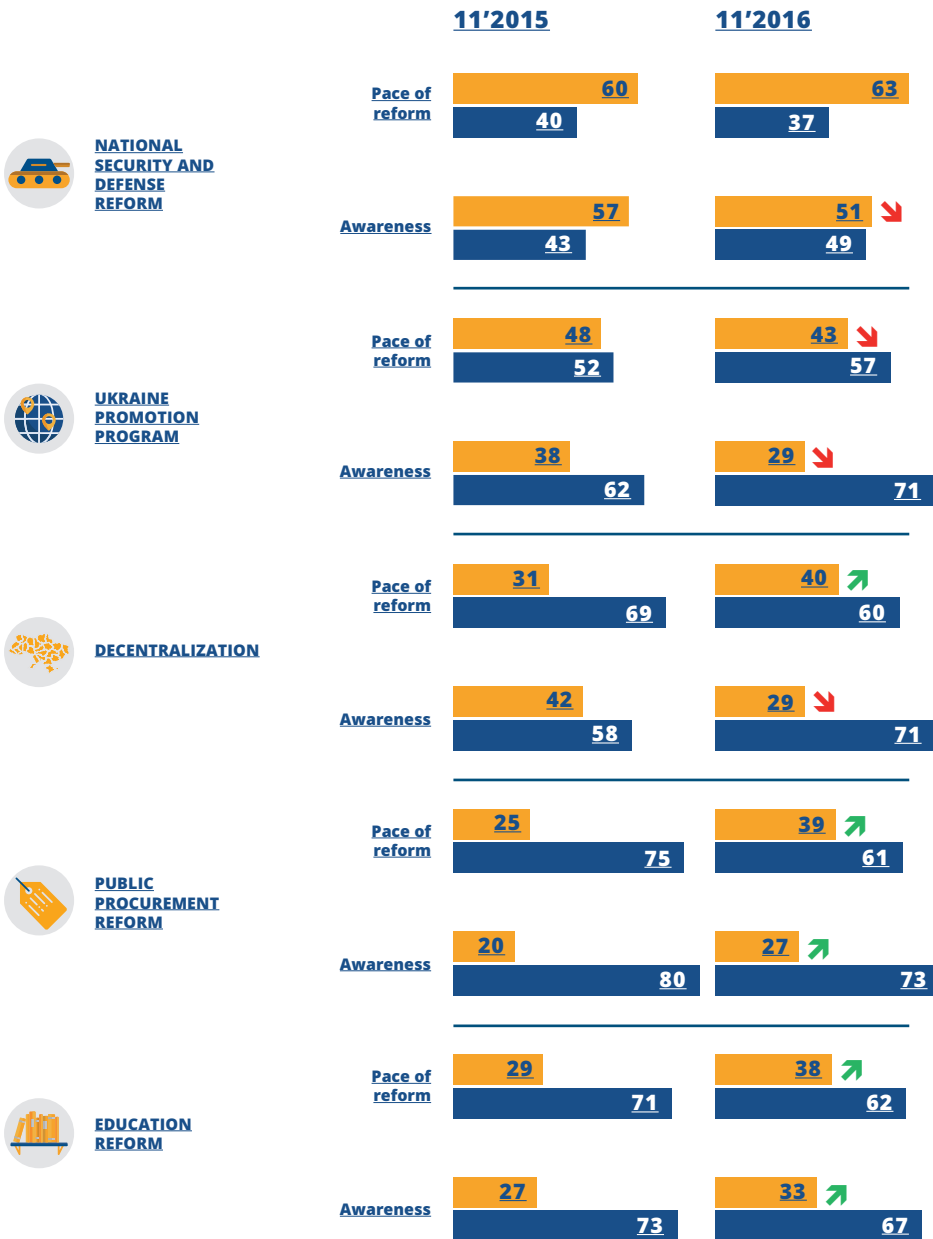


► The vast majority of respondents believe that **responsibility for the reform progress rests with** the President of Ukraine. Running second to the President are executive and legislative branches. 1% of respondents believe that responsibility rests with all citizens of the country.

Q8. Who is responsible for the progress of reforms in Ukraine?  
Representative sample: wave 9.16 N = 1000

