

Reforms in Ukraine:

Progress in 2017
& Priorities for 2018

February, 2018





Foreword by the Prime Minister



Dear colleagues!

To build a successful European state – this is the chance we have got thanks to the Revolution of Dignity, and we have no right to waste it.

Indeed, we have begun a major transformation of the state aiming to ensure economic growth, provide effective governance, facilitate human capital development, implement the rule of law and fight corruption as well guarantee the state security and enhance its defense power. These objectives were specifically set out in the Government's Medium-Term Priority Action Plan to 2020, adopted last year.

The key achievements of the Government in 2017 were maintaining macroeconomic stability, ensuring further economic growth and pursuing systemic and institutional reforms, including those neglected over the entire period of Ukraine's independence.

Specifically, the Government has launched pension, education and healthcare reforms, prepared the ground for transparent privatization practices and efficient management of state-owned enterprises. Besides, the Government has started preparing the land reform.

To overcome the institutional weakness of the Ukrainian state, which still remains one of its biggest problems, we have particularly focused on public administration reform. At the same time, we continued the decentralization reform, which the Government had commenced earlier.

Besides, the Government was consistently implementing its part of anticorruption activities, creating favorable conditions for the work of anticorruption bodies and, together with civil society, was monitoring corruption risks in central executive bodies to narrow the potential sources of institutional corruption. This has put an end to abuses in the system of VAT reimbursement, while custom revenues increased significantly due to fight against smuggling. By initiating new legislation the Government is trying to protect business against abuses coming from law-enforcement bodies.

The Government's efforts have led to general improvement of the business and investment climate in Ukraine, which has been noted by entrepreneurs. Hence capital investments in Ukraine grew by 19.9% over the first three quarters of 2017. Privatization of the state-owned enterprises and reform of their management will be among the top priorities of our Government. The privatization of such big enterprises as Centrengo, Turboatom, Odessa Port Plant, Ukrgazbank is planned for early 2018.

The Government stays firm and consistent in its policy aimed at deepening relations with the European Union. After the final approval of the Association Agreement, its implementation became one of the Government's top priorities. The EU is becoming Ukraine's main economic partner: the share of the EU member-states in Ukraine's foreign trade in goods has reached 41.3% of the total trade volume. In 2017 more than 14 thousands Ukrainian companies exported to the EU.

At the same time, we do understand that we cannot afford to be satisfied – the country needs to increase its economic growth, step up its major transformations, continue profound modernization of infrastructure, and provide real changes in healthcare and education.

Thus we have identified the following priorities for 2018: privatization and efficient management of state-owned enterprises, improvement of the business climate, modernization of infrastructure, energy sector reform, preparations for land reform and support of farming, innovations development, further fight against corruption, strengthening the rule of law as well as pursuing current reforms.

I am convinced that the Government's comprehensive and responsible approach towards these priorities, our joint efforts to keep political consensus with constructive forces for the sake of much-needed reforms, as well as support of our international partners will ensure continued economic growth and progress in 2018. We are particularly aware of how responsible our mission is, and we will keep proving our political will to achieve the well-being of the Ukrainian people.



Volodymyr Groysman
Prime Minister of Ukraine

Table of contents



The Government's Medium-Term Priority Action Plan to 2020 is a Roadmap for Reforms and Changes	03
Reform Priorities Progress in 2017	07
6 key reform priorities of 2017 at glance	08
Pension reform	11
Education reform	13
Health care reform	16
Public Administration Reform	18
Privatization and SOE reform	20
Land market reform	22
Reform priorities for 2018	25
Reform priorities for 2018 at glance	26
Privatization and SOE reform	27
Business climate improvement	28
Logistics and infrastructure development	30
Energy reform	31
Land market reform	33
Innovations development	35
Anticorruption and the Rule of Law	37
Public Administration Reform	38
List of 35 priority bills - focus on economic growth	39
Continuing the implementation of reforms initiated in 2017	40
Ukraine Reform Conference	41
Annexes	43
Key successes of the Government in 2017 through Strategic Medium-Term Action Plan goals	44
Reforms architecture	47



The Government's Medium-Term Priority Action Plan to 2020 is a Roadmap for Reforms and Changes



▲ About the Plan

Despite external and internal challenges, during the last few years Ukraine has kept moving towards deep structural reforms. In 2017 this activity has produced positive results in the economy.

Early 2017 saw the Government's approval of the Government's Medium-Term Priority Action Plan to 2020, a document preliminary discussed among wide range of experts, with public and international partners.

The Medium-Term Priority Action Plan defines the main objectives and strands of the Government's activity for 2017-2020 and forms the basis for budget planning, the Government's annual operational planning, strategic planning at ministerial level, donor assistance targeting and various other documents.

The introduction of medium-term budget planning as an integrated part of the government strategic planning ensures a clear interconnection between financing of policies and their results.

It helps to improve the system of strategic planning, monitoring and assessment, including the framework used to evaluate the performance of ministries and other government departments in implementing their planned policies.

New priority reforms coordination approach based on effective cross-ministerial collaboration towards reforms implementation was deployed in

the Government's Medium-Term Plan to 2020 to accelerate overall reforms progress, increase capacity of responsible bodies, and improve on synchronization and coordination of the reform activities of the Government.

In its annual priority action plans, the Government sets out specific actions, those responsible, deadlines and performance indicators in more detail.

▲ The principal approaches used in drafting the Government's Medium-Term Plan and Annual Priority Action Plans for 2017-2018 include:

- systemic approach (i.e. choosing priorities of profound impact on the country's socio-economic development, the drivers for change across other strands of activity)
- feasibility (i.e. setting feasible objectives)
- achievability (i.e. clearly framed implementation phases and mechanisms)
- simple and transparent evaluation of achievements (against the clearly defined measurement criteria)
- coherent development (through inter-related reforms in progress and strategic policy documents).

▲ The Government focuses on improving every aspect of citizens' life and achieving the following five strategic objectives:

1. economic growth
2. effective governance
3. human capital development
4. rule of law and fight against corruption
5. security and defence.



The Government's Medium-Term Priority Action Plan to 2020 is a Roadmap for Reforms and Changes



▲ Purposes of the Mid-term action plan

Identification and adoption of the key objectives and priorities of the Government for 2017 – 2020

- Policy coherence
- Strategic view
- Long-term planning

Foundation for mid-term budget and ministerial plans

- 2018-2020 budget resolution
- Annual budgets
- Effective use of limited resources

Coordination of resources, donor support

- Priorities
- Assistance
- Commitments

▲ Strategic goals and key actions

→ Defense and security

Protection of sovereignty and territorial integrity, securing safe environment for citizens

→ Anticorruption and the Rule of Law

Effective anti-corruption policy & institutions, protection of property rights, equal access to justice



→ Economic Growth

Maintaining macroeconomic stability, land reform, privatization, deregulation, energy reform, tax and customs reform, increasing exports and attracting investment

→ Effective governance

Public administration reform, public finance management reform, decentralization

→ Human capital development

Education, healthcare, social security, culture – effective use of resources

▲ Implementation

- Operationalized through annual actions plans of the Government
- Actions plan for 2017 includes 615 detailed actions
- Daily monitoring of the Plan for 2017 actions implementation is performed through the online tool by Secretariat of the Cabinet of Ministers of Ukraine and the Reforms Delivery Office



The Government's Medium-Term Priority Action Plan to 2020 is a Roadmap for Reforms and Changes

▲ Medium-Term Budget Planning

To form sufficient resource foundation for key initiatives implementation, on January 31, 2018, the Government approved a draft law "On Amendments to the Budget Code of Ukraine". It will help to ensure in Ukraine a medium-term budget planning on a regular basis and at all levels of the budget system.

The changes introduced to the Budget Code include a number of innovations in the area of medium-term planning at the state level

- Introduction of the Budget Declaration for the mid-term period
- Replacement of the budget calendar
- Expansion of budget rules
- Coordination of strategic and budget planning

The approved budget declaration is a strategic document that is based on a Medium-Term Priority Action Plan and defines the direction of public finances for priority reforms. And this will put in place a plan for the country's economic development in the future and create the basis for deep and systemic reforms.

Key innovations of the document

- The planning horizon extends for 3 years
- The list of medium-term budget parameters was developed

The main elements of the medium-term budget planning model

- The aggregate ceiling of expenditures and the provision of loans as the maximum possible amount of budget funds that can be obtained under certain economic conditions ceilings for each main manager of budget funds
- Goals of the main managers and indicators of the result of their activity within the defined ceilings

- Assessment of fiscal risks

The following will be introduced

- Consistent and predictable fiscal policy that will ensure financial stability
- Predictability and efficiency of budget expenditures aimed at improving the quality of public services
- Strengthening of budgetary discipline and establishment of clear rules of work to which all budget process participants will adhere to, for the sake of the common result - the development of the country
- Control and effective management of public debt
- Change in the focus of budget planning: from the maintenance of budget institutions to the provision of quality public services

▲ Alignment of budget planning and Medium-Term Priority Action Plan

→ Macroeconomic forecast

→ Budget





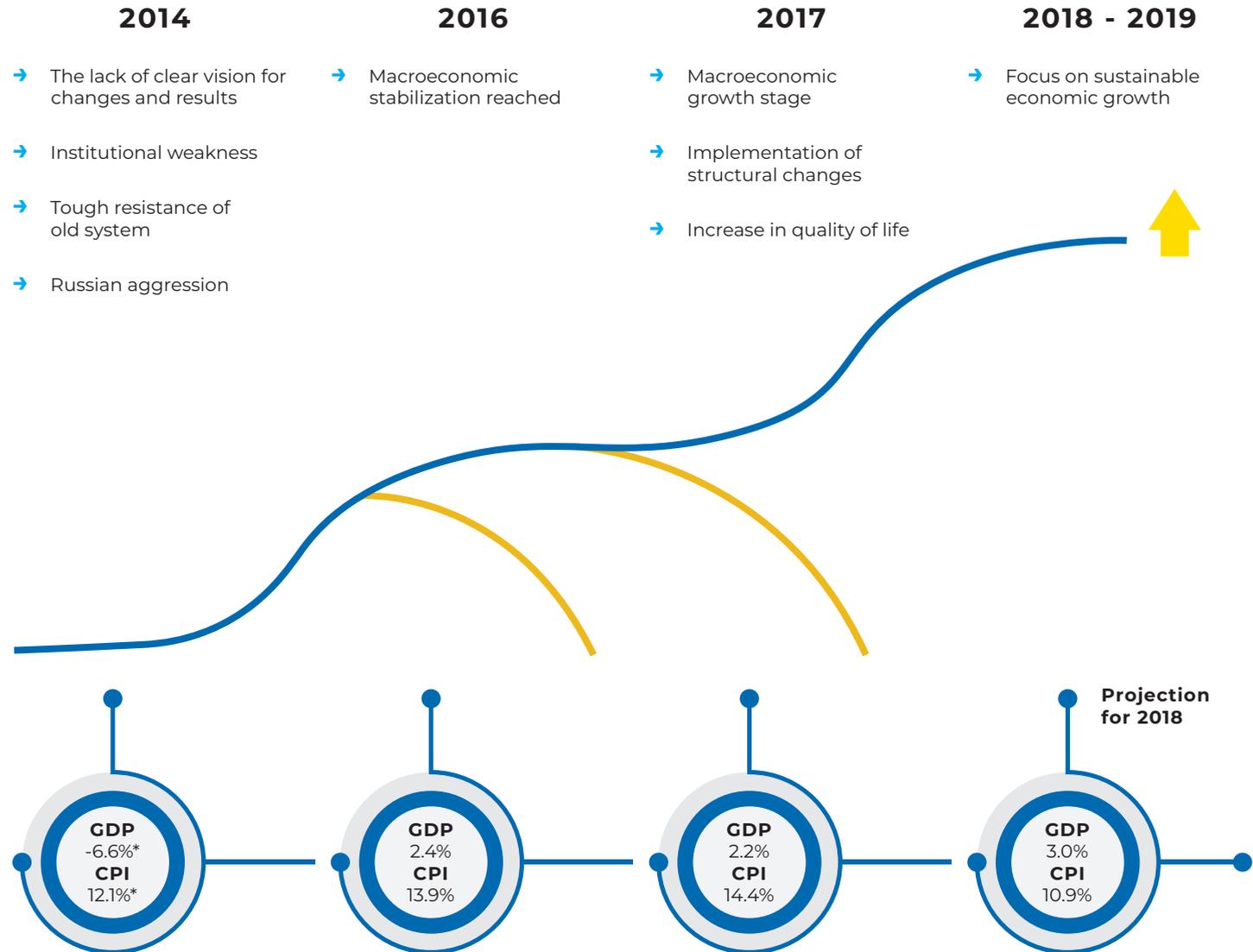
The Government's Medium-Term Priority Action Plan to 2020 is a Roadmap for Reforms and Changes



▲ Focus on economic growth

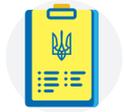
In 2014-2016 Ukraine navigated the challenging road of macroeconomic stabilization and transformation. Over these years the country has developed a clear vision of change and deliverables, and has become even more institutionally strong.

