

Ukraine's on-going reform process Progress and challenges since Euromaidan

SUMMARY

On 12-13 July 2017, European Council President, Donald Tusk, Commission President, Jean-Claude Juncker, and Ukrainian President, Petro Poroshenko, will meet in Kyiv for the 19th EU-Ukraine summit. Ukraine's reform process is to feature prominently on the agenda. The ratification of the EU-Ukraine Association Agreement by the Dutch Parliament in May 2017, and the commencement of visa-free travel for Ukrainians in June illustrate the active and visible role the EU has taken in shaping Ukraine's future.

Since the 2014 Euromaidan revolution, Ukraine's reform efforts have made unprecedented progress under difficult circumstances. The country has improved transparency, implemented anti-corruption measures and reduced its dependence on Russian gas. The EU, international institutions, individual countries and Ukrainian civil society actors have all participated in propagating, funding and monitoring these changes.

External leverage and incentives have proved vital in ensuring that the government moves ahead with reforms, but internal challenges still pose a threat to future progress, including the actual implementation of the laws passed. Strong oligarchic influence and a lack of political unity continue to hamper key changes. Significant issues to watch in Ukraine's ongoing reforms include the election of an all-new Supreme Court as well as the creation of a special Anti-Corruption Court.



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Key players in Ukrainian reform

The February 2014 Euromaidan revolution started as a [grassroots movement](#), but a number of nations and large institutions have come to support change alongside local civil society groups. The post-Euromaidan government has found itself squeezed between top-down pressure from Western institutions and bottom-up pressure from civil society. Both domestic and global actors/donors (including the International Monetary Fund, [IMF](#)) involved in funding, implementation, and oversight have provided a counterweight to anti-reform [factions](#) within the government, which appears strained by internal [divisions](#).

The EU and Ukraine: key milestones

Since spring 2014, the EU has significantly stepped up its support for Ukraine. The EU imposed diplomatic [measures](#) and economic sanctions against Russia in March 2014, in response to the country's illegal annexation of Crimea and Sevastopol, and its actions in eastern Ukraine. The EU has been the [leading provider](#) of development aid to Ukraine, with over 400 [programmes](#) focusing on technical assistance and monitoring. Rather than sending in a large number of experts to build new institutions, EU and Member State programmes [focus](#) on training existing institutions to work more efficiently. However, some [argue](#) that the EU should take a more direct role in the process.

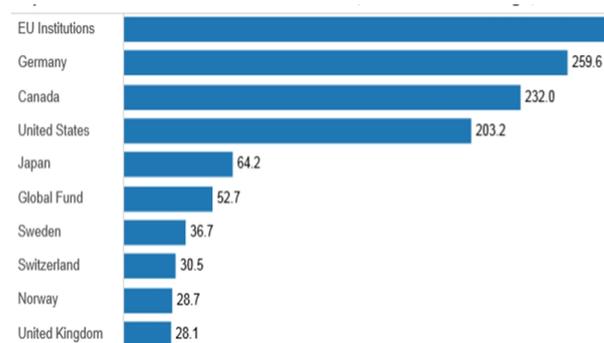
EU-Ukraine Association Agreement

Then-President Viktor Yanukovich's refusal to sign the EU-Ukraine Association Agreement ([AA](#)) in November 2013 sparked large-scale pro-Western and anti-corruption protests. After Yanukovich was ousted and fled Ukraine in February 2014, President Petro Poroshenko signed the AA with the EU in July 2014. While the Dutch Senate, as the last Member State parliament to do so, only ratified the AA in [May 2017](#), Ukraine has already implemented [parts](#) of the agreement. The Deep and Comprehensive Free Trade Agreement ([DCFTA](#)), a crucial part of the AA, has been applied provisionally since January 2016. EU-Ukraine trade [increased](#) by 10 % from 2015 to 2016. Full application of the AA/DCFTA is expected to be completed by the 12-13 July [summit](#). The European Parliament (EP) backed further trade concessions to foster the economic development of Ukraine on 4 July 2017. MEPs [approved](#) most of the proposed new concessions, but reduced the volume of the additional quota for certain agricultural products.