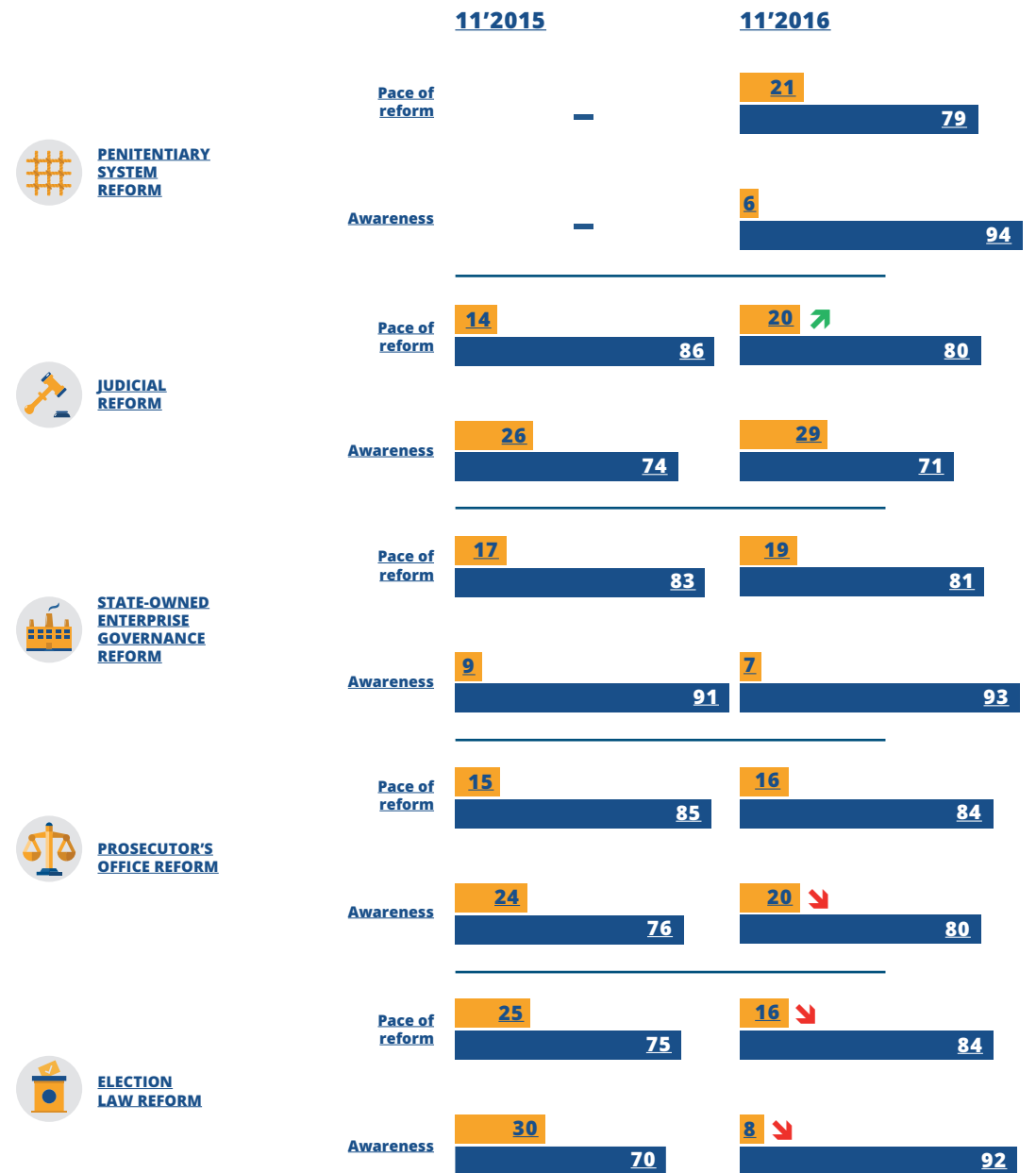