Economic indicators for 2017 (about 2% GDP growth) show that Ukraine has entered a phase of economic growth. According to the Cabinet of Ministers, the budgeted forecast of economic growth for 2018 is +3%. Ukraine is well placed to achieve more than 5% of GDP growth in 2019, and such growth is the key goal of the Government and the major economic target for the coming years. The main drivers of economic growth will be the revival of Ukraine's industrial sector and development of innovative industries.



* annual change

Reforms Priorities Progress in 2017



6 key reform priorities of 2017 at glance



In line with the Medium-Term Priority Action Plan and the Government's Annual Action Plan for 2017 the Prime Minister determined 6 key priority areas for the Government in 2017:

- Pension reform
- Education reform
- Healthcare reform
- Public administration reform

→ Privatization and state-owned enterprise reform

→ Land market reform

Stabilization of the economy and economic growth achieved by the Government in 2016-2017 with the international community assistance allowed the mobilization of resources for the implementation of key reforms and social initiatives.

2017 was a year of success in laying the groundwork for human capital development as the Parliament of Ukraine passed the laws proposed by the Government, and the long-awaited education, healthcare and pension reforms were launched.

In early 2018, the Government and the Parliament cooperatively embarked on the elaboration and passage of a new groundbreaking law to ensure effective and transparent privatization.

Despite the extension of the moratorium on agricultural land sales into 2019, the work on land market reform is ongoing and remains a priority for 2018.

Steps made as part of the efforts to implement reforms will contribute to stable economic growth, and the improvement of social protection and the well-being of citizens.





6 key reform priorities of 2017 at glance



Pension reform

- Calculation of pensions for all employee categories based on duration of pensionable service introduced
- Increased pensions for 10.2 mln pensioners
- The Action Plan for 2017-2018 on the introduction of the 2nd and improvement of the 3rd pillars of the pension system adopted by the Government



Education reform

- The Law of Ukraine "On Education" was adopted and has launched the development of special legislation (general secondary education, vocational education, changes to higher education financing)
- Implementation of New Ukrainian School concept has started with primary education and continues till 2029 on further levels of secondary education



Health Care reform

- Legislation on the state financial guarantees for the provision of health services and medicines was adopted. From July 2018, the National health care service of Ukraine will function for primary care
- Full implementation of the healthcare reform for the primary care will occur in 2019
- Test registration of hospitals and doctors in the system gained traction. 716 hospitals, 5242 doctors and 31251 patients were registered. The transfer of eHealth software to the state system administrator is planned in February 2018



6 key reform priorities of 2017 at glance



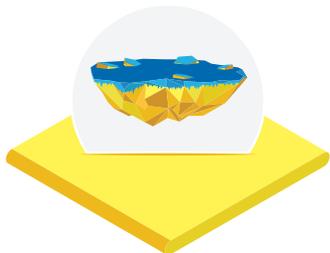
Public administration reform

- New strategic planning approach introduced within the Government's Medium-Term Priority Action Plan to 2020 approved
- Reorganization of the ministries launched with the aim to increase Government capacity for policy development and strategic planning: in 10 ministries and 3 other government bodies 50 directorates with 821 new reform staff positions of civil service (RSP) established
- Modern civil service and RSP vacancies portal career.gov.ua launched with possibility to apply online. >13 000 candidates applied, with 42000 monthly users resulted in average 33 candidates per vacancy
- 34 positions increase (65th place in 2017) for "Transparency of policy making" by WEF GCI
- 35 online e-services were implemented, namely in registration services, social sphere, construction sector
- Open data portal "data.gov.ua" launched with more than 30,000 data sets and more than 2000 data administrators, resulted in 24th place (+ 30 positions) in the Global Open Data Index 2017



Privatization & SOE reform

- The new Law "On privatization" was adopted by the Parliament in early 2018. It simplifies the procedure of privatization: only 2 groups of objects for privatization (small-scale privatization and large-scale privatization) instead of 6, only two types of auctions instead of 5 etc. Therewith, small-scale privatization shall be made exclusively through online auctions
- The separation of the SOEs into groups for further action "triage" was completed and published
- The Supervisory Board of NJSC Naftogaz with the majority of independent directors was re-appointed
- State Auction Platform ProZorro.Sale was launched allowing easy, fast and transparent sales and leases of state property through online auctions. The platform as well would be used for privatization of the minor state-owned projects



Land market reform

- The Concept of National land market model has been developed by the Government together with the World Bank.
- The concept of the State program of development of farming for 2018-2020 years approved



▲ About the reform

The implementation of the pension reform is among the top priorities of the Government. The goal of reform is to re-establish a fair approach to the calculation of pensions.

There are currently 11.7 million pensioners in Ukraine. Eight million (68% of the total number) received the minimum pension before the launch of the reform. The pension amount did not depend on the duration of pensionable service and pensionable salary. In addition to being unfair, such a state of affairs provided no additional motivation towards formal employment and the payment of contributions to the Pension Fund. Failure to introduce the necessary changes could, within five to ten years, lead to the inability of the state to guarantee the pension benefits.

Law On Amendments to Some Legislative Acts of Ukraine on the Increase of Pensions introduced amendments to 29 legislative acts. The provision on pension actualization took effect on October 1, 2017, and on January 1, 2018 the law became fully operational. This is the first stage of reform designed to improve the solidarity pension system, root out pension levelling and ensure fair calculation of pensions. The Law also seeks to provide financial stability and reliability of the solidarity pension system and lay the basis for subsequent stages of reform, namely the introduction of mandatory accumulation pension insurance and ensuring the proper functioning of voluntary accumulation insurance system.

▲ Main goals

- Pension actualization
- Setting a fair solidarity pension system, creating equal conditions for calculation of pensions for all employee categories based on duration of pensionable service
- Mandatory annual indexation
- Handling the Pension Fund's deficit





Pension Reform



▲ Achievements in 2017

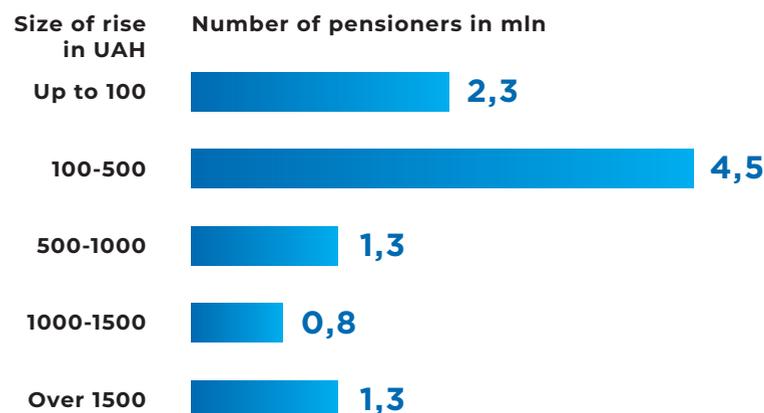
The pension reform launched with the adoption of the Law of Ukraine «On Amending Certain Legislative Acts of Ukraine regarding the Increase of Pensions» No. 2148-VIII as of October 3, 2017, that envisages:

- Modernization of pensions, recalculation of pensions, allowances, increments and other pension payments, which are determined from the minimum subsistence level on October 1, 2017
- Expansion of categories of persons entitled to compulsory state pension insurance
- Increased duration of pensionable service required for calculation of future pensions
- Establishment of flexible conditions for retirement from 01.01.2018 by the duration of the insurance period
- Saving incentives for a later retirement
- Canceling a special procedure for paying pensions to working pensioners

* Source: ILOSTAT

** Source: Research of GfK Ukraine for the project "Critical Thinking against Populism" managed by Center of Economic Strategy

Since October 2017, pensions have been raised for 10.2 million pensioners. The average size of the increase was 561.17 UAH and the average pension amounts to 2 447.95 UAH, that is 40.2% more than in October 2016.



▲ Impact

It is expected that the implementation of the pension reform will lead to elimination of Pension Fund deficit over a 10-year perspective. The elimination of the deficit at the first level of the pension system will support the macroeconomic and financial stability of the country. During 2018-2021, the nominal deficit of Pension Fund will remain stable and amount to 141.3 billion UAH. The gradual reduction of the nominal deficit is planned to start from 2022.

The introduction of the 2nd level and improvement of the 3d level pension system will provide: sustainable basis

for decent pensions to present and future generations, own national source of long-term investment resources, accumulated by the saving component of the pension system.

It is expected that a comprehensive pension system reform launched in 2017 will stimulate youth and middle-aged people to legalize their income for their future decent pension.

→ Pension scheme coverage share 43.4 % of population aged 15-64*

The Action Plan for 2017-2018 on the introduction of the 2nd and improvement of the 3rd pillars of pension system adopted by the Government.

- The draft law amending legislation on the consolidation of the functions of regulation and supervision over the institutions of the saving pension system has been prepared
- The draft law on recalculation of pensions for military men has been prepared

→ Public social protection expenditure towards those who are of retirement age 7.9% of GDP*

→ Public social protection expenditure towards those who are of working age 2.4% of GDP*

Vox populi:

46% supported pension reform of those who were informed**



▲ About the reform

Reform of the education sector is of paramount importance as the quality of teaching largely determines the future of the country's young generation.

The country and the world have changed, society has changed, the needs of the economy have radically changed, and approaches to education have remained far in the past century.

In Ukrainian schools and colleges, students generally acquire the scope of knowledge without full understanding how it can contribute to their personal fulfillment.

The educational process in vocational and higher education institutions is largely divorced from the needs of the labor market and the economy as a whole. Today we have the determination to change that.

The education reform envisages a systemic transformation of the Ukraine's education sector into an innovative environment in which students develop skills to independently acquire and apply knowledge to real world situations, while scientists have opportunities and resources to conduct research and directly influence the country's socio-economic situation.

▲ Main goals

- nurturing new, high-quality education at all levels, from elementary schools to higher education institutions
- introducing new standards of education allowing to shape 21st Century Skills
- improving material and the technical base of educational and scientific institutions
- attracting the best teaching and scientific staff
- building a fair and transparent system of funding in education and science sector
- improving the occupational prestige of the teaching and scientific professions.





▲ Achievements in 2017

The education reform launched with the adoption of the Law of Ukraine «On Education» No. 2145-VIII on September 5, 2017 implies:

- Introduction of competence-based education with high quality contemporary content
- Equal access to education for all
- New incentives for teachers' continuous professional development
- Enhanced financial transparency and accountability of educational institutions to society, multi-channel financing opportunities
- Modern system of education management
- Putting academic integrity at the core of education

Implementation of New Ukrainian School concept has started with primary education and continues till 2029 on further levels of secondary education.

Increased coverage of pupils with special educational needs in inclusive classes of general secondary education institutions

Academic year



▲ Public perception

Enhanced trust and support for education reform by the society

Increase in the percentage of Ukrainian citizens who approve the Concept of the New Ukrainian School:

→ 2016 - 12.5%

Research of the Institute of Social and Political Psychology of the NASU

→ 2017 - 37%**

Research of GfK Ukraine for the project “Critical Thinking against Populism” managed by Center of Economic Strategy

Vox populi: 55.4% of those who were informed about the education reform supported it**

Ranking of Ukraine by the Global Human Capital Index is on a steady uptick during 2015-2017*

→ **2015** 31 (out of 124 countries)

→ **2016** 26 (out of 130 countries)

→ **2017** 24 (out of 130 countries)

* The Global Human Capital Index is assessed by World Economic Forum as the degree to which countries have optimized their human capital for the benefit of their economies and of individuals' themselves.

** Research of GfK Ukraine for the project “Critical Thinking against Populism” managed by Center of Economic Strategy

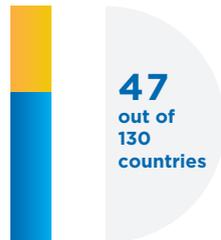


Education Reform



→ Ranking of Ukraine by the quality of education system in 2017*

Business leader's perceptions on the degree to which the education system in their country of residence trains students to the skill levels required in a competitive economy.



→ Ranking of Ukraine by the quality of primary schools in 2017*

Business leader's perceptions on the level of excellence of primary schools in their country of residence.



→ Ranking of Ukraine by the extent of training in 2017*

Business leader's perception about the degree to which companies in the country invest in training and employee development.



