



REFORM PROGRESS IN UKRAINE

PRECONDITIONS FOR REFORMS:

EXTERNAL FACTORS

Information war

Large-scale information war launched by the Russian Federation inside and outside of Ukraine

Hybrid war

Ukraine became target for testing new forms and technologies for aggression

Trade and economic aggression of the Russia Federation

Revenues from export to Russia reduced by **\$1-1.2 bn** annually



Russian occupation of Crimea and areas of Donetsk and Luhansk regions

- Industrial production dropped **by 20%**
- About **\$ 200 mln** monthly spent providing utilities to the occupied territories
- GDP dropped by **17-20%** due to war and annexation of Crimea

Military aggression by the Russian Federation

Military budget reached 5% of GDP in 2016 or **UAH 113.6bn**. **Six times more than in 2013.**

Price drop for key Ukrainian exports

Export revenue in 2015 fell by **\$25 bn (-39%)** vs. 2013

Energy aggression by the Russian Federation

Damage from loss of energy facilities in Crimea is estimated at hundreds of billions dollars

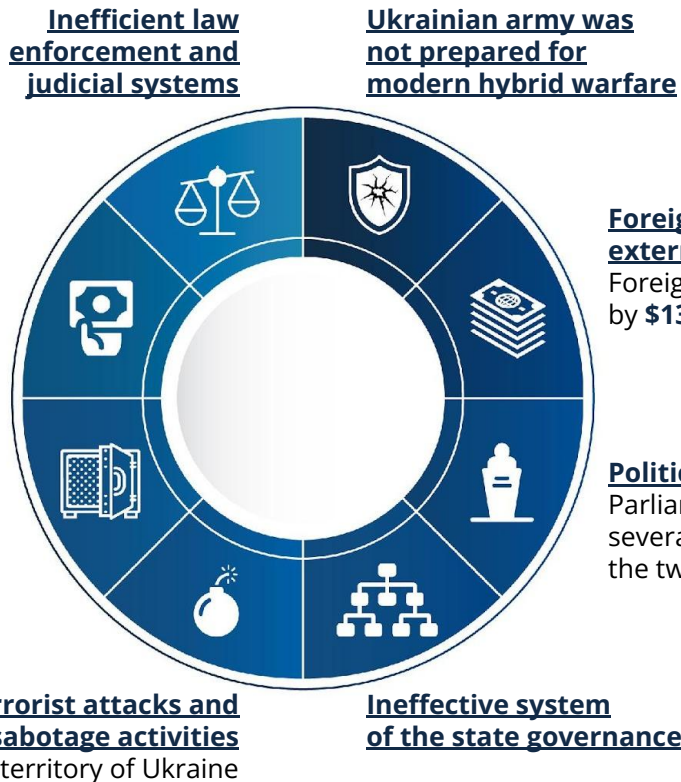
PRECONDITIONS FOR REFORMS: INTERNAL FACTORS

Corruption in the state system

- Broad corrupt practices across state institutions
- Volume of investigated corruption cases during 2015 grew **35 times (est.value UAH 3 bn)**; **UAH 1 bn** is investigated by the National Anti-Corruption Bureau

Exhausted financial and banking systems

Banking system **lost UAH120 bn** during 2014-2015



Foreign investments decreased due to external aggression

Foreign direct investments in Ukraine decreased by **\$13.7 bn** during 2014-2015