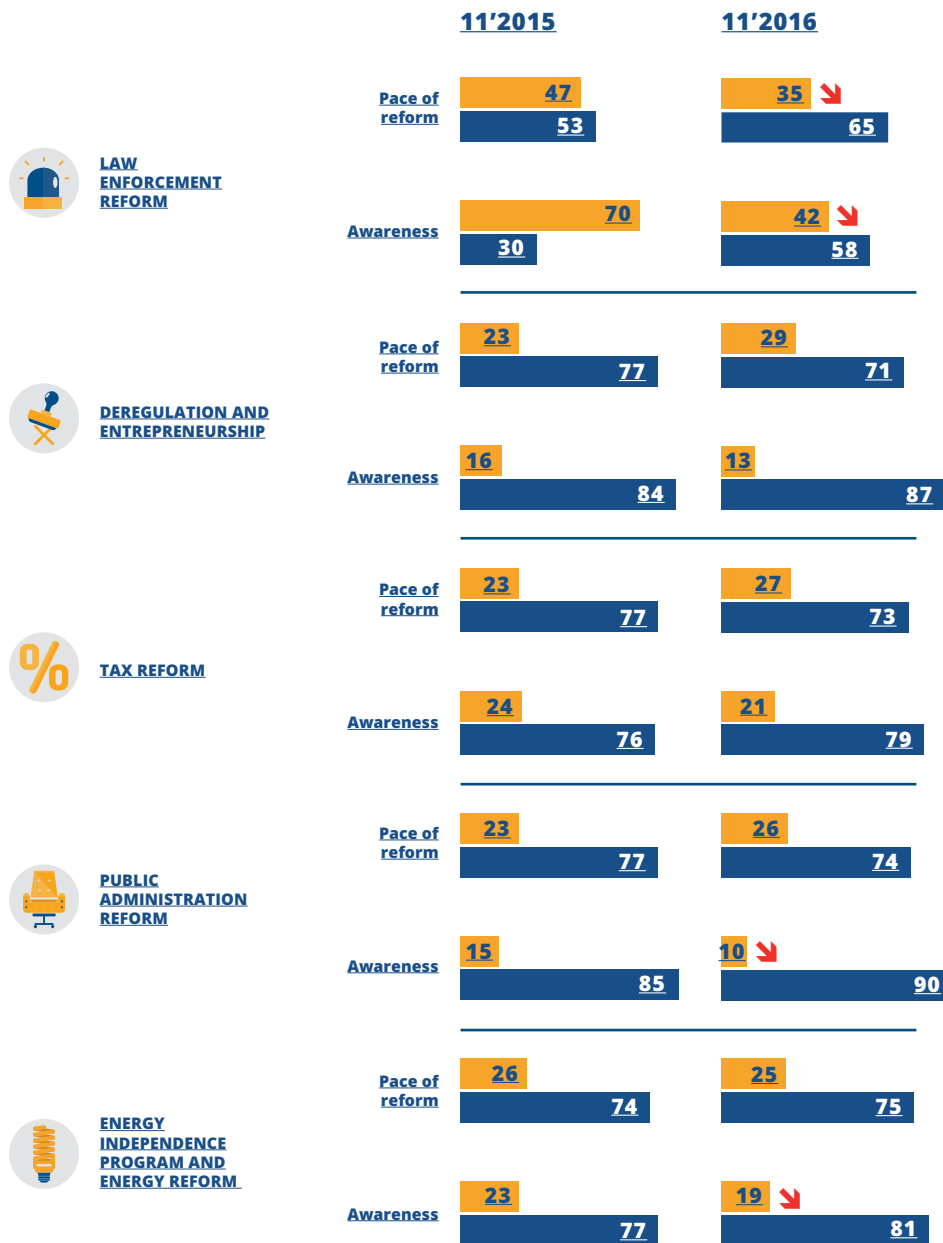


