Ukraine: An Overview

Since declaring independence, Ukraine has undergone many changes in the political landscape, resulting in greater democratization, expanded freedom of media and more active political discourse. The new administration in 2010 has outlined an ambitious reform agenda, however faces challenges regarding governance and democracy. Recent changes, including overturning constitutional amendments of 2004 may have strong impacts on governance and the future path of Ukraine, as it appears to become closer to Russia while concurrently deepening integration with the European Union. Democratization, institutional capacity, corruption, and human rights remain challenges in Ukraine. The presidential program emphasizes strengthening institutions, imposing discipline on the bureaucracy, and reining in corruption. The 2012-2016 Country Partnership Strategy aims to assist Ukraine in overcoming implementation bottlenecks identified in the Presidential Program and support efforts to improve relations with civil society and business; improve government accountability and effectiveness, and increase public trust. Projects focus on public finance and other public sector reforms, with an eye to improve governance and reduce corruption, as well as infrastructure development.

This brief summarizes Ukraine's performance on various governance indicators and summarizes recent developments in political economy along with a discussion of challenges identified by Bank Staff.

BASIC GOVERNANCE FACTS

| Government Type: | Ukraine is a democratic republic. |
| Administrative Divisions: | Ukraine is a unitary state with four levels of administrative governance: the autonomous Republic of Crimea and 24 oblasts including 2 cities with oblast status-Kyiv and Sevastopol. Local government is comprised of a dual system of state administration (heads are presidentially appointed) and local self government councils (with top officials elected by the citizenry). Other administrative divisions include raions, village and township councils, although division of power between the central and local authorities is unclear, particularly regarding budget issues. |

Table 1: Rankings for Key Governance Indicators (Lower ranks indicate better performance)

<table>
<thead>
<tr>
<th>Index</th>
<th>EIU Democracy Index 2011 (of 167 countries)</th>
<th>Doing Business Index 2012 (of 183 countries)</th>
<th>Transparency International Corruption Perceptions Index 2011 (of 183 countries)</th>
<th>Heritage Foundation Index 2012 (of 179 countries)</th>
<th>WEF Global Competitiveness Index 2011 (of 142 countries)</th>
<th>ICRG Country Risk Ranking 2011 (of 140 countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>79</td>
<td>152</td>
<td>152</td>
<td>163</td>
<td>98</td>
<td>101</td>
</tr>
<tr>
<td>FSU-N Average</td>
<td>118</td>
<td>97</td>
<td>139.5</td>
<td>131.3</td>
<td>73.3</td>
<td>78.5</td>
</tr>
<tr>
<td>EU-25 Average</td>
<td>24.7</td>
<td>36.3</td>
<td>32.4</td>
<td>40.1</td>
<td>33.9</td>
<td>41.8</td>
</tr>
<tr>
<td>ECA Average</td>
<td>80.6</td>
<td>72.4</td>
<td>93.1</td>
<td>78.8</td>
<td>72.6</td>
<td>76.6</td>
</tr>
</tbody>
</table>
**Constitution:** The first post-independence constitution was adopted on June 28, 1996. The constitution was amended in 2004 to strengthen the roles of parliament and the Prime Minister. However, the new administration of Yanukovych led to an effort to overturn these amendments in order to assert more power back to the presidency. The 2004 amendments were overturned in early 2010 as they were deemed unconstitutional by the Constitutional Court of Ukraine. 4 Ukraine is now functioning under the 1996 constitution, and has reverted to the presidential system of government.

**Executive Branch:**

**Head of State:** President Viktor Yanukovych, elected on February 25, 2010.

**Presidential Elections:** The president is elected by popular vote for a five-year term. The last election was held on January 17, 2010 with a runoff election taking place on February 7, 2010. The next elections are to be held in 2015.

**Head of government:** Prime Minister Mykola Azarov took office in March of 2010. The candidate for the office of Prime Minister is proposed by the president, and is approved by the Supreme Council.

**Cabinet:** Cabinet of Ministers are nominated by the president and approved by the parliament. 5

**Legislative Branch:**

Ukraine has a unicameral Supreme Council (Verkhovna Rada) consisting of 450 seats. Members are allocated on a proportional basis to parties that earn 3% or more of the national electoral vote. Members serve five year terms. The last election was held on October 28, 2012, the next is to be held in 2017.