Political and government changes

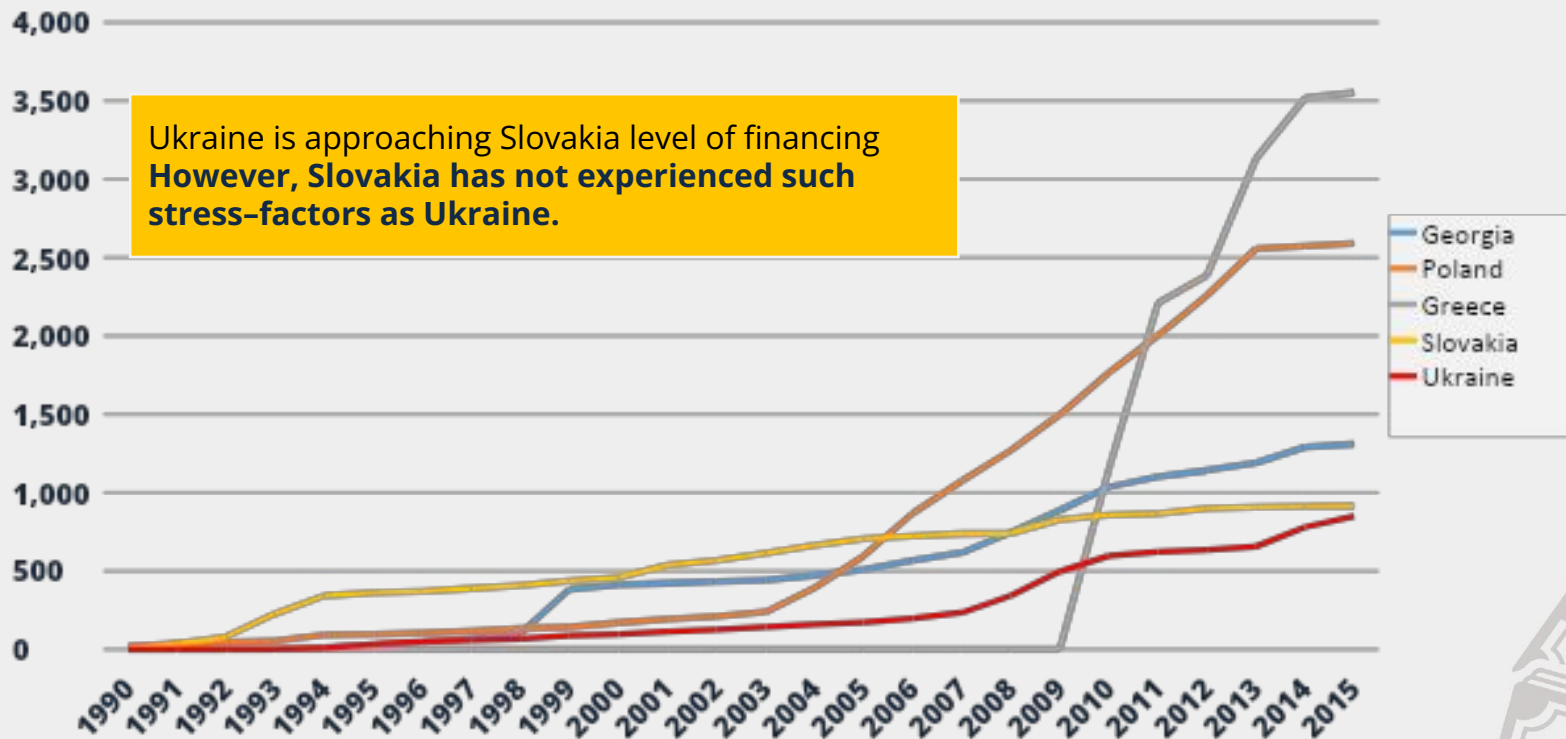
Parliamentary elections, local elections and several government changes took place over the two last years