Visa liberalisation: a milestone on Ukraine's European path

Ukraine has also met all the [benchmarks](#) in the Visa Liberalisation Action Plan, a separate plan introduced in 2008. Advancements in document and border security, anti-corruption mechanisms (including the e-declaration system), and migration management qualified Ukraine for visa-free travel to the Schengen area. The legislation was approved by the European Parliament on 6 April 2017 and entered into [force](#) on 11 June 2017 after some [delay](#) on the part of the EU. This '[definitive turn](#) towards Europe' illustrates Ukraine's progress since 2014, and demonstrates EU support for Ukraine's reform process.

**Figure 1: Top aid donors to Ukraine
2014-2015 average, US\$ million**



The growing involvement of international donors highlighted the low absorption capacity on the ground and increased the need for coordination. Since 2014, the Commission has held regular meetings with other donors and maintained a map of assistance for [coordination purposes](#).

Source: [OECD](#).

EU assistance to Ukraine

The EU responded swiftly to the crisis in Ukraine, announcing an indicative financial support package of some €11 billion for 2014-2020 in March 2014 to help stabilise the country. €3.4 billion in macro-financial assistance loans has been committed since 2014, of which €2.2 billion has been disbursed (as of December 2016). EU support in priority reform areas established in cooperation with Ukraine and EU Member States has been facilitated through the Support Group for Ukraine ([SGUA](#)). The focus for 2015/2016 was decentralisation (€100 million), economic development (€90 million), anti-corruption (€15 million), public administration [reform](#) (€104 million) and rule of law (€52.5 million plus Technical Cooperation Facility – €29.5 million), as well migration management (€28 million). Since 2014, Ukraine has received conflict-related support amounting to €73.7 million through the Instrument contributing to Stability and Peace ([IcSP](#)). The Commission's humanitarian aid department allocated a total of €54.8 million in 2015 and 2016, supplemented by Member State support. Ukraine has also benefitted from 'umbrella' funds, which are allocated based on a partner country's progress on reforms.

In addition to increasing assistance to Ukraine in 2014, the EU set up new entities with the aim of advising Ukraine on reforms, most notably the SGUA and the EU Advisory Mission ([EUAM](#)) Ukraine. They provide expertise in sectors that already receive assistance from the EU Delegation. To limit the risk of overlap between these two agencies, the Commission [decided](#) in 2015 that the EUAM would focus on setting up the anti-corruption bureau, while SGUA would concentrate on reforms at justice ministry level.

Figure 2: EU support for Ukraine – indicative package 2014-2020 (as of 5 March 2014)

Source of financing	Indicative amounts (million euro)
I. EUROPEAN COMMISSION (2014-2020)	
I.1 Overall development assistance (grants)	1 565
Bilateral allocation (mainly European Neighbourhood Instrument):	
- Annual Action Programme (AAP) for 2014	140-200
- AAPs (average) - for 2015-2020	780
- Umbrella programme ('more for more') for 2015-2020	240-300
Neighbourhood Investment Facility	200-250
Instrument contributing to Stability and Peace (IcSP)	20
Common Foreign and Security Policy (CFSP)	15
I.2 Macro-financial assistance (loans) ¹	1 610
II INTERNATIONAL FINANCIAL INSTITUTIONS	
EIB	up to 3 000
EBRD	5 000
GRAND TOTAL	11 175

¹ In addition, a new MFA loan (MFA III) of 1.8 billion euros was granted in 2015.

Source: European Commission.