# Reform pace perception





# Reform pace perception





- Ukraine-wide, urban population

## Geographical coverage



- Men and women
- Aged 18-55
- Having Internet access

## Target audience



- 1000 respondents
- By sex, age, region and locality size

## Quota sample



- Online

## Method



## Field work

- Wave 1'15: 25.09.2015 – 01.10.2015
- Wave 2'15: 23.10.2015 – 28.10.2015
- Wave 3'15: 18.11.2015 – 24.11.2015
- Wave 4'15: 17.12.2015 – 24.12.2015
- Wave 1'16: 26.01.2016 – 04.02.2016
- Wave 2'16: 4.03.2016 – 14.03.2016
- Wave 3'16: 4.04.2016 – 14.04.2016
- Wave 4'16: 28.04.2016 – 10.05.2016
- Wave 5'16: 10.06.2016 – 21.06.2016
- Wave 6'16: 27.07.2016 – 03.08.2016
- Wave 7'16: 23.09.2016 – 28.09.2016
- Wave 8'16: 08.11.2016 – 19.11.2016
- Wave 9'16: 28.12.2016 – 09.01.2017

---

---

# APPENDIX

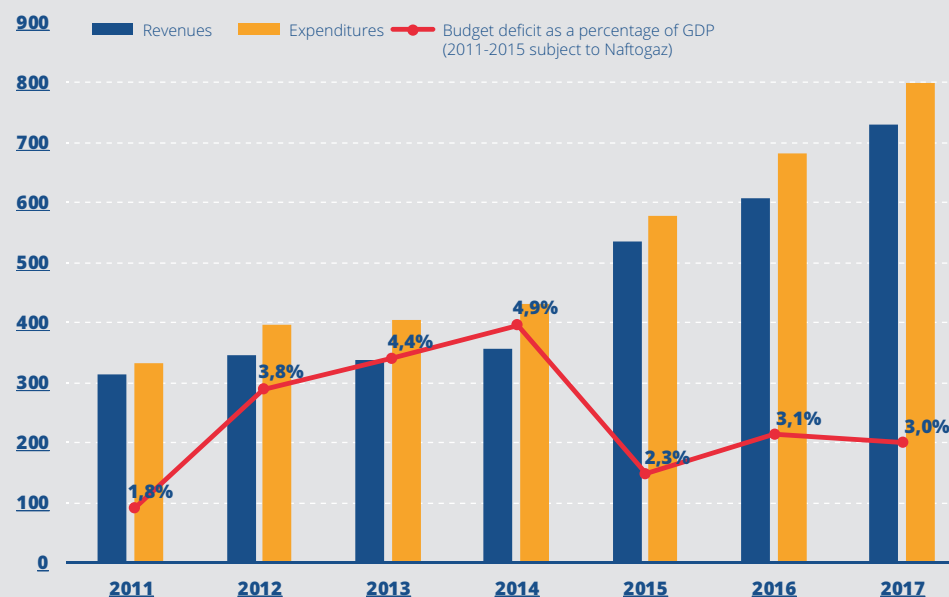
---

---

# State Budget 2017

- ▶ Budget 2017 is based on 3% real GDP growth (2.5% as projected by the IMF) against inflation of 8.1%, which is in line with the NBU's inflation target and a significant disinflationary trend, whereby the rate of inflation decreased from 43.3% in 2015 to 12.4% in 2016;
- ▶ Yearly average exchange rate is forecasted at 27.2 UAH/USD;
- ▶ Public and publicly guaranteed debt is expected to reach 88.8% of GDP;
- ▶ Social security improvements include 18% increase in average nominal wages to UAH 5,988, a more than two-fold increase in minimum wages to UAH 3,200, and 10% increase in subsistence minimum to UAH 1,700 as at year-end 2017.

**Budget revenues and expenditures, in billions of UAH**



- ▶ In 2017 budget revenues are expected to grow by 20.3% to UAH 731 billion as compared to 2016.
- ▶ It is envisaged to increase budget expenditures by 18.3% to UAH 800 billion.
- ▶ Planned budget deficit is 3% of GDP provided that NJSC Naftogaz Ukrainy operates deficit-free.

## The dynamics of the main macroeconomic indicators\*

Macroeconomic Indicators	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016**	2017 план
Nominal GDP, in billions of UAH	751,1	990,8	947,0	1079,3	1300	1404,7	1465,2	1586,9	1988,5	2263	2585
Real GDP, %	8,2	2,2	-15,1	4,1	5,5	0,2	0,0	-6,6	-9,8	1	3
Consumer price index, up to December current year	16,6	22,3	12,3	9,1	4,6	-0,2	0,5	24,9	43,3	12,4	8,1
Nominal wages, UAH	1351	1806	1906	2250	2648	3041	3282	3480	4195	5070	5988
Real wages, %	12,5	6,3	-9,2	10,2	8,7	14,4	8,2	-6,5	-20,2	8,8	5,4
Export of goods and services, %	27	35	-47	28	30	0	-8	-15	-27	-7,8	8,0
Import of goods and services, %	35	40	-45	31	34	3	-7	-28	-30	-0,9	9,7
Central government debt, % of GDP	11,8	19,1	33,6	40,1	36,4	36,7	39,9	69,4	79,1	76,4 (11 mic.)	88,8

\*data for the years 2010-2014 exclude temporarily occupied territory of the Crimea and in Sevastopol., data for 2015 - and no part of the ATO zone

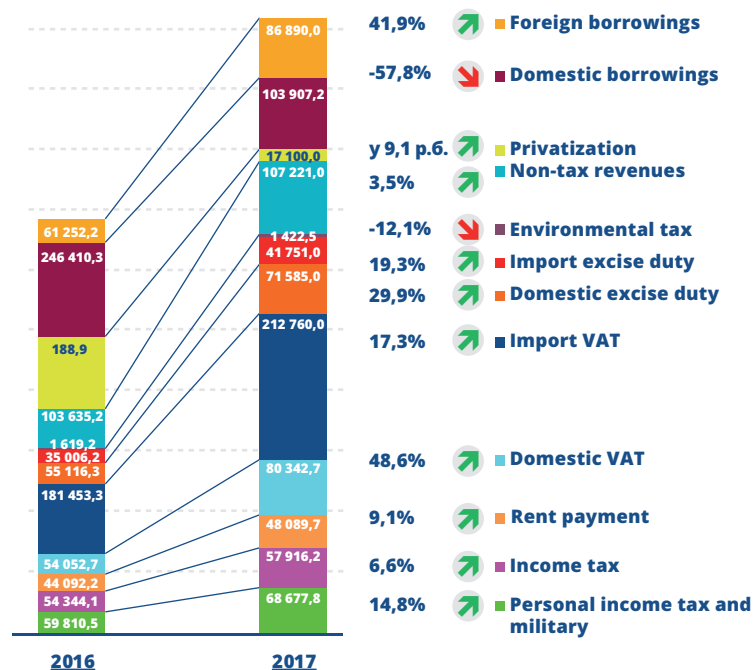
\*\*projections or data available as at 17.01.2017

# State Budget 2017

## Budget revenue sources include, inter alia:

- ▶ discontinuance of special VAT regime for agricultural producers;
- ▶ increase in rent for the use of radio frequency resource for certain frequencies;
- ▶ indexation of excise duty rates;
- ▶ 14% single tax payable by Group 4 single tax payers.