UKRAINE UNDERTAKES REFORMS **UNDER CHALLENGING CONDITIONS**

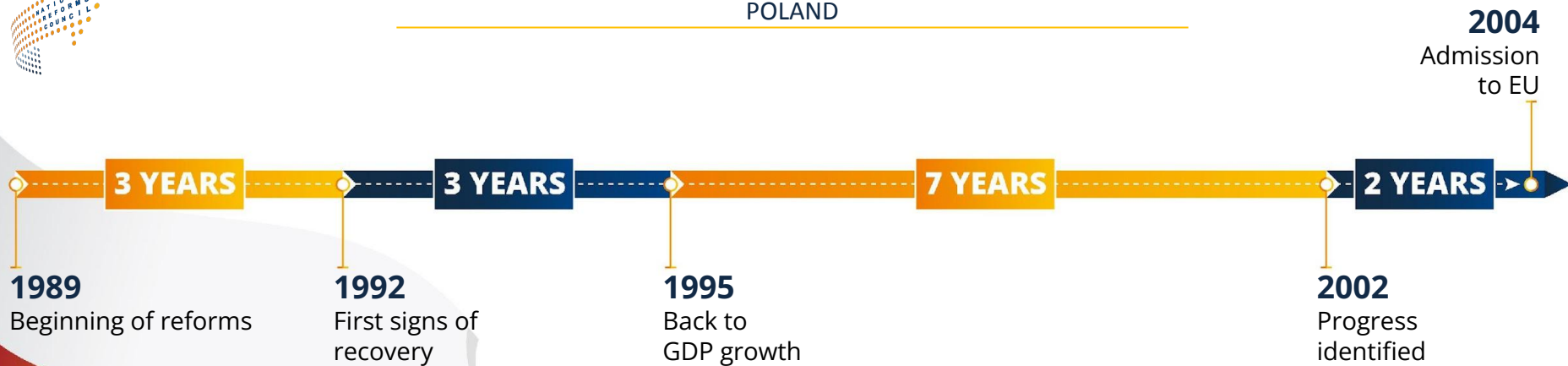
FINANCIAL SUPPORT PER CAPITA

The total amount of funding from the IMF, EBRD, EU
\$ per capita (accumulation)





COUNTRY CASE: POLAND



After "Solidarity" secured parliamentary elections, an expert committee headed by Leszek Balcerowicz was created in September 1989. The committee prepared reform plan for rapid transition of the Polish economy from planned to free market.

GDP per capita, current \$





COUNTRY CASE: SINGAPORE

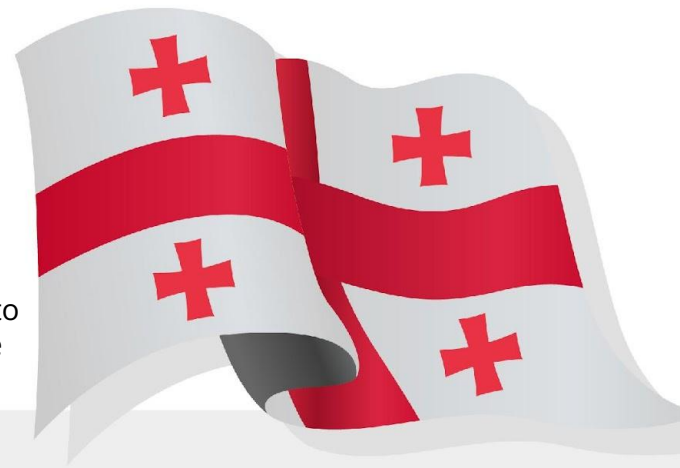


In 1965, Singapore was so economically underdeveloped that it was necessary to import fresh water and cement. Neighboring countries were unfriendly. Malaysia closed its market for Singapore, and Indonesia actually declared war.

GDP per capita, current \$



COUNTRY CASE: GEORGIA



Before the 2004 elections, Georgia was a half-collapsed state in deep economic turmoil. Over the next few years the new cabinet conducted extensive and effective changes.

GDP per capita, current \$





COUNTRY CASE: SLOVAKIA



In 1998, Mikuláš Dzurinda, an experienced politician became head of the government. Main sectors of Slovakia's reforms were: public finance, tax and pension systems, health care, labor market and local government. Fiscal incentives became the main instrument of the reformers' policy. In the area of public finance, Slovakia strengthened budget transparency, implemented program funding, and planned three years ahead (versus one).