The role of the European Parliament

The EP has consistently and actively supported Ukraine's transformation and reform efforts. In line with the [Memorandum of Understanding](#) on a joint framework for parliamentary support and capacity building – signed by then EP President, Martin Schulz, and the Chair of the Ukrainian Parliament (Rada) in 2015 and extended in 2017 – former EP President, Pat Cox, presented a report and roadmap on capacity-building for reform in 2016. The implementation of the report's recommendation is currently under way. EP and Rada leaders have met to discuss progress, at high-ranking meetings in the framework of the [Jean Monnet Dialogue](#).

The United States and Canada: key supporters of reform in Ukraine

Outside the EU, the US and Canada have both supported Ukrainian democracy through financial assistance and technical expertise. The US has given over US\$1 billion to Ukraine since 2013 to support civil society as well as reforms in the media, business environment and agriculture.¹ The US has also coordinated policies with the EU to end the conflict in eastern Ukraine, including implementing parallel sanctions. US efforts to help Ukraine

remain uncertain under President Donald Trump; several EU Member States [requested](#) in January 2017 that the US work more closely with the EU on Ukraine's reforms.

Canada (which traditionally has [close ties](#) with Ukraine and hosts a powerful Ukrainian [diaspora](#)) increased its [aid](#) to Ukraine from CA\$49.1 million in 2014 to a total of CA\$511 million in 2015, making Ukraine its single largest aid recipient. In addition to providing training to troops in eastern Ukraine, Canada also focuses on democracy-building [efforts](#).

International economic support

Since May 2014, the World Bank Group has provided a total of more than US\$4.4 billion to Ukraine (including four development policy loans and six investment loans) from the International Bank for Reconstruction and Development. The IMF is pushing forward economic reforms by linking tranches of financial aid to economic reform in areas such as banking stability, fiscal policy, energy policy and governance. In 2014, the IMF approved US\$17.01 billion to support Ukraine's economic reform [programme](#). So far, Ukraine has received US\$7.6 billion under the programme.

Ukraine's political leadership: still struggling with internal rifts and low credibility

Since 1991, successive Ukrainian governments have battled with entrenched [problems](#), including oligarchic influence and frequent shifts in the centre of power.² While the period following the Euromaidan revolution has seen increasing transparency, weak governance has slowed the pace of critical reforms such as an overhaul of the judiciary and completing privatisation. The Prime Minister, Arseniy Yatsenyuk, previously hailed as a strong leader on reform, [resigned](#) in 2016 amid accusations of conducting backdoor deals and consulting oligarchs. Poroshenko replaced Yatsenyuk with an ally, Volodymyr Groysman, sparking [concern](#) over potential pressure to subdue reformists.

Poroshenko's seeming lack of reform action and ability to overcome internal divisions in parliament has [damaged](#) his credibility. Accordingly, his approval rating has dropped since his election in May 2014. While 47 % approved of his activities in 2014, just 17 % approved in 2015 according to a [Gallup World Poll](#). A September 2016 [survey](#) conducted by the International Republican Institute showed little change, with just 20 % approving of Poroshenko's performance and 73 % disapproving. The new e-declaration system, through which politicians declare their assets to the public, also revealed that [Poroshenko](#) has extensive assets that he has not sold off. This may account for his unwillingness to investigate the sources of his fellow oligarchs' wealth, many of whom are his allies. This raises the danger of so-called 'partial [reform equilibrium](#)', a situation in which the beneficiaries of a system block further change out of fear that it will harm their positions.

Ukrainian civil society: a crucial driver of reforms

Ukrainian civil society has taken an active role in monitoring the developments and [pushing for reforms](#). The Civil Society Platform under the Eastern Partnership, the EU-Ukraine Civil Society Platform provided for by the AA, and other members of civil society have participated in consultative [meetings](#) with institutions in charge of European integration. Organisations such as [Chesno](#) ('Honestly'), the Anti-Corruption Action Centre ([ANTAC](#)) and the [Reanimation Package of Reforms](#) (RPR, a coalition of NGOs) seek to hold the government accountable and respond as necessary. For example, Chesno has published a [list](#) of 'button-pushers', or MPs who abuse the electronic voting system to vote illegally on their absent colleagues' behalf. Chesno also worked with a local group in a 'follow the money' [initiative](#) in 2015, tracking the spending of electoral candidates. Most recently, RPR [demanded](#) that the government rescind an amendment that requires the

leaders of NGOs to fill out e-declarations. As analysts have [argued](#), while these civil society groups lack enforcement capacity, financial support from the EU and political support from pro-reform factions in the Rada greatly enhance their watchdog role.