**Major Political Parties:** There are a number of political parties 6 in Ukraine, including the Party of Regions, which is the party of the president, Viktor Yanukovych. Other main parties represented in the parliament include: Fatherland Party (Batkivshchyna- the former Bloc of Yulia Tymoshenko), Ukrainian Democratic Alliance for Reform, the All Ukrainian Union “Svoboda”, the Communist Party of Ukraine, and others. 7 8

**Judicial Branch and Legal System:** Ukraine has a four-level judicial system consisting of local courts, appellate courts, high courts such as the High Administrative Court of Ukraine and the High Arbitration Court of Ukraine, and a Supreme Court. There is a judicial review of legal acts.

**SECTION 1: GOVERNANCE AT A GLANCE**

Ukraine has overcome a number of barriers since declaring independence from the Soviet Union. Economically, Ukraine has rebounded since 2000, while the fluctuations in the political environment have had mixed effects on governance indicators. This section provides an overview of these indicators for Ukraine.

**Key Governance Indicators**

- **Democracy Index (EIU 2011) 79 out of 167**
  The Democracy Index of the Economist Intelligence Unit measures democracy via five categories (electoral process and pluralism; civil liberties; functioning of government; political participation; and political culture). Ukraine is considered a “hybrid regime” by the EIU. 9 Hybrid regimes per the EIU have characteristics including widespread corruption, irregularities in elections, and other weaknesses in the functioning of government. 10

- **Global Integrity Index (GI 2011) Overall Score 64**
  This score corresponds to an overall rating of “weak”. Ukraine earned a “strong” score of 83 of 100 for its legal framework, but a “very weak” 48 of 100 for implementation. 11

- **Government Conflicts of Interest & Checks and Balances (Government Accountability) (GI 2011) 60**
  This indicator captures executive, legislative, and judicial accountability, asset disclosure requirements, auditing practices, and checks and balances across branches of government. Ukraine earns a “very weak” rating for this indicator.

- **Doing Business (2012) 152 of 183**
  Ukraine fell 3 positions on Doing Business despite making reforms in four areas: starting a business, paying taxes, enforcing contracts and resolving insolvency. 12 Ukraine also initiated reforms making it more difficult to trade across borders. Ukraine still has work to do in the areas of paying taxes (ranking 181 13), dealing with construction permits (ranked 180th) and getting electricity (ranking 169 13).

- **ICRG Country Risk Ranking (2011) 101 of 140**
  This indicator measures aspects of political, financial and economic risk. The score of 64.8 reflects a moderate risk environment.

- **Transparency International Corruption Perceptions Index (2011) 152 of 180**
  Ukraine fell 18 rank positions from 2010, and falls below the ECA average on this indicator.

- **Freedom House Political Rights Index (2011) 4 out of 7**
  This indicator measures political freedoms based on an evaluation of the electoral process, pluralism and functioning of government. Ukraine is rated as “partly free”. 14

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Ukraine had an overall score of 46.1 which corresponds to a rating of “repressed”. From the previous year, Ukraine improved on freedom from corruption, labor freedom, monetary freedom and fiscal freedom. However, it declined in 3 areas: business freedom, trade freedom and government spending.

Global Competitiveness Index (WEF 2011) 98 of 142
The Global Competitiveness Index captures 113 indicators impacting economic development and competitiveness. In the global rankings, Ukraine is 98th which is below the ECA average ranking.

Global Competitiveness Index Institutions Pillar Rank (WEF 2011) 131 of 142
This indicator captures aspects of the roles and quality of institutions on competitiveness and growth, including costs of corruption and bureaucracy. Ukraine ranks below the ECA average rank of 84.

Bribe Frequency (BEEPS 2008) 27.3%
Ukraine exceeds the ECA average of 12.8% on this indicator.

Bribes are Frequent in Dealing with Taxes (BEEPS 2008) 25.5%
Ukraine exceeds the ECA average of 8.6% on this indicator, and experienced a 45% increase over the 2005 value.

Bribes are Frequent in Dealing with Customs (BEEPS 2008) 13.2%
Ukraine exceeds the ECA average of 7.1% for this indicator, however, there was a 13% improvement over the 2005 value.

Bribes are Frequent in Dealing with Courts (BEEPS 2008) 15.6%
Ukraine has a higher value than the ECA average for bribery in the judiciary (6.0%), and experienced a 10% increase over the 2005 values.

Rule of Law Index: Limited Government Powers Rank (WJP 2011) 64 of 66
This indicator measures the extent to which those who govern are subject to law. It comprises the constitutional and institutional means by which government powers are limited, as well as nongovernmental checks on the government’s power (such as a free and independent press). Ukraine was ranked 64th of 66 countries.