GDP per capita, current \$





REFORMS PROGRESS **IN UKRAINE**



REFORMS PROGRESS

High

- ▶ External debts restructuring
- ▶ Strengthening defense
- ▶ Police reform
- ▶ Optimization of procurement system (ProZorro)
- ▶ Improving the regulatory environment
- ▶ Improvements in banking sector
- ▶ Promoting Ukrainian interests abroad, diplomacy success
- ▶ Decentralization

Average

- ▶ Optimization of budget indicators
- ▶ Tax reform
- ▶ Energy sector reform
- ▶ Anti-Corruption, public administration reform
- ▶ Geo diversification of export

▶ Judicial reform

Low

- ▶ Improvement of investment climate
- ▶ Pension reform
- ▶ Revival of credit activity in economy
- ▶ Product export diversification
- ▶ Healthcare reform

REFORM PROGRESS:

ARMY

APPROVED:

- National Security Strategy (**May, 2015**)
- Military Doctrine of Ukraine (**September, 2015**)
- Concept of security and defense sector development (**March, 2016**)
- State targeted defense program on weapons and development of military equipment by 2020 (**March, 2016**)
- Strategic Defense Bulletin (**May, 2016**)

REFORMED:

- Reforms started in the **Ministry of Defense, General Staff, Armed Forces** (aligned with NATO standards and approaches)
- Logistic on **NATO standards**
- Electronic procurement system ProZorro saved over **UAH 180 mln**



PERSONNEL:

- Total personnel increased to **250,000 people**
- Over **52,000 people** signed up for contract-based service
- **150 new recruitment** centers are opened
- Established: **15 brigades, 1 regiment, 5 separate battalions**
- **115,000 people** have been trained in higher military educational institutions
- Fully restored combat capability of **14 brigades** and **60 battalions**

DEFENCE AND FACILITIES:

- Defensive fortification line include **220 km of artificial obstacles** and more than **500 command centers**
- **1,400 hectares** of lands and **21 valuable real estate properties** returned to the Ministry of Defense under anticorruption program

REFORM PROGRESS: ARMY

ARMY PROVISION IN 2014



... IN 2016





REFORM PROGRESS



EUROPEAN INTEGRATION

- EU - Ukraine Association Agreement **signed and provisionally applied**
- EU - Ukraine Association Agreement **ratified by 28 EU member states in a year**. Finalization of ratification process by the Government of the Netherlands is pending
- Strong international **pro-Ukrainian coalition formed**
- **Ukraine met all EU requirements for visa-liberalization**
- **Launched biometric passports for international travel of Ukrainian citizens**
- Opening European markets for Ukrainian companies, overcoming consequences of Russian embargo



DEREGULATION

- Ukraine went up from position **112th (2013) to 83rd (2015)** in Doing Business rating
- More than **15,000 Soviet standards abolished**
- About **100 administrative barriers** for business canceled
- Quantity of permits cut **from 143 to 84**
- List of activities that are subject to licensing decreased **from 56 to 30**
- Electronic licensing introduced
- Deregulation in agricultural sector: **28 permits cancelled, 28 simplified**
- The number of scheduled and unscheduled State Fiscal Service inspections **decreased almost by half** in 2015 compared to 2013



REFORM PROGRESS



ANTI-CORRUPTION

- The Law "On Government Cleansing" (Lustration) adopted and signed
- In October 2014 key anti-corruption laws on new anti-corruption institutions were adopted
- **National Anti-Corruption Bureau (NABU)** was formed and started investigation.
- **Specialized anti-corruption prosecutor's office and the National Anti-Corruption Policy Council** were established.
- Based on the results of the open competition four members of the National Agency for Prevention of Corruption (NAPC) were elected.
- **State Bureau of Investigation and the National Agency for Identification, Tracing and Management of Assets Derived from Corruption and Other Crimes** were legislatively established.
- Legislative Acts concerning Fight against Political Corruption and Financing Political Parties were adopted.
- Property registers became publicly accessible.