Major achievements and challenges

Kyiv has managed to implement important changes since the Euromaidan revolution. Visible progress has been made in the fields of police, energy, transparency and [anti-corruption efforts](#) as well as in the economic sector, but significant challenges remain. Ukraine has a [history](#) of backsliding on reform since regaining independence in 1991. Persistent, underlying roadblocks, such as the political influence of oligarchs and corruption, traditionally pervade all sectors, and will likely continue to complicate other interlinked key issues Ukraine has to tackle, including privatisation and judicial reform.

Oligarchs remain connected to the highest levels of politics. Their influence poses a threat to future political and economic reform, as they use their wealth and media ownership to reinforce their positions and thus have little interest in changing the system. The cycle feeds into itself; political parties are often based around a personality rather than a platform, and oligarch-owned media channels broadcast scandals that feed into populist sentiment. In an effort to weaken the ties between oligarchs and the state, the Rada passed a law in 2015 introducing state financing for political parties. However, the law [favours](#) current ruling parties such as Poroshenko's bloc.

Anti-corruption measures and increased transparency

Anti-corruption reform concerns a large spectrum of different sectors and remains a significant challenge, with [44 %](#) of Ukrainian respondents to a May 2016 public opinion survey saying it should be a priority. Faced with pressure from the public and Western partners, Kyiv has taken measures to improve transparency and target corruption.

Established in late 2014, the National Anti-Corruption Bureau of Ukraine (NABU) seeks to investigate and prosecute incidences of corruption. NABU started its first investigations of high-level corruption cases in December 2015, after the appointment of the Head of the Specialised Anti-Corruption Prosecution Office (SAPO). NABU boasts over [300](#) cases currently under review; however, the organisation has run into significant problems with the Prosecutor General's Office (PGO). The PGO has strong connections with the government, which has proven problematic for anti-corruption efforts. The Rada voted to [remove](#) Prosecutor General, Viktor Shokin, in March 2016, after Western donors condemned his failure to prosecute open cases of corruption. His replacement, Yuri Lutsenko, is a Poroshenko ally who has repeatedly [clashed](#) with NABU over which body should handle corruption cases. The PGO also tried to [block](#) the creation of NABU. The new National Agency for Prevention of Corruption ([NAPC](#)) has been operational since early 2016. NAPC focuses on political corruption, including financing of political parties, and is responsible for the state policy of corruption prevention, in line with a 2015 [law](#).

The creation of two key bodies – the new State Bureau of Investigation (SBI) and a new High Anti-Corruption Court – is still to happen. The EU, in cooperation with Denmark, supports the anti-corruption efforts through a new three-year €16 million [anti-corruption initiative](#), launched in February 2017 and implemented by the Danish Development Agency DANIDA, in cooperation with EUAM Ukraine.

In addition, Ukraine has gained two web-based systems, the e-declaration system for politicians' assets and the ProZorro system for the public procurement process. The ProZorro procurement system is [modelled](#) on Portugal's public procurement system, and

was [piloted](#) in 2015 before coming into force in April 2016. The system simplified the process, made data open and accessible, and resulted in a 35 % [increase](#) in the volume of procurements from 2015 to 2016. The e-declaration system, [demanded](#) by the EU and launched by NAPC in September 2016, has also made progress in transparency. The resulting information, published in a database after the deadline of 30 October 2016, [revealed](#) the immense wealth of many of Ukraine's top officials, held in currency, cars, jewellery and art. However, [few](#) corruption cases have actually materialised.