→ Government expenditure on education in 2016**

*Source: World Economic Forum, Executive Opinion Survey.

**Source: World Bank, World Development Indicators.

▲ Impact

The impact of the education reform will take decades to play out. Expected long-term achievements include:

- The New Ukrainian School concept implemented across the secondary education sector: School leavers gain competencies and value orientation required for self-fulfillment of today's generation and the development of Ukraine
- Modernized vocational education and training: A competitive labor force that meets the needs of Ukraine's economy and labor market
- Improved quality of higher education: Graduates of higher education institutions meet the needs of the contemporary labor market and are able to meet the competition in international employment markets
- A novel system for the management and funding of science set up: National science contributing to Ukraine's technological advancement and socio-economic development
- The principles of decentralization, deregulation, institutional, academic and financial autonomy of education institutions, and accountability are observed in the system of education management and funding.



▲ About the reform

Healthcare reform affects everyone. Its key objective is to enable equal access of Ukrainian citizens to good quality healthcare services and to work towards patient-centred healthcare.

Ukraine's healthcare reform will improve quality of healthcare services and ensure the transparency of healthcare costs. Ukraine's total healthcare expenditures, both government- and patient-financed, are near the EU average.

However, in contrast to European countries, in Ukraine patients' out-of-pocket contributions make up more than a half of the total healthcare budget.

Henceforth, free healthcare stays only on a paper. Healthcare reform brings benefits both to patients, who will receive services without queues and bribes, and to doctors, who will work professionally and ongoingly improve their skills.

Inefficient use of healthcare funding only contributes to the problem. Despite that Ukrainians' annually contribute around UAH 3 billion in healthcare through taxes, 640,000 Ukrainian families suffer financial hardship due to illness and have to pay for expensive medical treatment out of their own pocket.

▲ Main goals

- Introducing the State Guaranteed Benefits Package
- Setting up a national insurer — National Health Service of Ukraine
- Introducing the “money-follows-the-patient” funding model
- Providing hospital autonomy
- Introducing an e-Health system
- “Affordable Medicines” Program
- Simple and transparent medicines procurement procedures
- Creating an enabling environment for the exercise of healthcare powers by local governments.



Health Care Reform



▲ Achievements in 2017

- Law of Ukraine on financial guarantees of healthcare services passed
- Law of Ukraine On Improving the Availability of Medical Services in Rural Areas passed
- Fundamentals for setting up the National Health Service of Ukraine as a designated national procurer of medical services were laid
- A program for reimbursement of pharmaceuticals through pharmacies deployed
- Public procurement of pharmaceuticals through UNICEF, UNDP and Crown Agents gained traction
- 13 new reperfusion centers prepared for launch
- The first Okhmatdit launch complex awarded a certificate of readiness
- Basic functions of the eHealth system combining records of healthcare facilities, doctors and patients launched

- “Affordable Medicines” program results:

- 1) 6,744 drug stores covered by the program (out of 20,000 existing drug stores)
- 2) In April-November 2017 15.9 million recipes were issued, 12 million recipes were reimbursed for UAH 500.2 million (71%).
- 3) Two positions added to the list of medicines under the program following the Government’s resolution of December 27, 2017. By its resolution, the Government provided for electronic recipe pilot use starting Q1 2018.

▲ Impact

- Foundations of Ukraine’s new healthcare financing system laid
- The reimbursement program helped to increase the availability of medicines for major chronic diseases and reduce out-of-pocket expenses
- Up to 70% procurement increase through the saving on international procurements across individual programs
- The expected impact of the health financing reform is the reduction of out-of-pocket payments (OPP), which currently constitutes 52% of total health expenditures. The share of OPP is expected to drop by at least 20% after 10 years of full-scale implementation (by 2030)
- With eHealth system in place, the time doctors spend on paperwork will be cut twice within three years (by 2021) (from the 20-40% they currently spend).

▲ Public perception

- 89% of citizens support the need for radical healthcare reform*
- 91% of citizens support the reimbursement program**
- 69% of citizens support the introduction of national solidarity insurance**
- 81% of citizens support the «Money Follows the Patient» model**
- 72% of citizens support all ten key components of reform**

* SOGIS, oct 2017

** Rating group, aug 2017



Public Administration Reform



▲ About the reform

Effective governance is essential for efficient government operations and is a precondition for achieving broader government objectives of economic growth and human development.

Good and efficient governance at the national level, combined with empowered local government institutions, will also contribute to better service delivery to citizens and sustainable public funding.

PAR is implemented according to the comprehensive PAR Strategy of Ukraine 2016-2020.

Restructuring line ministries, strengthening the role of the Cabinet of Ministers of Ukraine in providing strategic guidance for development of a professional and ethical civil service that is properly skilled to deliver reform and change, is central to this reform agenda.

PAR's main objective is to develop an effective system of public administration, capable of developing and implementing coherent state policy, focused on social sustainable development and quality public services delivery.

▲ Main goals

- improvement of the policy development and coordination mechanisms
- updating strategic planning, monitoring and evaluation approach
- optimization of functions, organizational structures and procedures within public administration
- introduction of modern human resources management practices in civil service
- Implementation of the cutting-edge E-governance tools and solutions.

▲ Public perception

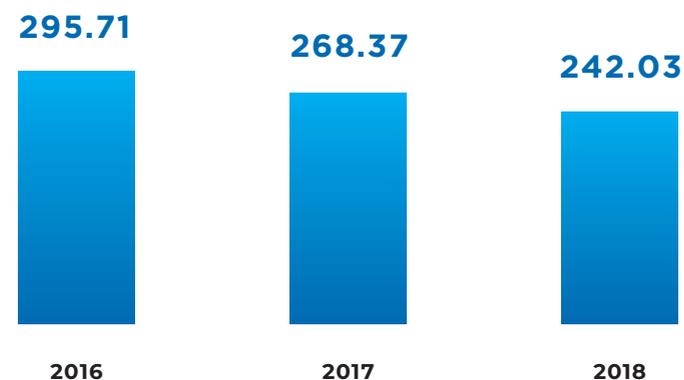
- 50% of respondents indicated that they would work as civil servants for the idea of service to society, 20% that they are ready to work for the civil service as it provides a stable workplace*
- More than half of respondents believe that the civil service today's top priorities include creating jobs, ensuring economic growth, citizens' security and the sovereignty of the state.
- The majority of respondents who had to apply to the Pension Fund, the State Employment Service, Migration and Fiscal Services, indicated that they

were fully or rather satisfied with the quality of service provided by these institutions. Half of respondents answered that they were satisfied with the quality of service at the Ministry of Justice and the State Labor Service.

→ The majority of respondents indicated that corruption, bureaucracy and formalism are the major problems of the civil service. About half of respondents believe that the main concerns that exists in the civil service is irresponsibility of civil servants (48%) and poor performance (47%).

Source: TNS survey for National reforms council, February 2017

Number of civil servants, thousands of employees





▲ Achievements in 2017

→ In 10 pilot ministries, 2 state agencies and the Secretariat of the Cabinet of Ministers 50 new policy development and strategic planning directorates with 821 new reform staff positions of civil servants (RSP) established

→ “Government as a competitive employer” principles were introduced for RSP recruitment: requirements for reforms staff positions were strengthened, total remuneration level unified and increased, and recruitment procedures significantly updated to make all current vacancies available at www.career.gov.ua vacancy portal where candidates can submit a job application online:

- Total candidates applied – 13 500
- Average candidates per vacancy – 33
- Maximum candidates per vacancy – 84

→ Comprehensive unified HRM Information system concept was approved by the Government, its implementation should start in 2018 with the support from EU and World Bank

→ Online monitoring IT tools implemented for monitoring of Government decisions and plans

→ The interoperability system for the state registers (TREMBITA) launched

and first state registers integrated

Implementation of electronic document management systems is well underway with more than 80% of correspondence between the CEB and the regional state administrations (RSA) taking place in electronic form

→ Ukrainian system of online seized property auctions CETAM became the first in the world to switch over to using blockchain to protect data

→ 746 Centers for Delivery of Administrative Services (CDAS) were set up as at year-end 2017 (+64 new CDAS). 71 CDAS already operate within amalgamated territorial communities, including +50 new centers for 2017

→ The Government created a single open government data web-portal – data.gov.ua – designed to provide access to public information in the form of open data: 2017 saw more than 16,000 sets of open data placed and more than 1,200 new information administrators registered

→ Concept of e-Government development prepared, which includes main elements of electronic documentation system, implementation of system of interoperability, e-services and open data modernization portal

→ 35 electronic services were implemented:

- in the field of registration services: 9 services, including state registration of a sole proprietorship, with more than 4,000 sole proprietors registered and more than 1,000 deregistered online;

- in the social sphere: 5 services, including childbirth assistance, with more than 6,000 families receiving such assistance online;

- in the construction sector: 14 services, including announcements of the commencement of preparatory work, with more than 3,000 works commenced and more than 500 objects put into operation online.

→ The single portal of the Cabinet of Ministers of Ukraine as well as information on administrative services and electronic services updated <https://www.kmu.gov.ua/ua/services>

International Rankings

→ Transparency of policy making WEG GCI: increased by 34 positions from 99 in 2016 to 65 in 2017 rank.

According to E-government international ratings, significant progress has been made over the past two years:

→ 24th rank (+ 30 points) in the Global Open Data Index 2017

→ 32nd rank (+ 45 points) in the E-Participation Index*

→ 62nd rank (+ 25 positions) in E-Government Development Index*

*UN E-Government Survey 2016



Privatization & SOE Reform



▲ About the reform

The Government is Ukraine's largest asset holder. The need for reform has been long awaited, as this sector of the Ukrainian economy has remained largely intact since 1991. Lack of reporting and operational transparency, poor financial and operational performance and ill-suited corporate governance of state-owned enterprises, to name but a few, are the issues Ukraine has to address by bringing about fundamental changes.

The reform's primary objective is to ensure that assets are effectively managed to the benefit of Ukrainian people as their main holder. The Government must act as a professional and responsible owner of enterprises and concentrate on adding value to their assets.

There are more than 80 governing bodies in Ukraine that manage public property and state-owned enterprises. These public property governing bodies are responsible for more than 3,500 enterprises of different legal forms that mostly conduct no business operations. The largest share of these enterprises operate at a loss and present potential fiscal risks. Poor-quality control mechanisms and lack of transparency make the operations of state-owned enterprises a potential source of corruption risk and financial losses.

The ultimate goal of the reform is to sell the state-owned enterprises to private investors, with the exception of strategic ones, to set up corporate governance in accordance to the OECD principles at the strategic enterprises, to improve the performance of companies operating in the public sector of economy.

▲ Main goals

- Strengthening transparency and oversight
- Improving corporate governance
- Setting clear business objectives
- Splitting the commercial and non-commercial functions
- Implementing the ownership policy
- Introduction of global best practices in asset sales



Privatization & SOE Reform

▲ Achievements in 2017

Privatization

→ **The separation of the SOEs into groups for further action “trriage” was completed, approved by the CMU and officially published**

The resolution on “trriage” allocates the SOEs into following groups: located on occupied territory, recommended for concession, for liquidation, privatization, as well as preserved in state ownership. The public disclosure of “trriage” will allow reducing the list of enterprises banned for privatization.

→ **The list of large-scale enterprises and plan with timeline for 2018 of large-scale privatization was developed and approved by the SPFU**

Several oblenergos minority stakes were privatized. Large SOEs including Odessa Port Plant, Centrenergo and oblenergos with majority shares are being prepared for privatization in 2018. Number of SOEs managed by state authorities will be decreased considerably through the privatization process to preserve only strategic ones.

→ **The pilot “ProZorro.Sale” project launching small-scale privatization through e-auctions was approved and started**

The project implementation will allow for the efficient and transparent sale of smaller companies and property of SOEs using online trade platform “ProZorro.Sale”.

SOE reform

→ **New law on corporate governance developed, approved by the CMU and introduced to the Parliament**

New corporate governance legislation creates a level playing field for SOEs and private enterprises, identifying the instances of created discrimination between SOEs and private enterprises, and includes proposals to remove them as well as solves political issues of SOEs, ownership rights of SOEs, dividend policy for SOEs and their subsidiaries, approval of SOEs' financial plans.

→ **The Supervisory Board of NJSC Naftogaz with the majority of independent directors was re-appointed**

Supervisory boards for Ukrzaliznytsya, Ukrposhta and Ukrenergo are in process of selection. Ukrposhta, Ukrenergo and Energoatom are undergoing corporatization.

→ **SOEs started using ProZorro.Sale platform for non-core asset sales and for lease auctions**

Leasing itself is a big part of Privatization and SEO Reform. Post offices of Ukrposhta as well as railway stations and railway cars of Ukrzaliznytsia are only the few examples of assets to be leased on ProZorro.Sale.