## Budget revenues, in millions of UAH



## Expenditures

### Amendments to some budget items

#### Apparatus of the Verkhovna Rada

remuneration of labor

#### State Management of Affairs

activities of the President and Presidential Administration

#### Secretariat of the Cabinet of Ministers

Comprehensive Public Administration Reform Support Program activities of the CMU

#### Anticorruption activities

NABU

NAPC

SAPO

State Bureau of Investigation National Agency for identification, tracing and management of assets derived from corruption and other crimes

#### Political parties

#### Agencies within the judicial branch (excl. Constitutional Court of Ukraine)

Administration of justice by Supreme Court of Ukraine

#### Ukravtodor State

#### Road Administration

#### Defense and security

	2016	Change		%
		2017	UAH Millions	
<b>Apparatus of the Verkhovna Rada</b>	<b>827,7</b>	<b>1 128,4</b>	<b>300,7</b>	<b>36,3</b>
remuneration of labor	419,9	625,2	205,4	48,9
<b>State Management of Affairs</b>	<b>1 381,4</b>	<b>2 074,4</b>	<b>693,1</b>	<b>50,2</b>
activities of the President and Presidential Administration	458,0	746,6	288,7	63,0
<b>Secretariat of the Cabinet of Ministers</b>	<b>303,3</b>	<b>737,0</b>	<b>433,7</b>	<b>&gt;2,4</b>
Comprehensive Public Administration Reform Support Program activities of the CMU	268,1	398,4	130,3	48,6
<b>Anticorruption activities</b>				
NABU	476,7	773,6	296,9	62,3
NAPC	70,3	162,9	92,6	>2,3
SAPO	46,0	119,4	73,4	>2,6
State Bureau of Investigation National Agency for identification, tracing and management of assets derived from corruption and other crimes		640,7	40,0	
<b>Political parties</b>	<b>161,9</b>	<b>442,4</b>	<b>280,5</b>	<b>&gt;2,7</b>
<b>Agencies within the judicial branch (excl. Constitutional Court of Ukraine)</b>	<b>7 029,5</b>	<b>10 161,4</b>	<b>3 131,9</b>	<b>44,6</b>
Administration of justice by Supreme Court of Ukraine	126,2	1 012,9	886,7	>8
<b>Ukravtodor State</b>	<b>15 090,8</b>	<b>14 862,8</b>	<b>-228,0</b>	<b>-1,5</b>
<b>Road Administration</b>				
<b>Defense and security</b>	<b>118 411,1</b>	<b>127 504,9</b>	<b>9 093,8</b>	<b>7,7</b>

# Changes in Ukraine: Comparison of Quantitative Indicators (2014 to 2016)

Reforms Monitoring Progress  
2016

Indicator	Start of Year 2014	End of Year 2016	Difference
<b>GDP, UAH billions</b>	1 465,2	1 649,7 (9 months) 2 262,8 (year-end)	+54,4%
<b>GDP, USD billions</b>	183,31	64,85 (9 months) 88,6 (year-end)	-51,7%
<b>Government budget deficit as % of GDP</b>	11,1% (inclusive of NJSC Naftogaz Ukrainy)	2,1% (exclusive of Deposit Guarantee Fund and PrivatBank)	-9,0 pps
<b>Government spending on defence and security as % of GDP</b>	2,9%	5,36%	+2.46 pps (1,9 times increase)
<b>Government spending on defence as % of GDP</b>	1,0%	3,2%	+2,2 pps (3,2 times increase)
<b>Funds on Treasury Single Account</b>	1,7	14,3	8,2 times increase
<b>Consumer Price Index (inflation rate)</b>			189,9% for 3 years (2014-2016)
% up to December of previous year	100,5%	112,4%	+11,9 pps
% year-over-year	99,7%	113,9%	+14,2 pps
<b>Index of producer prices for industrial products</b>			191.9% for 3 years (2014-2016)
% up to December of previous year	101,7%	135,7%	+34 pps
% year-over-year	99,9%	120,5%	+20,6 pps
<b>Monthly per capita subsistence minimum, UAH</b>	1 176	1 544	131,3%
For each child under 6 years of age	1 032	1 355 (≥ 01.01.2017)	131,3%
For each child from 6 to 18 years of age	1 286	1 689 (≥ 01.01.2017)	131,3%
For each able-bodied person	1 218	1 600 (≥ 01.01.2017)	131,4%
For each person who lost his/her earning capacity	949	1 247 (≥ 01.01.2017)	131,4%
<b>Monthly minimum wage, UAH</b>	1 218	3 200 (≥ 01.01.2017)	262,7%
<b>Average monthly wage (11 months), UAH</b>	3 234	5 070 (11 months)	156,8%
For education sector	2 679	3 662 (11 months)	136,7%
For healthcare sector	2 360	3 323 (11 months)	140,8%