While increased transparency has exposed corrupt practices, the subsequent lack of legal action against the perpetrators has eroded public [confidence](#) in the reform efforts. Despite evidence and even arrests, the government has failed to follow through on corruption cases. Twenty tax officials were arrested for corruption in May 2017, but no high-level [official](#) has actually been convicted of corruption since the 2014 revolution. The PGO has opened a criminal investigation into Yanukovich's former regime, but progress has been limited; Transparency International and RPR [demanded](#) in August 2016 that the PGO publish a timeline of progress and follow through on these cases. The PGO has yet to do so.

Law enforcement and judiciary

The presence of Ukraine's all-new national police force, created in [September 2015](#), was a positive change from when Yanukovich used the police as a tool of repression during the Euromaidan revolution. While the new police force made the reform efforts [visible](#) to the public, however, the force suffers from a [lack of personnel](#), and officers have [complained](#) that the state is abusing its power to prosecute public servants by going after police officers.

Western institutions continue to emphasise the need for judicial reform. The Council of Europe [reviewed](#) the draft law establishing the High Council of Justice in Ukraine, which regulates the judiciary (including appointing and dismissing judges), and analysts have [criticised](#) the HCJ for having limited power in holding judges accountable. In September 2016, the OECD [recommended](#) that the Ukrainian government pass measures to guarantee the impartiality and independence of the judiciary, publish all court decisions on the internet and ensure distribution of cases to judges is public and automatic.

The Ukrainian government has taken steps to create a new Supreme Court. The process to fill 120 seats [started](#) in November 2016. RPR and other NGOs have [identified](#) several shortcomings, including the failure of the High Qualification Commission of Judges to publish candidate profiles, and some candidates receiving unfair advantages in the testing process. The RPR also [found](#) that the High Qualification Commission of Judges disregarded 82 % of the opinions of the Public Integrity Council (PIC) on short-listed candidates. These issues have led analysts to [assert](#) that, despite the extensive interview process, the new Supreme Court will likely not be much better than the old one.

Given the problems plaguing Ukraine's judicial system, NABU has pressed for the establishment of a special Anti-Corruption Court. According to a December 2016 NABU [briefing](#), the court would hear corruption cases twice before referring them to an anti-corruption panel in the Supreme Court for appeals. In April 2017, the Ukrainian government [signed](#) a memorandum with the IMF stating that this court will develop according to standards set by the Council of Europe and the European Convention on Human Rights, and will start operating in March 2018. In June 2017, Deputy Head of the EU Delegation in Ukraine, Thomas Frellesen, and Head of the Anti-Corruption Initiative, Eka Tkeshelashvili, expressed their [support](#) for the creation of the Anti-Corruption Court.

Energy reform

Ukraine has reduced its dependence on Russian gas and oil. In late 2014 and early 2015, several [measures](#) were introduced to liberalise the gas market, including competitive gas prices and [increased tariffs](#) for heating, opening the state company Naftogaz to foreign investment and negotiating reduced delivery contracts with Russia's Gazprom (a process facilitated by the [Commission](#)). Recently, Naftogaz won a long-running [court case](#) against Gazprom. In a 2 July [decision](#) with great significance for Ukrainian energy dependence, the Stockholm International Arbitration Court ruled that Naftogaz need not pay Gazprom for gas it did not import, and that Gazprom's prices must reflect the European market.

The EU has played a key role in helping Ukraine diversify its energy sources. In addition to helping Ukraine and Russia reach a favourable agreement on gas imports, the Commission has [implemented](#) legislation establishing regular gas flows to Ukraine from Slovakia, Hungary and Poland. The EU's [Third Energy Package](#), which Ukraine has [adopted](#), sets targets in electricity, gas, and energy efficiency. In line with this, EU officials have [recommended](#) that Ukraine continue unbundling Naftogaz (a [process](#) that started in 2016) and bring electricity into line with European standards. Ukraine [continues](#) to move forward; in April 2017, the [Rada](#) adopted a law on electricity market demonopolisation.