LAW ENFORCEMENT

- Police patrol has been launched **in 32 cities**, and staffed by **over 12,000 persons**
- The Law "On the National Police" adopted.
- **Prosecutor's office was deprived of powers of general supervision**, and the new Law "On the Prosecutor's Office" adopted.
- The number of local prosecutor's **offices reduced by 23%, and administrative staff - by 75%.**
- The process of establishing the State Bureau of Investigation started.



JUDICIAL REFORM

- **Amendments to the Constitution regarding the administration of justice** and the implementing the Law on Judiciary and Status of Judges were adopted
- Law "On Ensuring the Right to a Fair Trial" adopted.
- **New rules introduced:** evaluation of the performance of judges, maintenance of judicial dossiers, qualification of examinations; new professional and ethical requirements



REFORM PROGRESS

ENERGY SECTOR

- **Foundational law "On the Natural Gas Market" was adopted.** The legal basis for the new European, open and competitive gas market established.
- **Significant diversification of gas supply sources.** The volume of gas imports from EU increased from 8% in 2013 to 63% in 2015, Russian share reduced from 92% in 2013 to 37% in 2015.
- **Agreement with alternative suppliers of fuel for nuclear power plants signed.**
- Deficit of "Naftogaz of Ukraine" decreased from \$ 8 bn to \$ 1.5 bn in 2015; **zero deficit projected for 2016.**
- Utility rates have been adjusted to the market level.
- Western standards of the corporate governance have been implemented in "Naftogaz of Ukraine"
- "Naftogaz of Ukraine" supervisory board (**5 members**) appointed (**3 - independent members**)

DECENTRALIZATION

- **Voluntary merger process was initiated in more than 6300 territorial communities; 159 capable communities formed.**
- Communities obtained additional financial resources as a result of financial decentralization.
- Local government revenues **increased by UAH 29.6 bn. (i.e. 42.1%) in 2015** vs. 2014.

PUBLIC PROCUREMENT

- Online system ProZorro became a cornerstone for optimizing government procurement and preventing corruption: **4,500+ contractors; savings exceed UAH 1.2 bn.**
- **ProZorro** received World Procurement Award 2016.
- Ukraine joined WTO Agreement on Government Procurement, enabling **access to public procurement markets of 48 countries (est. \$ 1.7 trillion).**



PUBLIC ADMINISTRATION

- New Law "**On Civil Service**" adopted. It clearly differentiate political and administrative roles in public service.
- Quantity of public servants was **reduced by 16%**.
- Updated State Portal for Administrative Services launched (**posludy.gov.ua**).
- Ukraine's public sector efficiency indicator (Global Competitive Index survey) increased **from 140th (in 2013) to 119th (in 2015)**.



STATE-OWNED ENTERPRISE GOVERNANCE

- For the first time financial statements of **780 state-owned enterprises (SOEs)** had been published.
- **345 SOEs** were approved for privatization.
- Mandatory sale of **5 - 10%** of shares before the auction was canceled.
- Changes to the Law on JSC shareholders' meetings decreased quorum requirements from 60% to 50% + 1 share.
- **For the first time** international audit companies will audit 150 major SOEs.
- For the first time reports on the top 100 state-owned enterprises have been published.
- **Market level compensation for the CEO's** of state-owned enterprises has been introduced.
- **For the first time** special independent committee was established to select CEOs of 12 strategic enterprises (Ukr gasbank, Ukr gasvydobuvannya, Sumykhimprom and others). **Eight of them had already been appointed.**
- Corporatization of the state railway company "Ukrzaliznytsia" started.



REFORM PROGRESS



MANAGEMENT OF PUBLIC FINANCE

- Since 2014 the quantity of taxes and fees was cut from **22 to 11**.
- **Electronic VAT** administration system introduced.
- Employer's social payroll tax rates has been reduced from **41%** (2014 average) to **22%** in 2016.
- Experiment on financing road construction and development from the surplus of customs duties has started.
- Ukrainian foreign debt of more than **USD 19.4 bn.** was restructured.
- The Law "**On the Accounting Chamber**" adopted.
- Ministry of Finance launched **E-data portal** for monitoring public finance.