▲ Impact

The reform's ultimate goal is to minimize political interference in the corporate performance of state-owned enterprises thereby reducing state intervention in their matters, foster competition in relevant sectors (which would have a positive effect on consumer well-being) and shape the competitive edge of Ukraine's economy, and increase revenues from the sale of such enterprises/assets and taxes to be paid by eventually viable enterprises remaining in state ownership.

The transfer of the asset management from the Government to the board of hired managers will raise the effectiveness of the SOEs to the market principles. SOEs, that will save status quo after the corporatization and privatization process, will have the same playing field as private enterprises without any discrimination.

▲ Public perception

→ 12.4% - positive attitude regarding Privatization reform

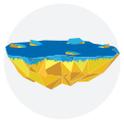
→ 49.9% - negative

→ 12.0% - indifference

→ 25.7% - no answer*

Society is hardly informed about Privatization and details of reform. It is the least known reform among other reform priorities.

* According to Razumkov Centre survey



▲ About the reform

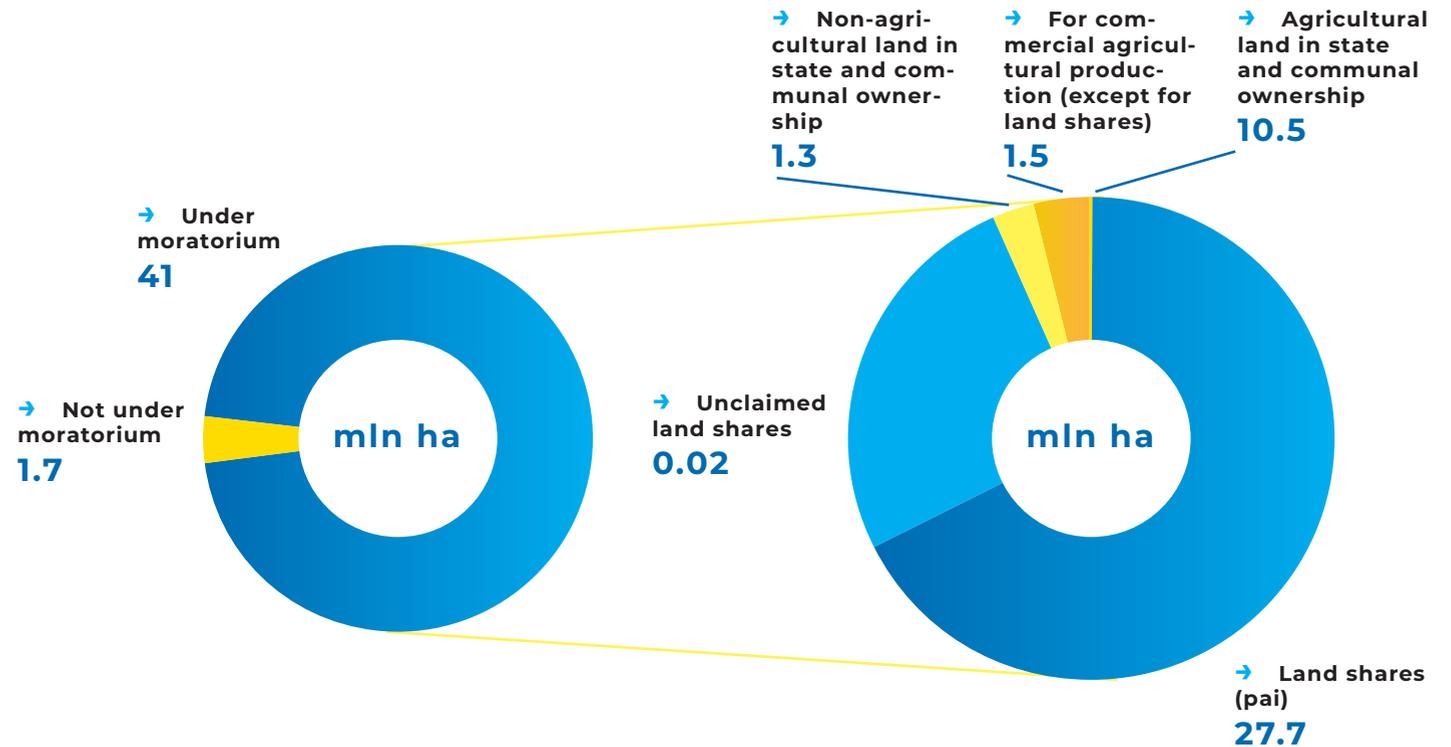
Land is one of the cornerstones of social life. The state of land affairs not only determines the development of farming sector and rural areas, but also determines legal forms of agricultural enterprises. The ultimate goal of the land reform is to create a sustainable middle-class in rural area.

▲ Main goals

- Establishment of rules for agricultural land turnover
- Establishment of new financial support mechanisms
- Further development and fulfillment of the State Land Cadastre
- Launching the land market based on a model acceptable to citizens and discussed at a national level
- Improving the regulatory framework for government control over land use and protection
- Building up and aligning the State Land Cadastre's databases.

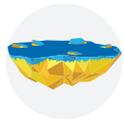
In December 2017 Ukraine's Parliament voted to extend the moratorium through to January 1, 2019 and once again restricted the rights of landowners to freely dispose of their property.

Distribution of agricultural land in Ukraine



The scale of moratorium on agricultural land sales impresses. It was introduced as a temporary measure in 2001, and it exists now. Out of more than 42 mln ha of agricultural land (or 70% of Ukraine's territory), about 41 mln ha or 96% of all agricultural land in Ukraine is under moratorium. 68% of land that is under moratorium is land shares (pays) in private ownership of 6.9 mln people or 16.2% of Ukraine's population. Majority of them lives in rural areas.

* Source: Picture and text VoxUkraine article "Beyond lifting the Moratorium: Preconditions for success" MAY 31, 2017 <https://voxukraine.org/en/beyond-lifting-the-moratorium-preconditions-for-success>



Land market reform

▲ Achievements in 2017

- The Government passed a number of resolutions on land use monitoring and maintenance of an updated blockchain-based State Land Cadastre.
- New electronic service for online registration of agricultural land lease agreements launched.
- New online service for registration of land plots launched

▲ Impact

The new State Land Cadastre meets international standards and best practices. Reduced corruption and registration time resulted in a two-thirds cut in land registration cost.

▲ Public perception

Land market reform approval rate by the public aware of the reform*:

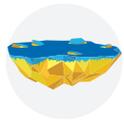
- 32.4% - approve
- 64.6% - disapprove
- 3% - not sure.

Support of possible options for opening up a land market:

- 33% approval - restricted opening
- 27% approval - phased-in opening
- 18% approval - Government purchasing land from plot holders using taxpayer money.

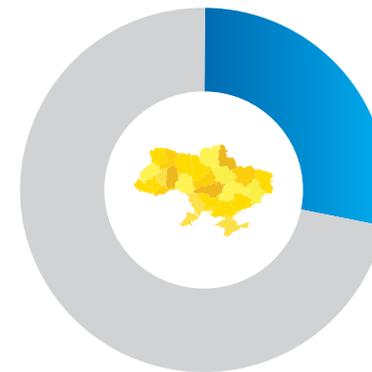
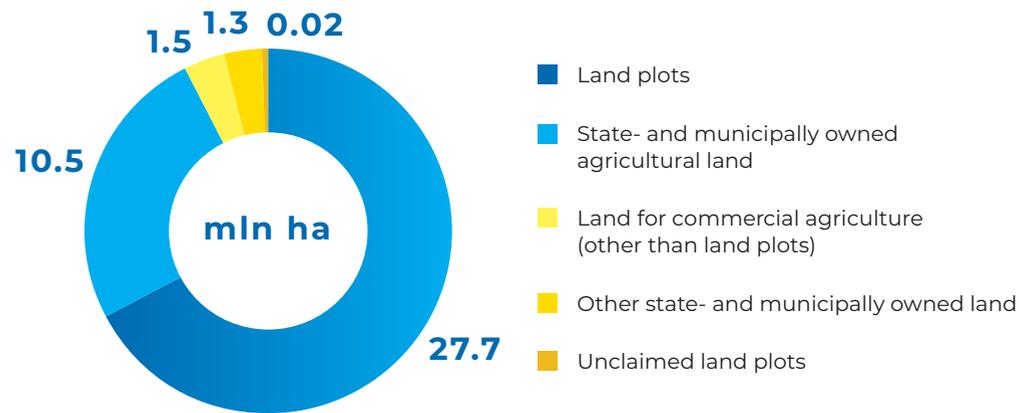
*Source: Research of GfK Ukraine for the project "Critical Thinking against Populism" managed by Center of Economic Strategy





Land market reform

Structure of owners of land subject to the moratorium



Ukraine's land reform*



25 years
land reform underway



27 mln ha
plotted land



6.9 mln land plot owners
of which:



15 years
moratorium in effect



42.7 mln ha
total agricultural land

→ 1.6 mln adults aged 70 and over

→ 1.4 mln deceased, of which

→ 0.5 mln had no successor



8 times
moratorium extended



96%
are subject to moratorium

Within the moratorium's framework:



Allowed

- Land plot lease
- Exchange for other same value land plot
- Bequest of land



Prohibited

- Sell, pledged or change the designated use
- Contribute to equity capital

* Agribusiness of Ukraine 2016/2017 infographic handbook businessviews.com.ua

Reforms Priorities for 2018



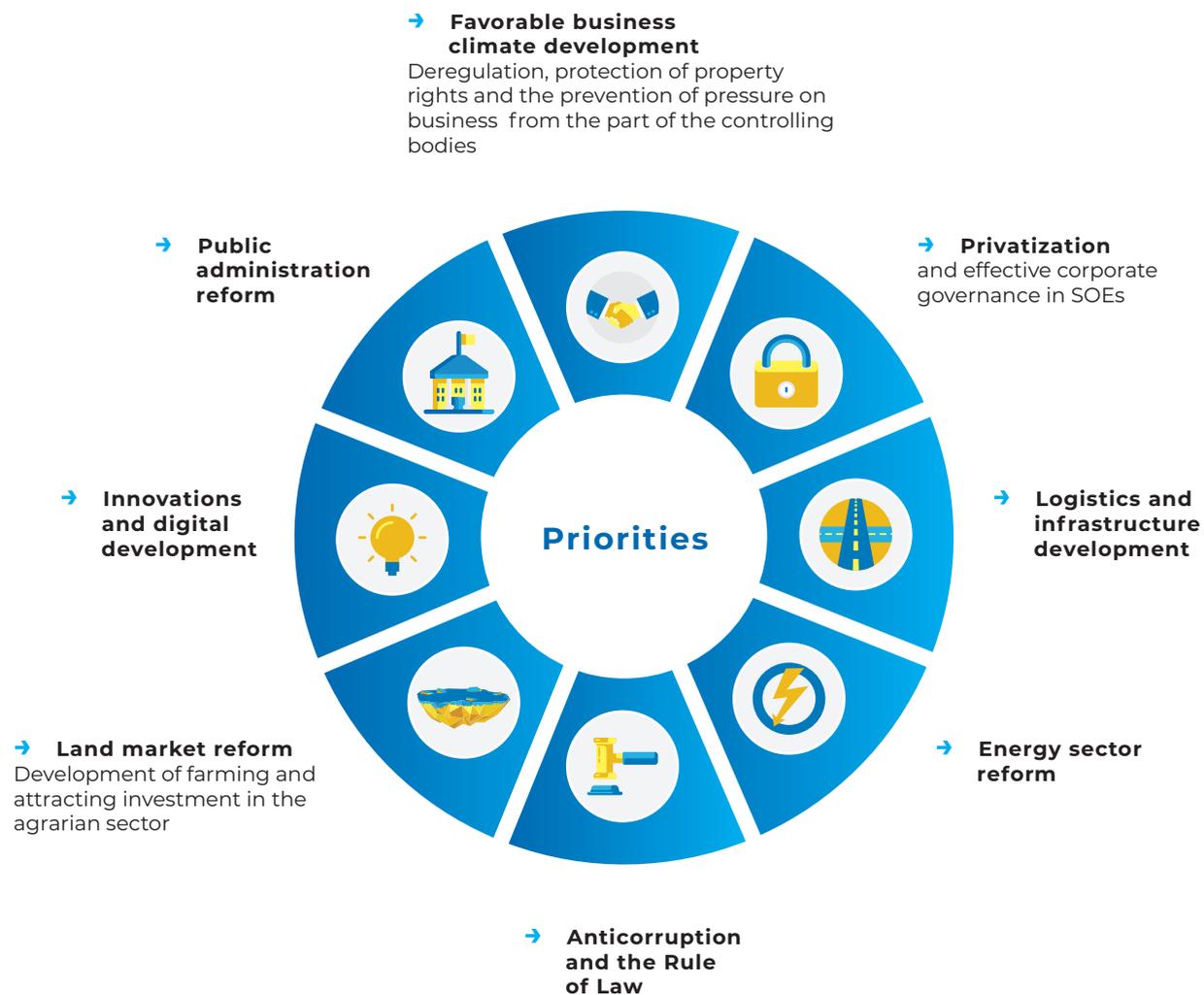
Reform priorities for 2018 at glance

▲ Goal

to ensure sustainable economic growth 5-7% GDP

▲ Key tasks

- Move from stabilization to sustainable economic growth
- Eliminate the institutional foundations of corruption
- Continue the implementation of previously initiated reforms