Rule of Law Index: Open Government Rank (WJP 2011) 53 of 66
This indicator measures the extent to which laws and information are comprehensible and available to the public. Ukraine is ranked 53rd of 66 countries.

<table>
<thead>
<tr>
<th>SUMMARY OF GOVERNANCE INDICATORS</th>
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<tbody>
<tr>
<td>Ukraine</td>
</tr>
<tr>
<td>Governance Indicator (source, year)</td>
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<tr>
<td>Democracy Index (EIU 2011)</td>
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<tr>
<td>Global Integrity Index (2011)</td>
</tr>
<tr>
<td>Government Conflicts of Interest &amp; Checks and Balances (Government Accountability) (GI 2011)</td>
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<tr>
<td>Doing Business Rank (2012)</td>
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<td>WJP Rule of Law Index: Limited Government Powers Rank (2011)</td>
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<tr>
<td>WJP Rule of Law Index: Open Government Rank (2011)</td>
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<tr>
<td>Rule of Law (WGI 2010)</td>
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<tr>
<td>Voice and Accountability (WGI 2010)</td>
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<tr>
<td>Political Stability (WGI 2010)</td>
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<tr>
<td>Government Effectiveness (WGI 2010)</td>
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<tr>
<td>Regulatory Quality (WGI 2010)</td>
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<tr>
<td>Control of Corruption (WGI 2010)</td>
</tr>
<tr>
<td>Statistical Capacity (2011)</td>
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<tr>
<td>Open Budget Index (2010)</td>
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</tbody>
</table>
• **Rule of Law (WGI 2010)** 25.1 out of 100
Ukraine ranked in the 25th percentile on this indicator. This reflects limited confidence in the adherence to rules and laws. For this indicator, Ukraine falls below the ECA average of 47.1.

• **Voice and Accountability (WGI 2010)** 44.1 out of 100
Ukraine ranks in the 44th percentile on Voice and Accountability, below the ECA average of 48.2. The press enjoys relative freedom and there is generally little government involvement in the press. However, in 2012, Ukraine improved on the Reporters Without Borders Index of Press Freedom.

• **Political Stability (WGI 2010)** 42 out of 100
Ukraine ranked in the 42nd percentile on this indicator, below the ECA average of 47.7.

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**Chart 1: World Governance Indicators (2010)**
Scores for Ukraine (0-lowest, 100-highest)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule of Law</td>
<td>25.1</td>
</tr>
<tr>
<td>Voice and Accountability</td>
<td>44.1</td>
</tr>
<tr>
<td>Political Stability</td>
<td>42</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>51.2</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>32.5</td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>17.2</td>
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</tbody>
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• **Government Effectiveness (WGI 2010)** 24.9 out of 100
This indicator captures perceptions of the quality of public services, civil service, policy formulation and implementation and credibility of the government’s commitment to policies. Ukraine falls below the ECA average.

• **Regulatory Quality (WGI 2010)** 32.5 out of 100
Private sector development and increasing competitiveness is a priority for Ukraine (see next section) and it falls below the ECA average of 57.1.

• **Control of Corruption (WGI 2010):** 17.2 out of 100
Ukraine only ranked in the 17th percentile for control of corruption, lower than ECA average of 43.7. Corruption is identified as an issue in Ukraine per Freedom House Nations in Transit and as shown by the Transparency International Corruption Perceptions indicator value.

• **Statistical Capacity (2011)** 89 out of 100
Ukraine exceeds the ECA average of 81 for this indicator.

• **Open Budget Index (2010)** 62
The Open Budget Index evaluates the type and quantity of information that governments make available to the public based on 7 key budget documents. The overall score of 62 corresponds to a “significant” rating.

**Additional Indicators**
Ukraine completed a Public Expenditure and Financial Accountability (PEFA) repeat Assessment in 2010, which followed on the previous PEFA results published in 2007. The recent results show that Ukraine is still performing well on budgetary issues, particularly on classification of the budget, comprehensiveness on information in budget documentation, timeliness of accounts reconciliation, and aggregate revenue out-turn compared to the original approved budget. In each of these areas Ukraine earned an “A” score. Over time, Ukraine has slipped in the composition of expenditure out-turn and areas such as effectiveness of internal audit, but has improved in several key areas such as collection of tax payments, and quality of in-year budget reports. The 2010 results also show work is needed in areas such as unreported government operations, effectiveness of payroll controls, controls and competition in procurement as well as external auditing. Projects undertaken by the World Bank since this assessment target these issues. See Section 4 for more information.