FINANCIAL SECTOR

- 78 insolvent banks were closed during **2014 - 2016**; over UAH 70 bn of deposits returned to customers by state.
- Budget deficit reduced from more than **11%** (2014) to **3%** (2015).
- Macroeconomic situation in the country stabilized.



E-GOVERNMENT AND INNOVATIONS

- 3G introduced in 2015 (**budget gained UAH 11 bn via transparent tender**).
- Open data portal - launched.
- Electronic petitions to the President of Ukraine - launched. More than **21 000** petitions are registered YTD.
- Other electronic services have been introduced including electronic apostil and access to public registers of the Ministry of Justice.



EDUCATION AND CULTURE

- Control over academic integrity (**counteraction of plagiarism in theses**) has been enhanced.
- Launched **“Go Global”** - national initiative to promote learning English and other foreign languages across Ukraine.
- Ukraine joined EU framework programme for research and innovation **“Horizon 2020” (€80 bn)**.
- Ukraine will be enrolled in Programme for **International Student Assessment (PISA)** in 2018.
- Ukraine joined EU framework Programme **“Creative Europe”**



SOCIAL AND POLITICAL AREA

- New national holidays: **the Day of Defender of Ukraine** (October 14), **the Day of Remembrance and Reconciliation** (May 8).
- Established celebration of **the Day of the Heavenly Hundred Heroes** (February 20) and **the Day of Freedom and Dignity** (November 21).
- Decommunisation started (**979 towns and cities, and 24 districts were renamed**).
- **More than 1000 monuments of Lenin** and over **150 monuments of other Soviet figures** were demolished.



COMPETITIVE SELECTION INTRODUCED

During the last 2 years more than 13 laws and 100 regulations were introduced for the competitive selection of:

- Director and the staff of the National Anti-Corruption Bureau
- Members of the National Agency for Prevention of Corruption
- Prosecutors for supervising the observance of laws during investigation and search operations, as well as pre-trial investigation carried out by detectives of the National Anti-Corruption Bureau of Ukraine
- Managers and prosecutors of the Specialized anti-corruption prosecutor's office
- Members of the High Council of Justice, members of the High Qualification Commission of Judges of Ukraine, judges, court staff
- Police officers
- Members of the Accounting Chamber
- Head of the National Agency for Identification, Tracing and Management of Assets Derived from Corruption and Other Crimes
- Director, deputies and staff of the State Bureau of Investigation
- Civil servants and secretaries of the state
- Leaders of all important state-owned enterprises
- Heads of scientific institutions, Director of the Ukrainian Book Institute, heads of state and municipal museums, libraries, cultural institutions, heads of centralized library systems, heads of administrations of historical and cultural reserves.



CONCLUSIONS



NO COUNTRY IN THE WORLD WAS
REFORMING UNDER SUCH
CHALLENGING CONDITIONS



OUR GOAL: INSTITUTIONAL CHANGES

Since 2014 we established the foundation for the new principles of governance.
We do not focus on names, but institutions.

«...Ukraine... is an example of how it is possible to reform institutions in a way allowing us to generate enormous amounts of goodwill among the Ukrainian people, because Ukrainians want to see these institutions move forward»

Geoffrey R. Pyatt,

Extraordinary and Plenipotentiary Ambassador US to Ukraine, May 16, 2016

OUR GOAL: **UNITY**

Only through joint efforts of the President, the Parliament, the Prime Ministers, governments, coalition, civil society, army, diplomacy, donors, volunteers and all citizens of Ukraine
WE ARE ABLE TO ACHIEVE SUCH RESULTS AND PROGRESS.

Over the last 2 years **Ukraine advanced on reforms more** than other countries before.





WE HAVE DONE **MORE** THAN PERCEIVED,
BUT **LESS** THAN WE ASPIRE FOR ...