Privatization & SOE Reform

▲ Plan for 2018

- New law “On privatization of state property” was adopted on January 18, 2018
- The updated version of the “trialog” is expected to be released in 2018
- According to the SPFU plan for 2018 Odessky Port plant is expected to be sold in spring, Centrenergo – in summer and oblenergos with majority shares – in autumn
- New law on corporate governance is expected to be voted in spring 2018, in addition to this the state ownership policy is expected to be developed and approved in 2018
- The Nomination Committee is going to be relaunched in 1Q 2018 after more than 1-year break, and the qualifying criteria for choosing service providers for the selection of management and members of supervisory boards of SOEs is expected to be developed and approved in 2018

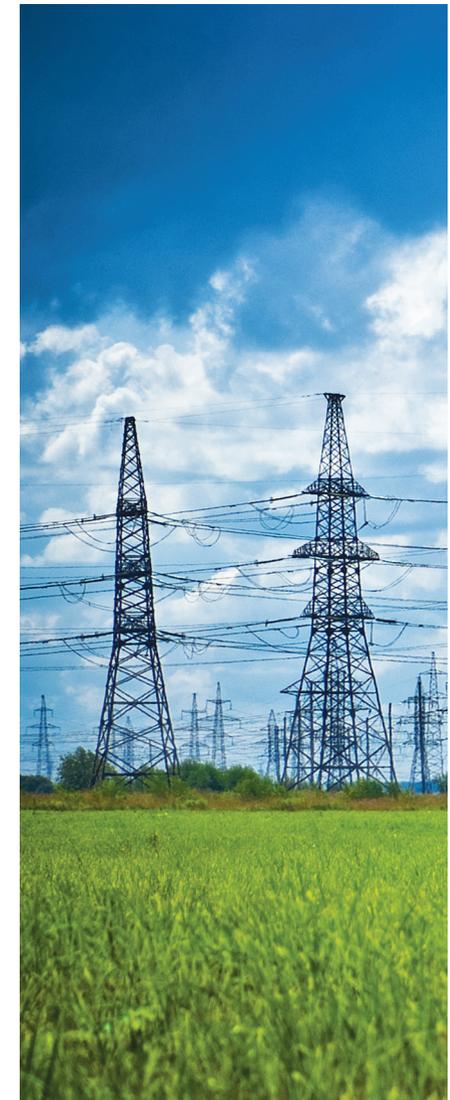
KPIs:

- Large-scale privatization: sale of 8 large SOEs including Odessky Port Plant, Centrenergo, etc. and oblenergos with majority shares
- State Auction Platform ProZorro.Sale that has already proved its efficiency in selling bank NLP's is taking over the small privatization process. Around 1000 SOE's with assets up to 250 mln UAH are expected to be sold through transparent state e-auctions
- Selection and nomination of management and members of supervisory boards of SOEs: 5 CEOs and 5 supervisory boards in major SOEs.

▲ Impact

Privatization will allow a more efficient use of state funds and their reallocation for particular needs; prevent state support of unprofitable companies that are to be liquidated.

The reform will contribute to the minimization of corruption risks in state property and the increase in funds flow from privatization to the state budget.





Business climate improvement



▲ About the reform

The level of entrepreneurial activity is robustly associated with an increase in economic growth, production efficiency, GDP structure and quality, employment rate, social policy, and the competitive advantage of a nation in the global arena.

Deregulation policy is one of the crucial components of practical implementation of Ukraine's new model of development and an integral part of European integration. It is an indispensable tool designed to improve the business climate (and eventually investment climate) in Ukraine, a driver of job creation and higher quality of life. A solid and sustainable deregulation policy is an important prerequisite for the introduction of a European business model in Ukraine and is associated with a set of measures to modernize the registration system, simplify the licensing and permit system, alleviate auditing and inspections, and improve tax administration.

▲ Plan for 2018

→ Launch of the SME web-portal to replace existing MEDT web-site to improve SMEs access to needed information and guidance.

→ Business Support Centers deployment program to be prepared for the Centers of Administrative Services to reach broadest SME audience with respect to regional and local needs.

→ Partial Credit Guarantee schemes for SMEs to be piloted with the German-Ukrainian Fund to enhance SMEs access to finance.

→ Elaboration of the draft law to improve SME access to finance by removing unnecessary barriers to allocate budget funds envisaged to provide financial support to SMEs.

→ Developing the Action Plan of the SME Development Strategy 2020 implementation.

→ Setting up SME Support Office as an advisory body to MEDT. It will enhance MEDT capacity to implement SME development policy priority actions with a focus on SME regional infrastructure and support programs for dedicated SME groups.

→ Adopt draft law on Business Ombudsman No 4591 to enhance business protection by an unbiased third party institution that helps business entities protect their right to entrepreneurial activity will improve transparency in government and business operations.

→ Adopt draft law No 3132-д on bankruptcy drafted with contributions from the World Bank, Independent Bank Association of Ukraine and the expert community: 1) provides for the initiation of bankruptcy proceedings at an early stage in the insolvency, when debtor is not financially distressed; 2) protects the rights of creditors that for some reason or other have failed to correctly lay their claims; 3) cancels the right of secure creditors to block resolution on rehabilitation; 4) simplifies and adds transparency to foreclosure auction process.

→ Adopt draft laws No 6540 (framework law), 6541, 6542, 6543 aimed at improvement of business environment in the areas marked by the World Bank Doing Business Index.

→ Draft Law No. 4666 On Limited Liability Companies and Additional Liability Companies sets forth the cutting-edge operating procedures for about 500,000 enterprises incorporated as an LLC.

→ Draft Law On Currency provides for liberalization of foreign exchange control, streamlined outbound investment procedure (partial abolishment of licenses), and removal of sanctions imposed for breach of foreign exchange regulations.

→ Setting up Financial Investigation Service as a single agency for combating economic crime; moving away from force-based to analytical methods in financial investigation.

→ Easing conditions for the launch of new domestic projects in oil and gas industry (3096-д)

→ Developing the Action Plan of the State Supervision and Control Reform Strategy to implement a risk-based and service approach by regulatory bodies.

→ Further deregulation of the payment transactions registers to enable new smart and more affordable solutions.

→ Addressing problems related to mistreatment of businesses, in particular foreign investors and foreign-owned companies, by law enforcement agencies. Implementing Draft Law No. 7275 and the amendments it brings to enable business entities to protect their rights and legitimate interests, and improve protection during the course of pre-trial criminal procedure.

→ Implementing the State Supervision (Control) Reform Strategy

→ Extending the moratorium on business inspections

→ Introducing a risk-based approach to state supervision (control) and reorienting regulatory agencies towards the prevention of business law violations

→ Further deregulation of the payment transactions registers to enable new smart and more affordable solutions.



Business climate improvement

▲ Impact

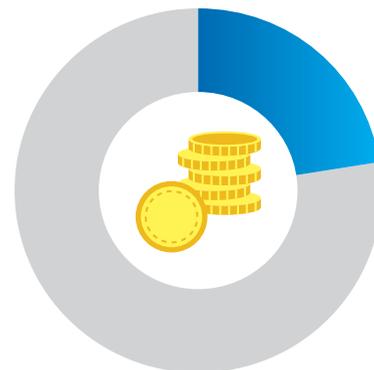
The goals of 2018 are the transformation of small and medium enterprises into the source of new jobs and important links in all production chains, a predictable and effective regulatory policy and regulatory system that does not interfere with the development of small and medium enterprises:

- Improvement in the ease of doing business as a prerequisite to enabling a positive investment climate and fueling the economy to at least 3% GDP in 2018
- Improvement of Ukraine's position in the Doing Business ranking to be ranked among the top 50 countries by streamlining customs and tax procedures and strengthening investor and creditor rights
- Reduction in the number of inspections and improvement of their efficiency; transition from a "punitive" to advisory system of state supervision
- Harmonization of Ukraine's legislation with EU laws
- When adjusting the regulation load for 100 hryvnias, the state should cancel the regulation by 200 hryvnias
- Increase the share of small and medium-sized enterprises in value added (in terms of production costs) in 2017 - 60%, in 2018 - to 65%, in 2020 - to 70%

Place in the Doing Business

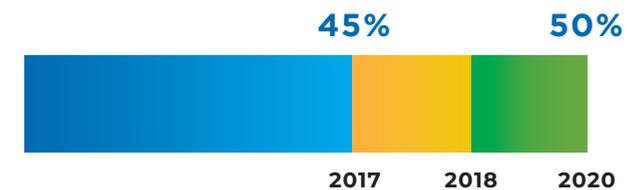


The number of employed in small and medium-sized enterprises, million people



23% by 2020
The share of gross fixed capital accumulation in gross domestic product

The share of enterprises operating in markets with a competitive structure, % of the total output (sales)





Logistics and infrastructure development



▲ About the reform

The goal of reform is to create Ukraine's efficient transport industry integrated into the global transportation system, meet the transportation needs of people and improve business environment to sharpen the competitive edge and efficiency of the national economy.



▲ Plan for 2018

- Increasing transit traffic by facilitating the development of strategic transit corridors, improving the quality of seaport services and related rail freight services, ensuring more effective border crossing procedures, streamlining the transit statistics system and monitoring potential, liberalizing transit freight traffic regulations
- Continuing with Ukraine's integration into the Trans-European Transport Network (TEN-T), in particular the Rhine-Danube Corridor and the Mediterranean Corridor
- Ramping up the transit of containers and other cargoes through Ukraine within the framework of development of EU-China (New Silk Road), EU-Iran/India, EU-Turkey and others transport routes
- Developing multimodal and intermodal services, in particular across the transport industry in road, rail and sea
- Conducting a comprehensive review of the transport pricing system and the use of rail, river, sea and road transport infrastructure
- Shaping a new model of the rail freight market. Investing in rail infrastructure and transportation management system to speed up the freight service and increase the rolling stock turnover
- Expanding rail electrification to save diesel fuel and improve the environmental situation
- Continuing with the decentralization of local road networks and road management and maintenance systems.
- Improving existing agencies and setting up new departments and tools, including those at national level, to control the quality of road construction and rehabilitation
- Developing and implementing a national vehicle weight control management plan
- Taking measures to expand the fleet of electric vehicles and put in place the associated charging and maintenance infrastructure.
- Developing river and portside infrastructure. Technical development of ports mindful of the need to increase depth and length of berths
- Removing logistics bottlenecks, which exist in ports, railway transportation, inland waterways
- River transportation capacity increase
- Ensuring successful passing of the IMO audit.

▲ Impact

- Facilitating economic growth, Ukrainian exports and development of domestic production and trade
- Strengthening Ukraine's transport potential and improving efficiency and competitiveness of the transport sector
- Ukraine's integration into European and global transport networks
- Meeting the transportation needs of the public.



▲ About the reform

Reforming the energy sector is one of the focal areas for ensuring the stabilization and sustainable development of the national economy.

Today, Ukraine's top priorities in the energy sector include strengthening its energy independence through the diversification of energy supply, modernization of the domestic fuel and energy sector, the introduction of innovative energy extraction/production technologies, the increasing and intensification of domestic production of natural gas, crude oil and coal, and the transformation of the country's energy mix towards a low carbon energy with a significant increase in the use of alternative energy sources. In addition, other priority strategic areas include the implementation of energy efficiency and energy conservation measures, the integration of the national energy systems into the European energy networks (ENTSO-E / ENTSO-G), and the development of an institutional environment for the establishment and efficient functioning of energy markets in compliance with the provisions of the Third Energy Package and other relevant EU directives. After full-scale integration of Ukraine into the system of international economic cooperation, the domestic fuel and energy sector will operate within the framework of a community with the EU energy market, with a significant expansion of activities and capacity of national companies in the global energy markets that will contribute to the formation of a reliable system for ensuring Ukraine's energy security.