# Changes in Ukraine: Comparison of Quantitative Indicators (2014 to 2016)

Reforms Monitoring Progress  
2016

Indicator	Start of Year 2014	End of Year 2016	Difference
<b>Diversification of nuclear fuel import sources:</b>			
Russia's share of total nuclear fuel imports, %	97%	55%	-42 pps
Share of nuclear energy in the general energy balance	49%	52%	+3 pps
<b>Diversification of natural gas import sources:</b>			
Russia's share of total natural gas imports, %	92,5%	0%	No natural gas imports from Russia in 2016
Volume of natural gas imports from Russia, BCM	25,8	0	No natural gas imports from Russia in 2016
<b>Natural gas import price, USD per TCM</b>	<b>400,0</b>	<b>200,0</b>	<b>-50%</b>
<b>Taxes paid by Naftogaz group, UAH billions</b>	<b>17,4</b>	<b>68,0</b>	<b>391%</b>
<b>Government support to Naftogaz, UAH billions</b>	<b>104,9</b>	<b>0,0</b>	<b>No government support in 2016</b>
<b>Ukrainian Railways revenue, UAH billions</b>	<b>68,0</b>	<b>77,4</b>	<b>114%</b>
<b>Taxes paid by Ukrainian Railways, UAH billions</b>	<b>13,9</b>	<b>15,0</b>	<b>108%</b>
<b>Ukrposhta revenue, UAH billions</b>	<b>3,98</b>	<b>4,47</b>	<b>113%</b>
<b>Taxes paid by Ukrposhta, UAH billions</b>	<b>0,19</b>	<b>0,34</b>	<b>178%</b>
<b>SFS inspections of taxpayers</b>			
<b>Number of taxes</b>	<b>22</b>	<b>11</b>	<b>2 times decrease</b>
<b>Unified social security contribution rate, %</b>	<b>41%</b>	<b>22%</b>	<b>1,9 times decrease</b>
Scheduled documentary inspections of legal entities, thousands	6,5	4,2	1,5 times decrease
Unscheduled documentary inspections of legal entities, thousands	39,1	16	2,4 times decrease
Crosschecks, thousands	71,4	22	3,2 times decrease

# Changes in Ukraine: Comparison of Quantitative Indicators (2014 to 2016)

Reforms Monitoring Progress  
2016

Indicator	Start of Year 2014	End of Year 2016	Difference
Ukraine's international reserves (NBU), USD billions	7,5 (01.01.2015)	15,5	2,1 times increase
Public procurement reform: ProZorro saving, UAH billions	0	9,0	UAH 9 billion (400 thousand tenders totalling UAH 200 billion)
EU's share of Ukraine's total trade, %	31,7%	40,7%	+9 pps
Russia's share of Ukraine's total trade, %	27,3%	11,6%	-15,7 pps
Infrastructure reform: length of rehabilitated roads	620 km (2013)	2 000 km	322%
Number of e-declarations filed by civil servants, thousands	0	103,0	103 thousand e-declarations
Public administration reform: competitions to recruit senior civil servants	0	108 competitions	87 winners (state secretaries, heads of oblast/rayon state administrations, and central executive authorities)
Decentralization: establishment of merged territorial communities	0	367 communities	367 communities
Transparency International Corruption Perceptions Index	144	130	+ 14 points
World Bank's Doing Business Ranking	112	80	+ 32 points
Paying Taxes Ranking	165	107 (DB2016)	+ 58 points
Human Development Index	83	81	+ 2 points
Press Freedom Index	128	107	+ 21 points
Globalization Index	47	41	+ 6 points
Outsourcing Attractiveness Ranking	41	24	+ 17 points
Global Innovation Index	71	56	+ 15 points

# Investors return to Ukraine

Reforms Monitoring Progress  
2016



Sources: Ukrinform, Epravda.com.ua, Techcrunch.com, Ain.ua, April 18, 2016, Dou.ua