**Summary:**
The above indicators show several correlations across values. Overall, the indicators show Ukraine is near or above the ECA average on aspects such as information provision, voice and accountability, political freedom, and freedom of the press, while below average on economic freedom, corruption, the ease of the business environment, and government effectiveness.

The Open Budget Index and the 2010 PEFA results show that budgeting (information availability, performance and processes) is good. However, the indicators show additional improvements can be made particularly in the areas of tax administration and procurement.

The recent political developments are captured in indicators such as Political Stability and Government Effectiveness. More on the recent political developments and how they may impact the performance of Ukraine on these government indicators is found in the next sections.
SECTION 2: POLITICAL ECONOMY BACKGROUND

There are several key political economy drivers in Ukraine which help determine economic outcomes, particularly democratization, geopolitical forces, and deeper integration with the European Union. This section provides a brief background of these issues.

Background
Ukraine is a populous country with a large land mass situated between Russia and the Eastern European members of the European Union. The services sector accounts for the greatest proportion of private sector employment – 65% in 2008. Agriculture is also a key sector. When part of the Soviet Union, Ukraine accounted for a quarter of all Soviet agricultural output. The agricultural sector is one area where reforms are targeted; however, it remains a sensitive area politically.

Since declaring independence from the Soviet Union in 1991, Ukraine has undergone many economic and political changes. Economically, Ukraine suffered one of the steepest declines of any post-soviet states, with GDP falling 45% from 1991 to 1998. Since 2000, Ukraine has experienced a recovery, facilitated by policy reforms, increased trade, and capacity in industry.

Russia remains an important trading partner, particularly in terms of energy. Ukraine depends on imports from Russia to meet nearly 75% of its annual oil and natural gas requirements. In 2008, Ukraine became a member of the WTO, which has offered better opportunities for export diversification.

The public sector in Ukraine is quite large. In 2004, over half of total employment was in the public sector. This has a number of governance implications—while employment in the sector is high, institutional arrangements may introduce reverse incentives and reduce effectiveness of government. Ukraine has a large bureaucracy, and roles and responsibilities are at times unclear.

Political Developments and Democratization
Since its transition to democracy, Ukraine has had an active and tumultuous political landscape. Politically, Ukraine has experienced many shifts in power since 2003. The Orange Revolution of 2004 was associated with a significant increase in political freedom, reduced state control over media and emergence of a vigorous national political debate.

The Orange Revolution was the result of the dissatisfaction of Ukrainian citizens in response to alleged election fraud by then Prime Minister Viktor Yanukovych. The opposition candidate, Viktor Yuschenko, was elected on December 26. In the January 2010 elections, the incumbent earned less than 6% of the vote and in March of 2010, Viktor Yanukovych was elected President of Ukraine.

Consolidation of Power
The transfer of power to Yanukovych in 2010 has resulted in significant political and institutional changes. The new Parliamentary coalition supports the president and now plays a more diminished role in legislation and governance. The constitutional amendments passed in 2004 which gave more power to the parliament were overturned by the Constitutional Court of Ukraine in 2010. The result of this development is that power has now been re-asserted into the presidency. The impact on the governance indicators has yet to be measured; however, this system may adversely impact scores on Government Accountability as it changes the system of checks and balances.

The new administration and reform agenda may impact efforts to be more deeply integrated with the European Union. Although the Yanukovych administration has voiced desire to continue deepening relations with the European Union, the trajectory towards this goal is uncertain.

The last parliamentary election, held in October 2012 was watched closely as opinion polls pointed to a substantial loss of popularity for the PoR during 2011 and 2012. Public mistrust of the president is relatively high following a rise in trust per the 2010 Life in Transition Survey (see next section) as a result of austerity measures, corruption and growing authoritarianism. These factors have contributed to a perceived backsliding in democracy, which is a growing concern of the EU. The 2012 election results showed that the PoR remained the most represented party in Parliament; however it does not have a constitutional majority. The election resulted in a more diverse parliament, with more nationalist representation, and it remains to be seen how the PoR will interact with the opposition parties, and how it will impact domestic politics.

Geo-Political Relations: EU Integration
In 1998, Ukraine entered into a partnership and cooperation agreement with the European Union, laying the groundwork for deeper integration. In 2008, at the Paris Summit, an agreement was made to open negotiations on an EU-Ukraine Association Agreement. The 2004 round of EU-enlargement resulted in a direct border between Ukraine and the EU, offering greater opportunity for economic and political associations. Although there is potential for EU accession in the long-term, progress has been slow.