▲ Plan for 2018

Enhancing the energy independence

- Implementing the Action Plan for the Implementation of Gas Production Industry Development Concept with a view to increase the domestic production of natural gas
- Reviewing the contractual relations with PJSC "Gazprom" in accordance with the decisions of Stockholm Arbitration Court and / or with support of the European Union
- Ensuring the technical re-equipment of thermal power plants' units with a view to switching from anthracite coal to domestically produced gas coal
- Continuing with implementing the measures for the diversification of nuclear fuel supplies for Ukrainian nuclear power plants

Introducing the principles of the Third Energy Package

- Adopting the laws and regulations to ensure the implementation of the Law On Electricity Market and the Law On Natural Gas Market

- Legislatively regulating the issue of a legal form of property rights of electricity / natural gas transmission system operators with regard to the system's facilities
- Reallocating the public authorities' powers within the state property management system with a view to ensure unbundling the transmission system operators
- Corporatisation of SOE "NPC Ukrenergo" with the introduction of a modern management system in accordance with the OECD Principles of Corporate Governance
- Implementing the NJSC "Naftogaz of Ukraine" Restructuring Plan with a view to ensuring the unbundling of natural gas transportation and storage activities
- Approving and implementing an action plan for Ukraine's integration into the European network ENTSO-E





Energy reform

Coal industry reform

→ Implementing Coal Industry Reform and Development Concept till 2020, including:

- Setting up a legal framework for the introduction of the coal market including exchange trading in coal products and reporting
- Adopting a program for social rehabilitation of the regions faced with coal mines closures using European best practices.

Energy efficiency and energy conservation

→ Launching the Energy Efficiency Fund and adopting the regulatory framework for the implementation of the Law on Energy Efficiency Fund

→ Providing a legislative framework for a new national policy model for energy efficiency through the adoption of the Law on Energy Efficiency

→ Setting the 2020 national energy efficiency target as required by Directive 2012/27/EU.

Improving the efficiency of heat energy generation and supply

→ Approving an Action Plan for National Heat Supply Policy Implementation Concept

→ Approving a Procedure for the Provision of Interim Support to the Certain Producers Generating Combined Heat and Power at CHPPs

→ Developing coherent municipal heat supply system development plans and regional heat and power utility modernization programs

→ Phased introduction of targeted monetization of benefits and subsidies to the population for services and energy resources consumed

KPIs for 2018:



23.5 bln m³
domestic gas production



1.5 bln m³ / year
reduction in natural gas consumption



19.2 bln m³
proven gas reserves



5 bln annual cut
to public utility subsidies



9%
renewable energy in gross final energy consumption



>75 000
new jobs
created

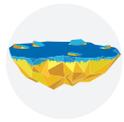
The launch of Energy Efficiency Fund will have a multiplier effect on national economy. The Energy Efficiency Fund is expected to provide for:

▲ Impact

→ Domestic gas production increase, reduction in the consumption of anthracite coal, and an increased share of renewable energy in gross final energy consumption will help reinforce Ukraine's energy independence and energy security

→ Fully-fledged electricity and natural gas markets as a result of the Third Energy Package implementation will provide for free competition across all market segments, proper consumer protection (the right to freely choose suppliers) and energy supply security, as well as the true prospect of integration into the European energy market. This will help the energy sector attract investments and strengthen the nation's energy independence.

→ The coal industry reform will work towards qualitative optimization of the coal mining asset structure, drastic reduction in non-production costs, cost reduction in coal mining and better investment appeal of coal mines – an important prerequisite for their continued successful privatization. Annual cost-saving potential is estimated at UAH 1.5 billion.



Land market reform

▲ About the reform

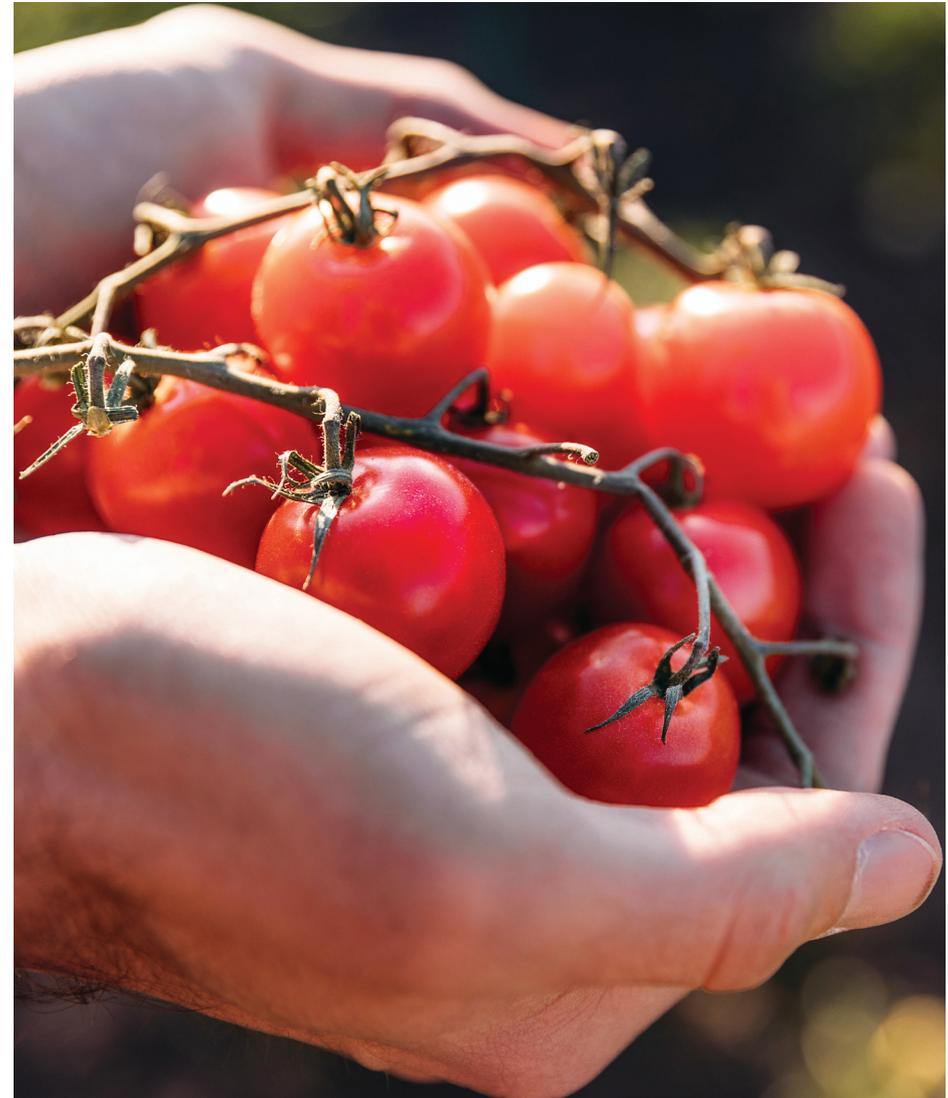
One of the key factors that affect the business of rural SMEs is a moratorium on agricultural land sales.

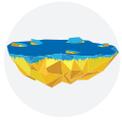
A ban on alienation and change of designated use of agricultural land restricts the rights of 6.9 million land owners currently holding a total of 27.6 million hectares of agricultural land.

The current moratorium on agricultural land sales deprives a sizeable number of Ukrainian citizens the opportunity to exercise their constitutional right and put the brakes on agrarian market development.

▲ Plan for 2018

- Lifting the moratorium on sales of agricultural land of all types, whether state-, municipally or privately owned, as an indispensable element of land reform, and implementing a national agricultural land turnover model
- Allowing banks to own pledged land and sell such land at online auctions within one year of the acquisition of land title
- Financially backing agricultural land acquisition
- Selling and leasing state- and municipally owned land
- Alignment and harmonization of the State Land Cadastre and Register of Land Titles
- Improving the online exchange of the State Land Cadastre with other registries.



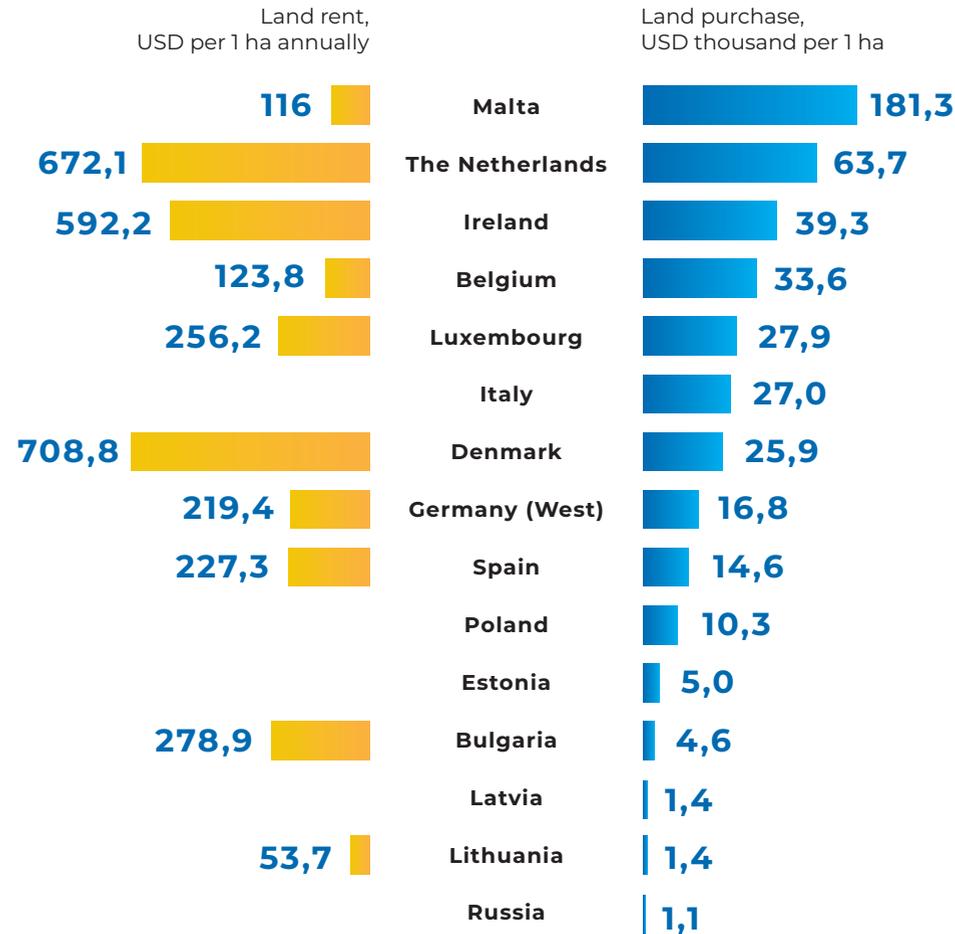


Land market reform

▲ Impact

- The World Bank estimates that opening up of the agricultural land market will help accelerate Ukraine's annual GDP growth by 1.5%, and attract global investors to further the nation's sustainable development
- Expected aggregate income from land sales and lease may reach USD 8 to 25 billion and USD 7 to 15 billion respectively
- The price of agricultural land according to adjusted regulatory monetary valuation may reach USD 1,130 to 2,755 per hectare
- Revenues from land transaction taxes (including taxes imposed on land ownership, sale and resale) are estimated at USD 3.5-6 billion for the next 10-year period

Cost of land rent and purchase comparison in different countries



In Ukraine land rent prices vary from USD 20 to USD 170 per 1 hectare annually

Reform will bring about the following economic benefits:

- SME development and a surge in rural business activities
- income growth and enhanced rural purchasing power
- banking sector facilitation
- capital optimization (general investment approach)
- added value and new employment opportunities
- increased agricultural productivity
- regional infrastructure development
- foreign investments into and reorientation of domestic investments towards high-tech farming
- transport and social infrastructure development in rural areas
- technological development.



▲ About the reform

Setting the stage for the sustainable growth of Ukrainian economy and its re-orientation towards a value-added production, development of Ukraine's innovation ecosystem and effective implementation of the innovation reform are highly correlated.

Reform involves a shift from supply-side innovation policy towards demand-side policy focused on maintaining business and investors demand for innovations.

This approach involves developing an effective business-oriented architecture of the Government's support to innovations, improving intellectual property and technology transfer system, providing innovative SMEs and startups with access to financing, creating an enabling environment for companies to invest in production innovations and entrepreneurial ecosystem for startups development.