---

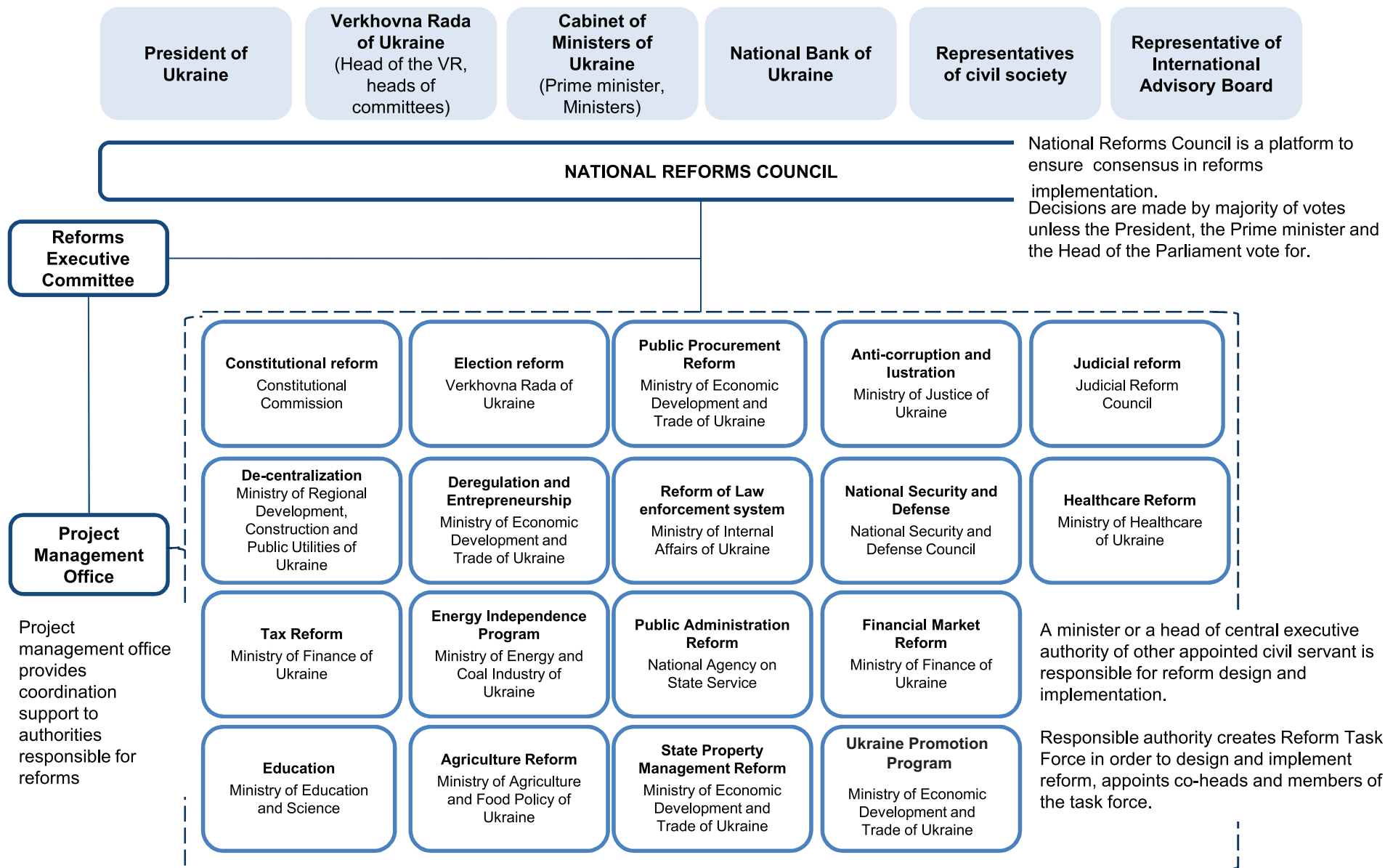
---

**NATIONAL  
REFORMS  
GOVERNANCE  
MODEL**

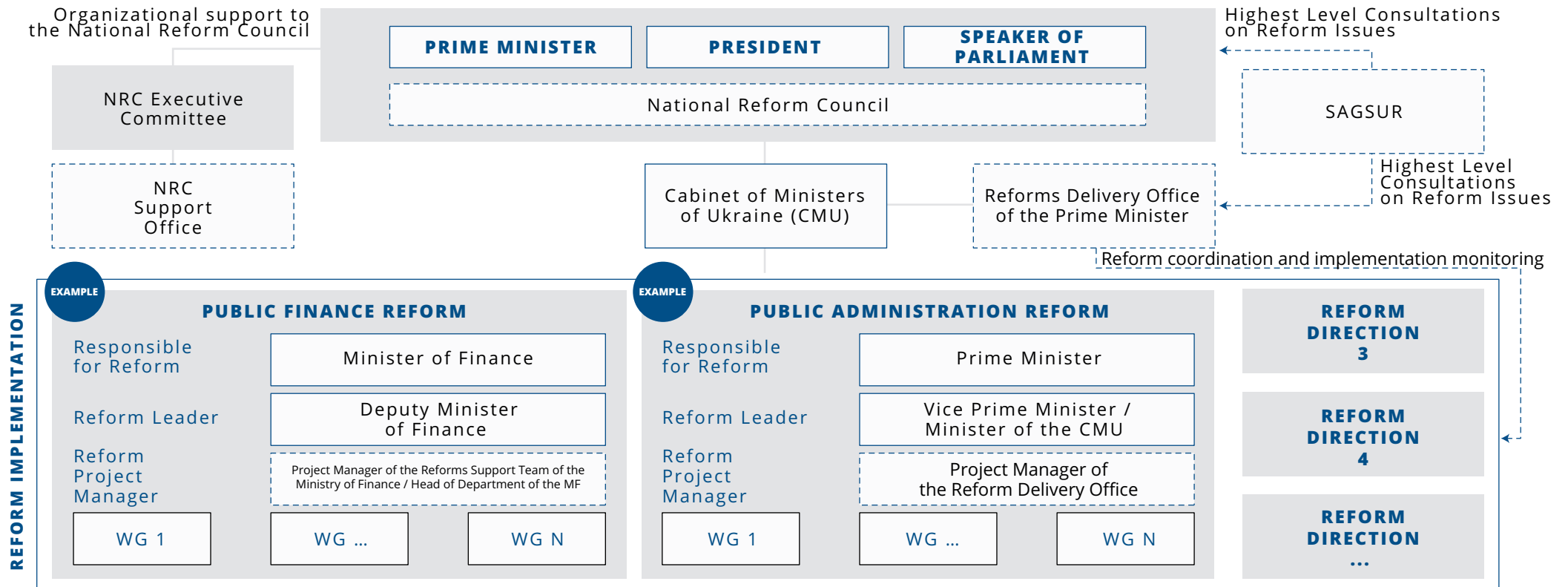
---

---

# National reforms governance model 1.0



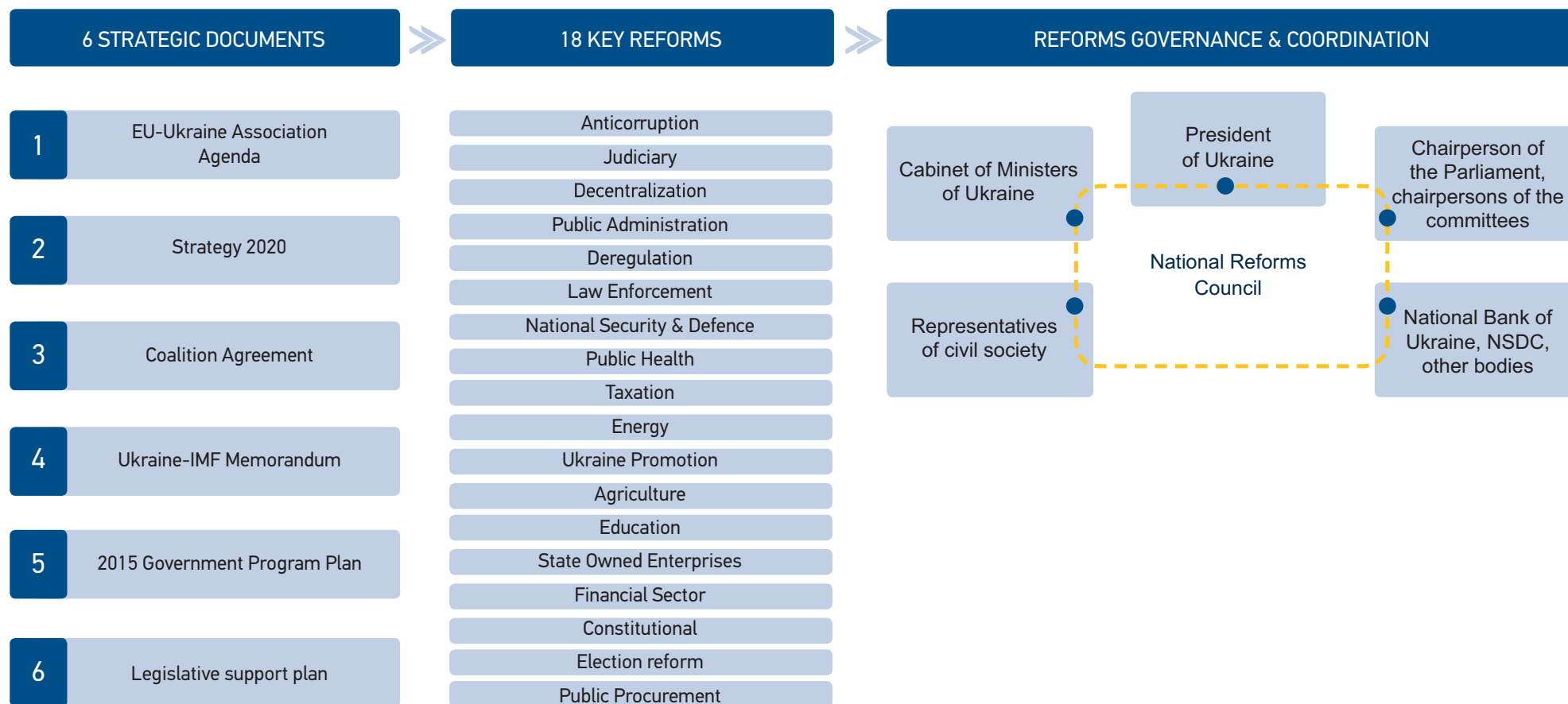
# New architecture of reforms



## FUNCTIONAL STRUCTURE OF THE REFORMS DELIVERY OFFICE OF THE PRIME MINISTER OF UKRAINE



# Ukraine has a broad reform agenda and the necessary tools to effectively drive change





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.



---

**NATIONAL REFORMS COUNCIL**

---