The country has completed technical negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) and an Association Agreement with the European Union. However, high profile criminal cases brought against opposition leaders have raised concerns in Europe and in the USA, and may stall the progress towards the Association Agreement. Ukraine has signed a new Free Trade Agreement with the members of the Commonwealth of Independent States, but has declared that it does not envisage joining the Common Economic Space with Russia, Kazakhstan and Belarus.
The most recent progress report from November of 2010 on the EU-Ukraine Association Agreement shows that Ukraine has made strides deepening relations with the EU. In 2010, Ukraine passed a new gas law that met with EU directive standards qualifying Ukraine for membership in the European Energy Community (EEC). Ukraine became a member of the EEC in December of 2010. This development along with Bank projects in the sector may ease the energy constraints and open up the Ukraine energy market. However, there remain issues for attention. The agenda priorities for 2011-2012 include strengthening institutional effectiveness, independence and stability, including judicial reforms, strengthening administrative capacity as well as the functioning of local and regional self-government. Other priorities include combating corruption, improving governance of public finances and audits, increasing voice and participation in decision-making through CSOs among others.

SECTION 3: KEY GOVERNANCE CHALLENGES

A few key governance challenges emerge when examining the short term future of Ukraine. These include public trust, institutional capacity, democracy and pluralism, easing business constraints, corruption, and human rights. The following paragraphs explore these issues further.

Public trust is a challenge and there is low demand for good governance in Ukraine. On the Life in Transition Survey (LiTS), trust in key public institutions including the president, parliament, government and courts is low, and falls below the Western European averages. See Chart 2.

Chart 2: LiTS Trust Indicators for Ukraine 2006-2010 (percentage of respondents who have trust in institutions by category)

This lack of trust has undermined public support for reforms. Although improvements in service delivery and financial reform are necessary, they are not priorities for the majority of the population. Public support for reforms has waned in the face of the failure of early reform efforts to deliver tangible improvements and curb corruption. The low demand for good governance also limits the potential for additional reforms and programs to be successful, as having stakeholder input and support is key for many programs, particularly those aimed at improving service delivery. The reduction in government popularity, the slowing economic growth, and democratic backsliding have resulted in a heightened risk for social unrest.28

Institutional capacity is a challenge to Ukraine, despite having one of the biggest public sectors in ECA. Institutional arrangements have at times confused roles and responsibilities, and stronger leadership in ministries would benefit governance and reform efforts. The 2010 Presidential Decree on the “Optimization of the system of State Bodies of Executive Power” has impacted institutional arrangements. The number of ministries decreased from 20 to 16. Follow-on legislation (new bills and amendments) regarding central executive bodies, the Cabinet of Ministers, and the civil service have since been adopted. Undertaking multiple reforms concurrently has slowed the overall pace of implementation.29

Democracy and pluralism as discussed in the previous section provides both governance challenges and opportunities. The Yanukovych administration has outlined a reform strategy including improvements in service delivery and efficiency of administrations (e.g. via reducing the size of government). However, unless these projects succeed, the governance indicators may continue to decline and Ukraine may become more authoritarian.

Election legislation passed in July of 2010, less than a year before local elections were to take place, limited participation by any representatives of political parties not registered for more than one year. These restrictions were lifted in August 30, just ahead of the elections in October of 2010. Nevertheless, the Party of the Regions won clear majorities in most regions. New election legislation was also passed in November of 2011, ahead of the 2012 parliamentary elections which marked a reintroduction of the mixed electoral system and raised the threshold for party representation from 3 to 5 percent of the vote, and barred parties from running together in coalitions or blocs.30

Easing business constraints is also a challenge, despite Ukraine making progress on regulatory issues. Per the CPS, Ukraine has been stuck in a self-perpetuating low equilibrium of high entry barriers, low competition, limited incentives for technology adoption, low export diversification and sophistication, high vulnerability to commodity prices, and incumbent fears of reduced rents if entry barriers were reduced.31 The indicators in Section 2 show that despite making reforms to ease business constraints, Ukraine remains near the bottom of the region in terms of Doing Business. Other countries may be making deeper reforms faster than Ukraine. The regulatory barriers (such as entry/exit regulations, permits and inspections), appear to be hitting SMEs harder than other firms, and the low number of new firm entries considerably reduces the potential of
productivity gains, economic diversification, and job creation.\textsuperscript{32}

**Corruption and state capture** remain constraints as Ukraine has had persistently low rankings on corruption indicators. Petty corruption is prevalent in the lives of Ukrainian citizens: per the 2010 Global Corruption Barometer, 34\% of Ukrainians surveyed stated they paid a bribe to one of 9 service providers over the previous year.\textsuperscript{33} The results show that for day to day services, Ukrainians make unofficial payments most commonly for medical services (30\%) and for policing (29.4\%).\textsuperscript{34} Other services also come with an unofficial costs, including education (17.9\% stated paying a bribe), and the judiciary (16.9\%), and land services (24.3\%).