▲ Plan for 2018

Shifting towards a business-driven policy of maintaining demand for innovations and improving the Government's innovation development architecture:

- strategic level: setting up an Innovation Development Council made up of representatives of innovative companies and chaired by the Prime Minister
- implementation level: setting up an Innovation Development Office based on the best practices of the innovation agencies from all around the world
- implementing the following innovative business support programs as part of the Innovation Development Office operation:
 - 1) Fostering innovation in established companies, especially SMEs
 - 2) Encouraging innovative startups
 - 3) Advocating, promoting and coordinating innovations at the national level
- Digitalization: implementation of the concept and action plan of Digital economy development of Ukraine

Innovation and digital ecosystem development

- Pilot projects to set up innovation parks, incubators and accelerators, centers of technology transfer
- Cluster development program and introduction of the EU smart specialisation approach
- Develop and start implementation of the national broadband plan
- Start of the implementation of the digital sectorial projects: e-education, e-health, infrastructures, ecology and ext.

Financial backing for innovative projects

- Setting up a National Startup Foundation to support innovative projects in the initial phase
- Affording access to international and European innovation support programs (Horizon 2020, COSME, etc.)
- Setting up a private-public partnership for national broadband plan

Improving the regulatory framework for innovation

- Enhancing intellectual property protection
- Providing a legal framework for new funding mechanisms for innovations (startup fund, angel investing, venture capital funds)
- Improving the regulatory framework for the operation of innovation infrastructure (technology parks, incubators, accelerators, clusters)
- Removing legislative barriers to fostering digital and fintech innovations.



Integration into global innovation ecosystem

- Ukraine's integration into global and EU innovation, intellectual property and digital development organizations
- Arranging knowledge and experience exchanges between Ukrainian and international research centers and innovation businesses
- Improving the national technology transfer system
- Facilitating integration into the EU Digital Single Market.

Building awareness of Ukraine's brand as a country of innovation at both national and global levels

- Setting up a communication platform under the Innovation Development Office
- Ensuring representation of Ukraine and its innovation projects at international events
- Putting in place a system to develop a culture of innovative entrepreneurship through training, thematic events and success stories

▲ Impact

- Development of the innovation ecosystem and national business-driven policy to maintain demand for innovation will bring about an increased number of innovative enterprises, reduce the gap between supply (R&D) and demand (businesses), help Ukraine increase the provision of value-added services and products and contribute to sustainable economic growth
- Having in place the innovation and startup financial support system and innovation infrastructure and cluster programs, as well as an enabling regulatory environment will boost share of innovative enterprises up to 35%, significantly increase number of startups, that choose Ukraine as a jurisdiction to incorporate, that will increase tax revenues and contribute to the nation's economic development
- Enhanced intellectual property right protection, Ukraine's positioning as an innovative country in the international arena and a well-developed culture of innovative entrepreneurship will attract more foreign and domestic investment in innovative production and high-tech manufacturing, Ukraine's innovation infrastructure development will lead to knowledge-intensive GDP growth and new employment opportunities for highly qualified professionals
- Increase % of individual and business that have access to fast broadband-enabled services and improving digital skills through e-government services.



Anticorruption and the Rule of Law



▲ About the reform

The overall aim of anti-corruption reform is to strengthen integrity and legal awareness of persons authorized to represent public authorities, local authorities and persons equated, and the public to minimize corruption, rebuild trust and confidence of the public, investors and international partners in all branches of Ukrainian Government.

To reduce the damage that corruption brings to the state budget and businesses.

▲ Plan for 2018

- Setting up the Anticorruption Court
- Supporting the operation of the State Bureau of Investigation (SBI)
- Completion of National Agency on Corruption Prevention (NAPC) Data Center setup
- Putting in place the system for arithmetic and logic control of declarations and the Unified State Register of Declarations of Persons Authorized to Represent Public Authorities and Local Governments Information and Telecommunication System's Software and Hardware Upgrades
- Implementing the electronic system of political party reporting and strengthening administrative liability for offences related to funding of political parties and election campaigns through the introduction of relevant bills
- Improving legislation to implement UNCAC and FATF requirements and best practices in searching and detecting assets that may be seized in criminal proceedings as well as instruments for enforced recovery of assets of criminal or illegal origin in favour of the state

- Setting up a Unified Register of Assets Seized in Criminal Proceedings and electronic data processing and control system
- Shifting from the provision of free legal aid to individuals towards strengthening legal awareness and opportunities of territorial communities
- Building a comprehensive information and analytics system to support the provision of free legal aid and implementing other cutting-edge technologies
- Setting up a Unified Register of Convicts and Detainees
- Adopting the regulatory framework necessary to implement Law of Ukraine On Electronic Fiduciary Services

▲ Impact

- Efficient use of the state funds and their reallocation for particular needs;
- Eliminating corruption risks in the operations of executive government agencies and state property, strengthening of the civil control over their activity
- Laying the foundations for transparent political party operations and their monitoring; controlling funding of political parties and election campaigns
- Strengthening the institutional infrastructure and the capacity of anti-corruption agencies for policy planning and implementation, and ensuring efficient operation of preventive anti-corruption bodies
- Making decisions on anti-corruption policy based on the analysis of reliable data on corruption and factors conducive thereto
- Improved Ukraine's ratings in international anti-corruption rankings
- Improved national image and increased international partners' confidence in Ukraine



▲ About the reform

Building the efficient public administration system in Ukraine which responds to citizens' needs and implements a coherent public policy focused on sustainable development and providing quality services to the citizens.

The reform is implemented according to the comprehensive PAR Strategy of Ukraine 2016-2020.

▲ Plan for 2018

Optimal structures with efficient procedures

- Finalization of the restructuring of the ministries
- Implementation of the modern practices and tools for policy development
- Update of the Government Rules of Procedures

Modern HRM practices on civil services

- Optimization of the selection procedures and further RSP recruitment
- Implementation of the modern HRM Information system and e-cabinet
- Introduction of result based performance assessment on civil service

E-government online tools

- Implementation of e-document system in 18 ministries to exchange and approve legal acts
- Further optimization of the 30 popular e-services with Mobile ID use
- Popularization of open data usage and ensure accuracy for more than 30000 data sets from 2000 authorities

▲ Impact

Effective governance is essential for the efficient running of the state and a pre-condition to achieve the broader government objectives of economic growth and human development, will also contribute to better service delivery for citizens and sustainable public finances.

The reform will increase the transparency and accountability of the public administration. Implementation of modern IT tools will also decrease operational costs and increase the quality and speed of the administration processes.



List of 35 priority bills - focus on economic growth

The Government plans to do its utmost to reach more than 5% of economic growth this year. Ukraine should and will become one of the most attractive countries for doing business: both for a small businessman and for large foreign investors.

Having identified the problems that prevent business from developing in Ukraine, the Government has presented a comprehensive solution aimed at solving these problems. These decisions are presented in 35 legislative initiatives. They were developed and proposed by the Government, the President of Ukraine and more than 100 MPs from all factions and groups without exception. But the main point is that these are the changes that our business is asking for.

The efforts will be directed to 5 packages of solutions:

- Protecting the rights of business, especially from the arbitrary behavior on the part of law enforcement officers and administrative officials.
- Deregulation. Business is to spend the maximum of its time on creating jobs in Ukraine, and not on unnecessary administration.
- Facilitating access to financing. Lending and state support should be open for every entrepreneur.
- Transparent access to public resources. These resources are required to support the development of the business climate, and not vice versa.
- And the last, but not least - fostering innovations. In this century it is an indispensable prerequisite for a competitive economy.



Deregulation and business climate improvement

- Financial Intelligence Service
- #4591 - Business Ombudsman
- #7326 - Responsibility for violations of the officials of controlling bodies
- #7373 - Responsibility for violations of the officials of permit authorities
- #7473, #4776 - Authorized Economic Operator
- #7010 - "Single window" at the customs
- #7302, #7303 - Radiological and environmental control at the customs
- #4666 - Regulations for LLCs*
- #6540 - WB's Rating of Doing Business
- #4650 - De-communisation
- #3096-д - Simplification of gas exploration and extraction
- #7497 - Market of scrap metal
- #7034, #7035 - A single account for paying taxes and fees



Deregulation of cash registers
Currency control (the National Bank of Ukraine)



#7365 - Sanctions for violations of foreign economic activity rules



Facilitating access to financing

- Loans to SMEs
- #7055 - Regulation of derivatives market
- #6141 - Encouragement of foreign portfolio investments (nominee institution)
- #7114-д - Credit Registry*
- #6027-д - Protection of creditors' rights
- #3132-д - Bankruptcy regulation
- #7180 - Corporate governance in state-owned banks



Transparent access to public resources

- Concessions
- Counteracting abuse in public procurement
- Lease of state property through ProZorro.Sale



Fostering innovation

- Support for innovation and start-ups
- Venture capital
- #2554а-д, #2555а-д - Industrial parks
- #7466 - Protection of property rights
- #7270 - E-money and cashless economy

*The draft laws have already been adopted by the Parliament on Feb 6, 2018



Continuing the implementation of reforms initiated in 2017



▲ Plan for 2018

Decentralization

- Addressing the issue of Ukraine's administrative and territorial structure at the legislative level
- Legislating for the transfer of jurisdiction over land plots outside the limits of city/town/locality to amalgamated territorial communities and enabling investment attraction through reasonable territory planning
- Laying down the legislative framework for sectoral decentralization

Healthcare reform

- Reforming primary health care and implementing the Money Follows the Patient funding model
- Introducing a guaranteed primary health care package
- Expanding the Affordable Medicines reimbursement program
- Re-planning some facilities to build state-of-the-art outpatient clinics in rural areas
- Deploying an integrated cardiovascular disease control system: outpatient, intensive and emergency care

Pension reform

- Expanding coverage of the employed population by pension insurance, bring the employment relations out of the shadows
- Creating conditions for the introduction of a professional saving pension system, working towards occupational pension schemes
- Replacing the mechanism to compensate privileged pensions and introducing a professional pension system for employees engaged in production, jobs and positions specified in lists # 1 and # 2
- Recalculating pensions for military servants, taking into account the updated financial provision

Education reform

- Development of the new Law of Ukraine on General Secondary Education
- Further implementation of the New Ukrainian School concept; creating a new educational environment in elementary school
- Creating an unhindered environment for children with special educational needs; enhancement of a network of inclusive-resource centers
- Development of the Law of Ukraine on Professional (Vocational) Education
- Setting the stage for unbiased higher education quality assessment by the National Quality Assurance Agency for Higher Education
- Updating secondary, vocational and higher education curricula



Ukraine Reform Conference



In 2017 Ukraine jointly with international partners launched the series of conferences to provide dialogue on priority reforms in Ukraine.

The key goals of the conferences:

- to present progress in reforms
- to set out future plans
- to attract investments
- to maintain international attention
- to mobilize international support to the reform process.

The format of the conferences supposes the ministerial level plenary with the Prime Minister's participation, followed by interactive panel discussions, presentations and briefings on topics of interest on priority reforms implementation in Ukraine with the participation of the Ukraine Government representatives, representatives from the EU, NATO, G7 countries, international organizations, civil society, private sector.

Ukraine Reform Conference, London, 2017

On 6 July 2017 the UK jointly with Ukraine hosted the first international conference in London on reform in Ukraine to showcase the progress Ukraine has made on reform since 2014, present the Ukrainian Government's Medium-Term Priority Action Plan, and bring the international community together to agree priority reform areas and show support for Ukraine.

Alongside ministerial-level plenary discussions, the conference included detailed conversations on each of the priority reform areas agreed in the Action Plan:

- good governance
- economic growth
- anticorruption and the rule of law
- defense and security reform
- human capital.

The wave of reforms in Ukraine since 2014 have been the most far reaching and deepest since its independence. However, there is still a long way to go and Ukrainian Government commitment and continued international support will be crucial. This conference brought together Ukraine and its international partners to strengthen support for reform.

Ukraine has great potential. But only through transforming itself into a stable, transparent, prosperous democracy can Ukraine meet its citizens' aspirations and realize its full economic potential. Reforms will enhance Ukraine's stability, which is important to the stability and security of wider Europe. Ukraine's international partners also have a direct interest in upholding the rules-based international order, which has been violated by Russia in Ukraine.

This conference brought the international community together with the Ukrainian government, civil society, business and politicians.

Ukraine Reform Conference, Copenhagen, 2018

In 2018 the Governments of Ukraine and the Kingdom of Denmark will host the second annual Ukraine Reform Conference providing a platform that will bring the international community together with the Ukrainian Government, civil society, business and politicians who are committed to pursuing the complex reform challenges ahead and specifically to promoting priority reforms implementation.

Following the Ukraine Reform Conference 2017 in London this event will give an opportunity to continue dialogue on international level, to showcase the progress Ukraine has made on reforms implementation and to expand capacity to address future challenges towards sustainable economy in a global context and Government institutions position for high performance.

The conference provides a valuable dialogue and networking opportunity that will set the stage for further cooperation among governmental figures in Ukraine, Europe and beyond.