Decentralisation

The EU-backed [decentralisation](#) process is still under way. In less than two years, 1 740 local councils have been amalgamated to 366 NACs – [communities](#) with their own budgets and their own heads. However, lack not only of capacity and funds, but also of a will to cooperate between the central government, regional assemblies and deputies from the Rada complicates developments. In addition, decentralisation has become a [hostage](#) of the [Package of Measures](#) for the Implementation of the Minsk Agreement, the 13-point [roadmap](#) from 2015 for resolving the conflict, which provides for constitutional amendments to grant the separatist territories in Donbas a highly controversial [special status](#).

Economic reform

According to the World Bank's April 2017 Ukraine [Economic Update](#), Ukraine's economy grew 'modestly' by 2.3 % in 2016 after a 16 % cumulative contraction in 2014 and 2015; indicating that economic reforms have yielded results. Investor confidence has increased, and a bumper harvest led to stronger growth of 4.8 % in the fourth quarter of 2016. Economic growth is projected at 2 % in 2017, but reforms are needed to reach 4 % growth in 2018-2019 to tackle important vulnerabilities. The Carnegie Endowment think-tank ([April 2017](#)) deems that economic reform in Ukraine has slowed as all 'easy changes' have been made, and the remaining reforms will be difficult to execute. International pressure continues to be vital in order to move things forwards. For example, unpopular pension reform had been delayed, but after the IMF set pension reform as a condition for disbursing US\$17.5 billion in financial assistance, Ukraine's government finally approved a pension reform [bill](#) in May, backed by the IMF and the World Bank.

While privatisation of state-owned enterprises (SOEs) is seen as a key reform area with potential for improving Ukraine's weak economy, there has been nearly [no progress](#) in this critical sphere. Some analysts allege that Poroshenko's allies have taken over the management of the most lucrative SOEs and delay reforms. An EU-Ukraine [meeting](#) on 8 June 2017 also highlighted the lack of progress on intellectual property rights; draft laws prepared by EU experts in 2015 have still not been approved by the Rada. In another

economy-related development, a four-year reform programme to transform Ukraine's '[underfunded, corrupt and inaccessible](#)' healthcare system began in November 2016.

The National Bank of Ukraine: moving ahead

One of the key sectors affected by corruption is the financial sector, in which [systemic failures](#) had led to a fundamental loss of trust in Ukraine's financial and institutional framework. In early 2015 the National Bank of Ukraine (NBU), in cooperation with other actors, created the Comprehensive Programme for Financial Sector Development of Ukraine until 2020. NBU chairs the programme and is responsible for the project management as well as the coordination of all stakeholders.

The NBU has brought down [inflation](#) and closed a total of 87 [dysfunctional](#) banks (out of 180 Ukrainian banks). In December 2016, the insolvent [PrivatBank](#), the largest bank in terms of assets and deposits – partly owned by Ihor Kolomoyskyi, one of Ukraine's most influential oligarchs – was nationalised by the NBU. The bailout package, an estimated €5 billion, exceeded the 2016 state budget deficit of [€2.4 billion](#). In July 2017, the NBU took legal steps to recover the loans. PrivatBank's founders, including Kolomoyski, now face potential [confiscation of assets](#). A potential formal, legal struggle would be a visible, crucial step towards countering Ukraine's oligarchy.

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Nizhnikau, Ryhor and Moshes, Arkady, [Three Years After Euromaidan: Is Ukraine Still on the Reform Track?](#), The Finnish Institute of International Affairs, December 2016.

Endnotes

¹ Vincent L. Morelli (2017), Ukraine: Current Issues and US Policy, Congressional Research Service, p. 37.

² In 2014, the parliament [restored](#) the 2004 constitution by unanimous vote. This constitution shifted power away from the presidency and gave more power to the prime minister and cabinet.

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