Corruption is also an issue in the private sector. Per the WEF Global Competitiveness Index, corruption was identified as the most problematic factor for doing business in 2011. Similar performance is seen in other indicators: the 2008 results of BEEPS show corruption is the second top obstacle to doing business behind tax rates. Ukraine only rated in the 17\textsuperscript{th} percentile for control of corruption on the 2010 WGI and fell on the Transparency International Corruption Perception Index.

While there are several identified areas to reduce corruption and rent-seeking, one of the most prominent is public procurement. Per the BEEPS, the increase in informal payments for government procurement was more than two-fold as measured by the percent of the contract value paid to secure a government contract (see Chart 3).

**Chart 3: BEEPS Corruption Indicators for Ukraine 2005-2008**

<table>
<thead>
<tr>
<th>Unofficial Payments are Frequent in Dealing with:</th>
<th>2005</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bribes are Frequently Needed to Get Things Done (%)</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td>Unofficial Payments are Frequent in Dealing with: Courts (%)</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>Unofficial Payments are Frequent in Dealing with: Customs (%)</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Unofficial Payments are Frequent in Dealing with: Taxes (%)</td>
<td>18</td>
<td>26</td>
</tr>
<tr>
<td>Percent of Contract Value Paid for Government Contract</td>
<td>2</td>
<td>4.6</td>
</tr>
</tbody>
</table>

In July of 2010, a new public procurement law was passed and further efforts are expected to improve the situation, particularly in terms of costs. The previous procurement system was effectively a privatized system, which may have reduced transparency and fostered corruption in this area. The future round of BEEPS in 2012 may show bribery in procurement levels returning to those of 2005. Other areas that are vulnerable to corrupt activities include tax administration, customs, and business inspections.

The newly adopted anti-corruption law provides a framework for fighting corruption and a Presidential decree “On Anticorruption Strategy in 2012-2015” sets out a roadmap for Ukraine to implement many recommendations of the OECD and the Council of Europe’s GRECO. Key remaining legal weaknesses include the lack of rules for compulsory financial disclosure by public officials and the absence of a competent anti-corruption body with enforcement powers. Moreover, the DCFTA negotiations and associated regulatory reforms, such as the adoption of a new public procurement framework, and improvements in the licensing and certification system, provide the opportunity to tackle corruption risks in these areas.

**Human rights and reduction of freedoms** is a growing concern in Ukraine. After the consolidation of power, there have been additional effects in the sphere of human rights and civil liberties are also being seen after the consolidation of power, including increased concern for human rights and receding press freedom and freedom of assembly.

Human rights issues identified by Amnesty International and Human Rights Watch include reports of torture by law enforcement and mistreatment of migrants and asylum seekers\textsuperscript{35}. Additional issues include the Law of Assembly approved on June 3, 2010. This law failed to comply with international human rights standards per Amnesty International.\textsuperscript{36} The law requires a 5-day notice of demonstrations and allowed for the use of force by law enforcement.

**SECTION 4: WORLD BANK STRATEGY AND ACTIVITIES**

The engagement of the World Bank in Ukraine is driven by the 2012-2016 Country Partnership Strategy (CPS). The CPS aims to assist Ukraine to make progress in the declared ambitious reform and EU integration agenda, supporting efforts to improve relations with civil society and business; to turn social distrust into support for reform and make government both more accountable and more effective.

The CPS has two pillars: the first, “building relations with citizens“ supports deepened relations between government and citizens, and focuses on improving public services, sustainability and efficiency of public finances, and greater
transparency and accountability regarding use of public resources. Under the first pillar the Bank finances investments in public sector infrastructure, work on setting up improved monitoring mechanisms and strengthening governance of public service providers, while supporting intensified dialogue between the government and civil society in key policy areas such as pension reform, health care reform, district heating and public procurement.