“Ukraine’s recent progress on reform has been astounding, but more needs to be done. Achieving the stable, prosperous future that Ukrainians desire will require absolute commitment to reform from the Ukrainian Government, as well as unwavering support from the international community. That’s why it is good to see so many international partners engaged through the Ukra-

inian Reform Conference. The UK is committed to helping Ukraine deliver reform, fight against corruption and build its ability to stand up to Russian aggression. As one of Ukraine’s closest friends, we are pleased to be by Ukraine’s side as it fulfils the aspirations of Ukrainian citizens, and realises the economic potential of a great European country”.

**Secretary of State for Foreign
and Commonwealth Affairs
Boris Johnson**

“We have established a solid platform to proceed in analysing the current state of affairs and action planning for the future. What matters is that our partners support us on our challenging journey.

We count on further economic cooperation. We are entering a new level of interaction with the world and the United Kingdom, our strategic partner. I’m coming home full of optimism.”

**Prime Minister of Ukraine
Volodymyr Groysman**

Annexes



Key successes of the Government in 2017 through Strategic Medium-Term Priority Action Plan goals



▲ Economic growth



Business Climate

- The SME Development Strategy 2020 for Ukraine was approved
- Ukraine has risen in the ranking of Doing Business for +4 points and now ranks 76th among 190 countries
- Ukraine has gained +6 points and entered the top 50 countries in the Global index of innovation in 2017 of the World Intellectual Property Organization
- Draft law # 7275 prevention of pressure on business by law enforcement agencies was adopted by the Parliament
- Draft law # 7275 (law No. 2213-VIII) on prevention of law-enforcing bodies pressure on business was adopted
- The Concept of the State Policy on Consumers Rights Protection 2020 and the Action Plan of the Concept implementation were adopted

→ The State Supervision and Control Reform Strategy was adopted

→ More than 400 obsolete regulations disrupting business activity were abolished by the Government

→ Pilot electronic on-line system for submission of planned inspections by the regulatory bodies was launched to enable transparent inspection planning. The inspection results will be available on-line

→ Ukraine has obtained the 43rd place out of 190 countries in Paying taxes index 2018 in terms of reduction in the number of taxes and tax rates



PFM

→ First budget declaration for three years that increases planning horizons was adopted



Privatization

→ The Government has approved and the Verkhovna Rada has already adopted on January 18, 2018 the new law "On privatization of state property"



Energy Independence

→ Energy Strategy for 2035 was approved by the Government

→ Law on electricity market was adopted which has launched a functioning electricity market

→ Fundamentals were laid down and Energy Efficiency Fund was established



Land reform

→ The Government has approved the concept of the state program of development of farming for 2018-2020 years

▲ Effective governance



PAR

→ The newly adopted in 2017 the Government's Medium-Term Priority Action Plan to 2020 developed as a three-year horizon strategic and budget planning document that sets forth priorities for the next 3 years

→ Launched the reform of the ministries and started the implementation of the reforms staff position (RSP) concept:

- 821 RSP were determined in 13 state executive bodies;
- Career.gov.ua – a modern portal of vacancies for civil service has been launched

→ Launched competitions for new civil service positions based on the updated procedure:

- Total vacancies announced – 361
- Candidates applied online > 13 500
- Vacancies closed – 224

→ Formulated the target vision of the internal structure of the ministries



Areas, discussed on Ukraine Reforms Conference in London, July 2017



Key successes of the Government in 2017 through Strategic Medium-Term Priority Action Plan goals



▲ Effective governance

→ Within a framework of e-Gov developed transparency IT-tools for public monitoring and launched many online services that reflected in the following indicators:

- +25 points for 2 years, 62nd rank in the E-Government Development Index (UN E-Government Survey 2016)
- 32nd rank in the E-Participation Index (UN E-Government Survey 2016) (+ 45 for 2 years)
- 31th rank (+ 23 points) in the Global Open Data Index 2017
- 44th position (+ 18 for 1 year) according to Open Data Barometer Ranking of World Wide Web Foundation.



Decentralization

→ Capable local communities are being created and financial decentralization is under way:

- 665 amalgamated hromadas have been already created, which cover approximately 30% of Ukraine's territory

- due to financial decentralization local budgets' own revenues grew by 25% compared to 2016 and by 250% compared with the beginning of the reform in 2014

→ The state provides financial support for the development of communities infrastructure as never before:

- more than 15 thousand important infrastructural projects were realized in the communities in 2017 due to increasing of the state support by 30 times (UAH 14.9 billion) compared to 2014.

→ Sectorial decentralization:

- a new modern schools network (450 base schools & 900 subsidiaries) has been created
- the reorganization of the healthcare system is launched: 63 district hospitals have been established

▲ Human capital



Social security system

→ Launch of pension reform and increasing pensions for more than 9 mln. pensioners in October-November 2017 with the adoption of the Law of Ukraine 2148-VIII on October 3, 2017

→ Monetization of unused subsidies for heating payments / economical consumption of gas and electricity



Education

→ Start of education reform with the adoption of the Law of Ukraine "On Education" 2145-VIII on September 5, 2017

→ Implementation of the "New Ukrainian School" concept started



Health care

→ Introduction of new principles for medical care financing and transition from planned financing of health care institutions to financing of a specific medical service with the adoption of the Law of Ukraine "On State Financial Guarantees for the Provision of Health Services and Medicines" on October 19, 2017

→ Implementation of the Available Medicine program with 6606 pharmacies participating, 8.2 million recipes reimbursed and UAH 305.8 million used for April-September

→ Launch of basic functions of the E-health system on September 7, 2017 with 614 health care institutions joined





Key successes of the Government in 2017 through Strategic Medium-Term Priority Action Plan goals



▲ Anticorruption and the Rule of Law



Effective anti-corruption policy & institutions

○ State Bureau of Investigation and his deputies were elected. The SBI is expected to carry out pre-trial investigation of potential crimes committed by law enforcement agency officers, judges, top government officials. The SBI is expected to carry out pre-trial investigation of potential crimes committed by law enforcement agency officers, judges, top government officials.

→ Transition of the state procurement and bidding system into Blockchain basis gained traction

○ The draft of Anticorruption strategy developed with the support of DANIDA is in the process of reconciliation and is expected to be approved

→ The annual anticorruption communications strategy for 2017 and the action plan on its implementation have been approved



Equal access to justice

→ The judicial reform was approved by the Parliament and the President. There are amendments to the Commercial, Civil and Administrative Codes of Ukraine – segregation of subsidence of different courts, implementation of the e-court concept, new rules of proceedings of the Supreme Court (by the way, the adopted draft law is one of the longest in the history of the Parliament of Ukraine-more than 700 pages)

→ More categories of people have access to the free legal aid system, including internally replaced people and ATO veterans

→ State program on probation and socialization was launched



Property rights protection

→ The Government has created anti-raider centers, which should prevent illegal land and harvest takeovers

▲ Security and defense



Security and defense

→ Draft State Program of Ukraine's Armed Forces Development 2020 approved

→ An amended Draft Law On National Security of Ukraine developed

→ Resolution on Pay and Benefits for Military Servants and Some Other Persons adopted

→ An amended Draft Law On Special Aspects of State Policy for Ensuring Ukraine's State Sovereignty over Temporarily Occupied Territories in Donetsk and Lugansk Regions developed

→ Ukraine's Information Security Doctrine approved by Decree of the President of Ukraine No. 47 of February 25, 2017

→ Law On Fundamentals of Ukraine's Cyber Security passed by the Verkhovna Rada on October 5, 2017



Areas, discussed on Ukraine Reforms Conference in London, July 2017



Reforms Architecture



The Government of Ukraine strove to strengthen its push on reforms' implementation and has articulated a new, coherent and efficient reforms architecture, consisting of three core elements:

Reforms Delivery Office (RDO)

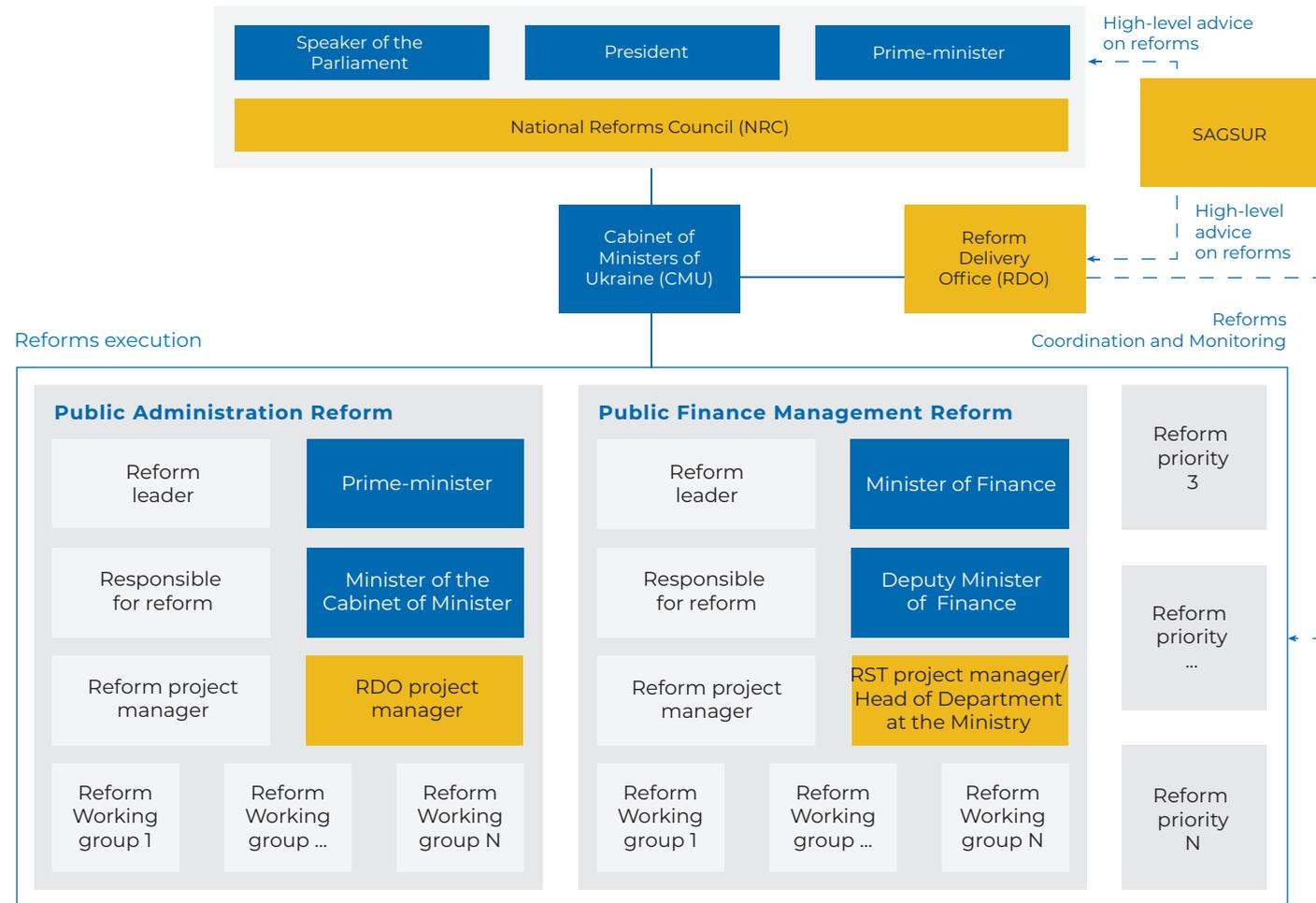
An advisory body to the Cabinet of Ministers of Ukraine, coordinated by the Prime Minister and headed by the Minister of the Cabinet of Ministers of Ukraine, with focus on ensuring consistency of reforms delivery across Ministries, with special attention paid to the Public Administration Reform.

Reform Support Teams (RSTs)

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 goal is to lay the foundations for a new generation of reform-oriented Ukrainians working in the civil service. It is expected that the RSTs members will gradually be integrated in the civil service, subject to the terms and conditions as required by the Law on Civil Service.

Strategic Advisory Group Supporting Ukrainian Reforms (SAGSUR)

SAGSUR is providing unified, strategic advice to the Prime Minister. SAGSUR advises on how to implement comprehensive reforms effectively, based on first-hand successful experience elsewhere, bringing best international practice and link to international resources. SAGSUR is headed by Ivan Mikloš, a former minister of economy of Slovakia, with an outstanding record of delivering reform.



Disclaimer: "The elements of the reform architecture are financed by the Ukraine Stabilisation and Sustainable Growth Multi-Donor Account, established at the EBRD in November 2014 to support Ukraine's efforts to reform its economy, improve its business climate and return to a path of sustainable growth. Its contributions are: Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Poland, Sweden, Switzerland, the United Kingdom, the United States and the European Union, the largest donor."



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