The second, “building relations with business” supports more productive cooperation between government and business by focusing on growth, competitiveness and job creation, improvements in the business climate, the promotion of domestic investment and foreign direct investments (FDI) to achieve productivity improvements, and channeling public investment into critical public infrastructure. The Bank’s assistance in this pillar focuses on tackling first-order constraints in the business climate based on the recommendations of analytical and diagnostic work undertaken during the previous CPS. The expected outcomes are (1) friendliness, sustainability and predictability of the business environment, for both domestic and foreign investors, (2) improving infrastructure to reduce the cost of doing business, and (3) comprehensive reform of the agricultural sector to allow Ukraine to benefit from high international demand for food and agricultural commodities.

The CPS also highlights key focal areas for analytical and advisory assistance (AAA) engagement. These include the (i) investment climate including key sectors of agriculture, land, business regulations; (ii) fiscal, tax and PFM; (iii) energy efficiency and governance (including gas sector modernization), (iv) financial sector stability and development, (v) municipal governance and service delivery, (vi) social reforms (targeted social assistance and pension reform) and (vii) health sector reforms. The following paragraphs summarize current engagement in Ukraine with a focus on projects and programs contributing to enhanced governance.

The Fiscal, Structural, and Governance TA aims to inform and build consensus among the authorities, development partners, local stakeholders, and civil society on the specific roadmap of needed actions on selected fiscal, structural, and governance reforms. Building on the findings of the programmatic Public Expenditure Review (2006-8) and the Country Economic Memorandum (2010), the TA will target reforms highlighted as essential for Ukraine’s growth and modernization, while incorporating a stronger governance dimension. The Ukraine Public Finance Modernization Project also includes components to strengthen institutional capacity and operational effectiveness; and develop an integrated public financial management system.

The objective of the Capital Budget Effectiveness Assessment is to develop a framework for assessing capital budgeting practice in Ukraine that would serve as a basis for reform implementation. The project aims to increase the capacity of the Government in managing capital budgeting reform as well as produce a monitoring and assessment tool to track efficiency of capital budgeting practices in government agencies. The activities include a comprehensive assessment of capital budgeting practices, development of an assessment and monitoring tool that would be used to track effectiveness of capital budgeting processes as well as related processes that affect public investment projects performance countrywide as well as in specific agencies. The areas would include investment planning, project selection and evaluation, project implementation and ex-post evaluation. In addition, training will be provided on project management in public investment projects for civil servants and other knowledge dissemination activities are planned.

Strengthening institutional capacity in data collection, dissemination and use is the objective of the Development of the State Statistics System for Monitoring the Social and Economic Transformation Project. The project focuses on activities that strengthen institutional capacity for data collection, processing, dissemination and use for policy analysis. Other aims include: improving the match between the needs of those who use the data and the work of those who provide it; and upgrading the quality and flow of official statistical and administrative data by introducing methodologies and definitions that can bring Ukraine’s performance in the field of statistics up to international standards.

Increasing institutional capacity in social assistance programs is an aim of the Social Assistance System Modernization Project. The project supports operational reforms to increase capacity of the Ministry of Labor and Social Policy (MOLSP) to design social policy and implement programs, and that of local and regional social welfare offices to outreach to the poorest parts of the population. The project has resulted in measurable progress and was extended for the second time in 2010.

Lending is also complemented by policy and advice and technical assistance. For example, the changes in procurement legislation referenced in Section 3 are part of a technical assistance project on capital budgeting designed to improve project selection, evaluation and asset management among other activities. The Bank also works with a CSO coalition recently formed to monitor the transparency and efficiency of public procurement. The Bank has developed a new procurement monitoring framework to assess procurement costs efficiency and transparency, and provided training to NGOs in use of this framework.

In sectors, there are a number of projects with governance aspects. The Ukraine Financial Sector TA supports the Ukrainian authorities to build a more sustainable, resilient, fair and transparent financial sector. The TA has several aims: first, to further promote the privatization of KyivBank and

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UkrGasBank and the resolution of NPLs through Rodovid Bank and strengthen institutional capacity of the Deposit Guarantee Fund to carry out effectively its new mandate as bank resolution agency. Further, it assists in developing the institutional and legal framework for the Financial Consumer Protection function. It also aims to improve financial sector supervisory capacity and compliance with international standards of effective supervisory practice, and monitor and respond quickly to challenges as they arise in the financial sector.

The Ukraine Analytical Note on PSD aims to contribute to faster growth and release of the pent-up potential of Ukraine's private sector, first and foremost the SMEs which should, in the long-term, form the backbone of the country's economy and value-added. The task aims to identify key constraints and growth challenges faced by the SMEs and suggest short and long term remedial measures, thus informing the PSD policies of the Ukrainian authorities.

The Ukraine Municipal Demand Side Governance study develops a framework for improved governance of the water and sanitation sector in Ukraine through (i) assessing entry-points and developing a comprehensive road map for demand-side governance measures; and (ii) contributing to designing a sector information system based on performance indicators to introduce benchmarking. The study will undertake a comprehensive review of potential measures to improve WSS sector accountability, and will include a sector-level political economy analysis and stakeholder mapping to help identify major obstacles to increasing transparency and accountability. Further, it will develop a roadmap for demand-side governance interventions and propose actionable measures for local- and national-level parties to undertake. The study will contribute to establishing a sector information system based on performance indicators to facilitate benchmarking of utilities to track performance gaps and increase efficiency and accountability. The study will recommend mechanisms for incorporating DFGG in future World Bank sector operations in Ukraine, including the next municipal/water operation.

In health and education, there are several projects of note: the Measuring Governance in Health and Education Sectors in Ukraine project aims to develop indicators and methods of measurement for key areas of governance in the health and education sectors. The objective is to create a reliable diagnostic tool to measure current status of the governance systems in Ukraine, which in the future could be applied also in other contexts and sectors. The study seeks to understand (among other things) if and why service delivery at the local level differs within the existing fiduciary and norm-based setup. Further, the objective of the TA on Health Sector Reform 2 is to continue to enhance the capacity to design and implement evidenced-based health sector reforms in the Ministry of Health, the Presidential Administration and sub-national government agencies.

In land and agriculture, the Rural Land Titling and Cadastre Development Project assists Ukraine with three primary tasks: (i) privatization of the lands of state and communal farm enterprises, agencies and organizations; (ii) allocating land parcels to owners of land parcels (shares) in kind (on site) and issuing state land deeds to them; and (iii) establishing a land cadastre. The Ukraine Agriculture and Land Monitoring TA also provides just in time advice to the Government of Ukraine on agriculture and land policy issues. Specifically, activities include (i) policy dialogue and technical advice to the government on agriculture and land-related issues, particularly with respect to policy reforms and investment priorities related to improving the productivity and competitiveness of agriculture and land governance and; (ii) preparation of just-in-time short briefing notes as required by the government and country management unit on the above issues.

In Ukraine, infrastructure has been a high priority. Current active projects in the portfolio include the Urban Infrastructure Project, the Power Transmission Project, the Energy Efficiency Project, the Roads and Safety Improvement Project, and the Hydropower Rehabilitation Project. The Urban Infrastructure Project aims to improve the quality and reliability of infrastructure services and utilities through institutional improvements and investments. The project combines instruments to develop institutional capacity to improve business practices; rehabilitation investments, and activities aimed at increasing energy efficiency. Similarly, the Hydropower Rehabilitation Project also aims to improve operational stability and reliability of power supply by increasing regulating capacity, efficiency and safety of hydroelectric plants. The Power Transmission Project focuses on improvements in the security, reliability, efficiency and quality of energy supply. The project will also aim to improve institutional capacity and technical capabilities of transmission system operator, Ukrenergo (UE).

Transport has also been a priority for Ukraine, including the Roads and Safety Improvement Project. The aim of this project is to improve the condition and quality of primary roads (such as the M-03) and increase traffic safety. There are three components to the project. The first focuses on road rehabilitation and safety measures, while the second highlights road safety improvement. The third focuses on capacity building and enhancing road management according to international standards and practices and introducing international ‘best practice’ contracting in the road sector.

Other projects with governance and administrative components are in the pipeline, for more information on new projects and status of those presented here, visit the Ukraine Projects page.

**NOTES:** FOR WORLD BANK INTERNAL USE ONLY. PAGE 9
2 Freedom House Nations in Transit, Ukraine 2009

6 Other political parties include: European Party of Ukraine; Front of Change; Our Ukraine; Party of Industrialists and Entrepreneurs; Party of the Defenders of the Fatherland; People's Movement of Ukraine; People's Party; People's Self-Defense Party; Progressive Socialist Party; Radical Party; Reforms and Order Party; Republican Party Sobor; Social Democratic Party; SDPU; Socialist Party of Ukraine; Ukrainian People's Party; Union; United Center; and Viche. Source: CIA The World Factbook: Ukraine: https://www.cia.gov/library/publications/the-world-factbook/geos/up.html
